

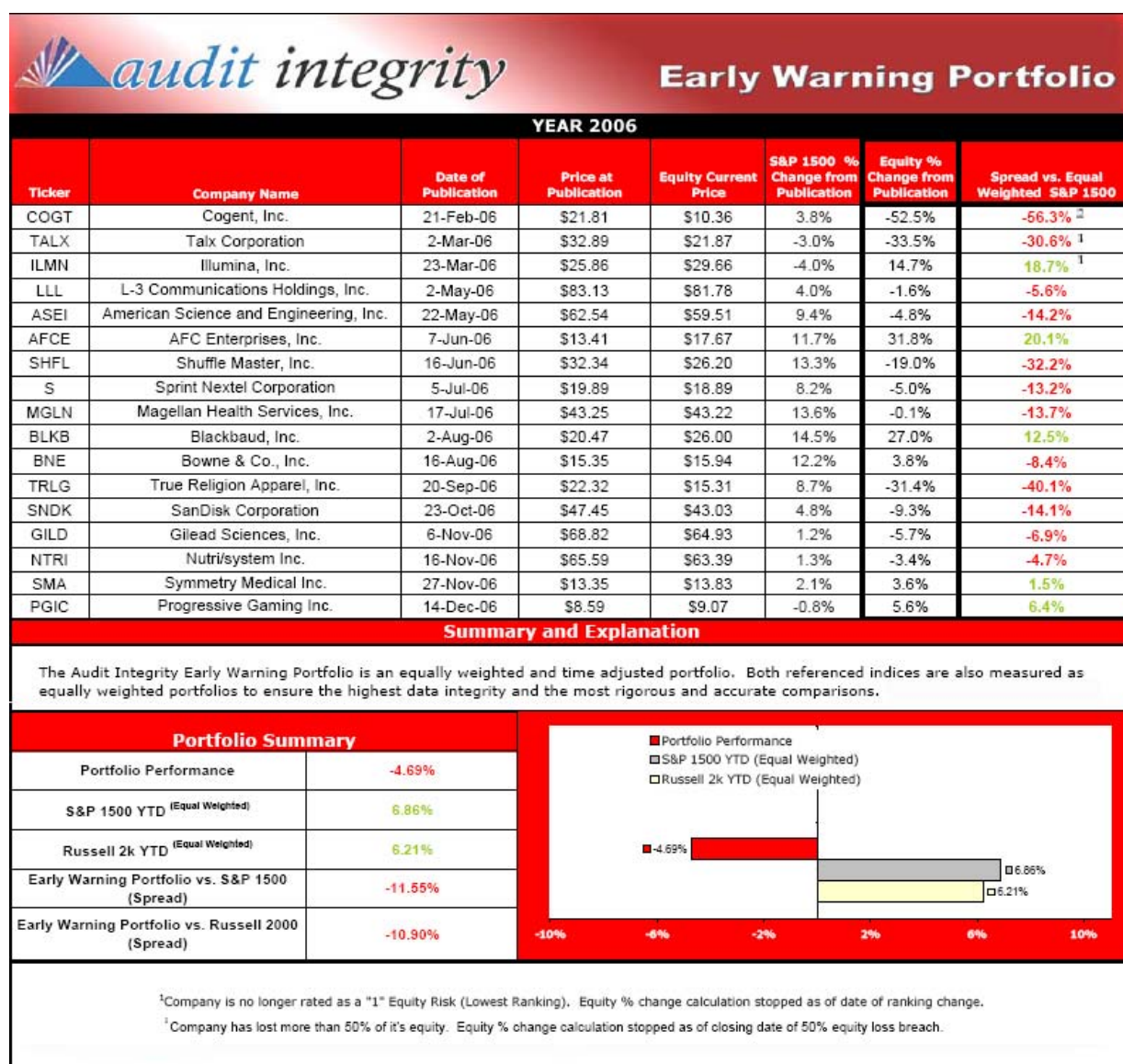
THE RESULTS ARE IN: WE ARE NOT MONKEYS

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The saying goes, that if you put 100 monkeys in a room with 100 typewriters, eventually they would reproduce every great work of literature. With all due respect to our simian cousins, we respectfully submit that they would not be able to duplicate Audit Integrity's analysis.

We tested for the probability that the dramatic return difference of 1100 basis points between the companies on our Early Warnings list and the market at large, is not random. It turns out there is a 98% chance that we are not monkeys. These results continue to support our view that a lack of integrity may pay for a company's management, but not for its shareholders. This one-year result is consistent with our model's expectation.



Audit Integrity's Early Warnings are selected from our broader Investor WatchList, which represents those companies we view as the most forensically challenged of the 8,000-plus companies covered by Audit Integrity. Companies are selected for the Investor WatchList based on our Equity Model score for each company.¹ This model includes four factors:

1. The current AGR[®] percentile.
2. Amount of time in the low AGR[®] quintile over the last eight quarters.
3. Variance in the AGR[®] score over the last eight quarters.
4. Now in the bottom 5% of AGR[®] rankings.

Of those companies on the WatchList, the selection of a company for Early Warning identification is made using a further set of criteria. Not only do they meet the Model score requirement, but they also tell an interesting forensic story. The story usually includes opaque accounting coupled with management conflicts (e.g., insider selling together with a multitude of accounting issues).

Keep in mind that we do not take into account any other fundamental or quantitative measures. We assume that the market has efficiently priced all variables other than our forensic measures. Clearly, added value from a fundamental or quantitative approach would further improve returns.

As a final step in the selection process, we exercise our subjective judgment regarding the egregious nature of the company's behavior.

The results of this year's Early Warnings, while better than I would expect in a strong rising market, come as no surprise. The market continues to punish companies whose managers who are less than candid with their shareholders, while rewarding companies with high integrity. Tragically, it is the shareholders, and not the managers themselves, who pay the price for this lack of integrity.

The Table below points out the rationale for each of the Early Warning selections for the year 2006. While it takes a great deal of computing power and statistical modeling to determine AGR[®] ratings, the results are often those we intuited. In the end, the majority of our Early Warnings reflect the corporate managers' manipulations for personal gain and the steps they take to disguise it from the shareholders.

A sample of the Early Warning report is available on www.AuditIntegrity.com. To review any of the other reports please contact our Client Services Department at (888) 44-AUDIT.

¹ Prior to the introduction of the Equity Model score, the AGR[®] score was utilized to select companies for Early Warnings.

Audit Integrity
Early Warning Portfolio - 2006

<i>Date Published</i>	<i>Company</i>	<i>Ticker</i>	<i>Equity Model Score</i>	<i>AGR® Score</i>	<i>AGR® Rank</i>	<i>Rationale</i>
2/21/2006	Cogent, Inc.	COGT	N/A	27	Very Aggressive	Revenue/Expense recognition Insider selling
3/2/2006	Talx Corporation	TALX	N/A	38	Very Aggressive	Revenue/Expense recognition Insider selling
3/23/2006	Illumina, Inc.	ILMN	N/A	24	Very Aggressive	Asset/Liability valuation Amended filings Insider selling
5/2/2006	L-3 Communications Holdings, Inc.	LLL	N/A	35	Very Aggressive	Revenue recognition Asset/Liability valuation Short-term compensation
5/22/2006	American Science and Engineering, Inc.	ASEI	N/A	28	Very Aggressive	Expense recognition Short-term compensation Insider selling
7/6/2006	AFC Enterprises, Inc.	AFCE	1	16	Very Aggressive	Revenue/Expense recognition Insider selling
6/16/2006	Shuffle Master, Inc.	SHFL	1	27	Very Aggressive	Revenue recognition Divestitures Late filings Insider selling Share repurchases
7/5/2006	Sprint Nextel Corporation	S	1	22	Very Aggressive	Expense recognition Asset/Liability valuation Amended filings and Late filings Short-term compensation
7/17/2006	Magellan Health Services, Inc.	MGLN	1	24	Very Aggressive	Revenue/Expense recognition Short-term compensation Options exercised
8/2/2006	Blackbaud, Inc.	BLKB	1	33	Very Aggressive	Asset/Liability valuation Expense recognition Insider selling Short-term compensation
8/16/2006	Bowne & Co., Inc.	BNE	1	27	Very Aggressive	Expense recognition Short-term compensation Share repurchase
9/20/2006	True Religion Apparel, Inc.	TRLG	1	20	Very Aggressive	Revenue recognition Insider selling
10/23/2006	SanDisk Corporation	SNDK	1	24	Very Aggressive	Expense recognition Insider selling
11/6/2006	Gilead Sciences, Inc.	GILD	1	21	Very Aggressive	Expense recognition Short-term compensation
11/16/2006	NutriSystem Inc.	NTRI	1	21	Very Aggressive	Revenue/Expense recognition Insider selling
11/27/2006	Symmetry Medical Inc.	SMA	1	21	Very Aggressive	Revenue recognition Amended filings Short-term compensation
12/14/2006	Progressive Gaming Inc.	PGIC	1	33	Very Aggressive	Revenue recognition Amended filings Late filings

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