



## “Lie Down With Dogs - Wake Up With Fleas”

January 3, 2008

I fear that I am beginning to sound like a broken record. However, I can't help but notice that 2007 was a big year for fleas. Reviewing the performance of 122 companies which appeared on Audit Integrity's Investor WatchList in 2007 has led me to this conclusion. The criterion for inclusion in our monthly WatchList is an Equity Factor score of 1, which identifies companies rated in the lowest 5% of all Audit integrity AGR® rankings.

These companies were expected to underperform peers over the three to nine months following the date listed. Here are the results:

**TABLE I**  
**Audit Integrity 2007 Investor WatchList\***

% Return through 12/15/07	Companies Listed during Q1 2007	Companies Listed during Q2 2007	Companies Listed during Q3 2007	TOTAL
< -40%	10	8	10	28
-30% to -39%	4	5	1	10
-20% to -29%	6	4	5	15
-11% to -19%	1	3	6	10
0% to -10%	9	7	4	20
0% to 10%	6	2	2	10
11% to 19%	7	2	3	12
20% to 29%	3	0	0	3
30% to 39%	1	2	1	4
>40%	6	2	2	10
<b>Market Trend through 12/15/07</b>	<b>Up</b>	<b>Up</b>	<b>Down</b>	

\*Fourth Quarter WatchList was excluded due to three-month requirement.

What an unmitigated disaster for those investors who failed to include management integrity in their decision-making process! Not all companies with an Equity Factor of 1 will perform poorly, of course, but as the adage goes, “That’s the way to bet.” Nearly a third of the WatchList population had a price decline of 30% or more. These terrible results occurred over

market conditions that were somewhat volatile, but trended upward overall.

It is important and interesting to note that the 122 securities in this WatchList represent a broad cross-section of the overall market, including multiple industry sectors, all market capitalizations, and a range of valuations, as illustrated below.

**TABLE II & III**  
**Audit Integrity 2007 Investor WatchList**

**Distribution by Market Cap**

Market Cap	% of Total
Nano Cap:	5%
Micro Cap:	22%
Small Cap:	25%
Mid-Cap:	22%
Large-Cap:	26%

**Distribution by Price/Book Value**

Price/Book Value	% of Total
Below 1.9 or above 10.0 ("Value")	54%*
2.0 to 10.0 ("Growth")	46%

\* "Value" includes distressed companies with Price/Book Value of 10 or greater.

The clear distinguishing feature of WatchList companies is the integrity issue. Management that has been opaque and misleading to its shareholders in an effort to mask problems, has severely punished the shareholders with poor performance. In most cases, management avoided any punishment – or, in fact, reaped massive bonuses while shareholders suffered a loss.

The following pages include the complete list of companies. If you lie down with dogs, you can expect to wake up with fleas.

*James A. Kaplan*  
CHAIRMAN  
(and dog lover)

### Audit Integrity 2007 Investor WatchList

Company	Ticker	Industry	Market Cap (\$mm)
Adobe Systems Incorporated	ADBE	Software & Programming	24024.5
Advanced Micro Devices, Inc.	AMD	Semiconductors	4425.48
ADVENTRX Pharmaceuticals, Inc.	ANX	Biotechnology & Drugs	39.711
Alloy, Inc.	ALOY	Retail (Catalog & Mail Order)	120.6
American Medical Systems Holdings, Inc.	AMMD	Medical Equipment & Supplies	1029.38
American Oil & Gas Inc.	AEZ	Oil & Gas Operations	256.752
American Science & Engineering, Inc.	ASEI	Scientific & Technical Instr.	518.117
ANSYS, Inc.	ANSS	Software & Programming	3001.34
Asyst Technologies, Inc.	ASYT	Semiconductors	177.377
Atlas America, Inc.	ATLS	Natural Gas Utilities	1566.66
Bancolumbia S.A. (ADR)	CIB	Money Center Banks	6846.22
Biocoral, Inc.	BCRA	Medical Equipment & Supplies	681.229
BMB Munai Inc.	KAZ	Oil & Gas Operations	270.379
Brookdale Senior Living, Inc.	BKD	Healthcare Facilities	3027.14
CA, Inc.	CA	Software & Programming	13153.19
California Coastal Communities, Inc.	CALC	Construction Services	57.971
Calumet Specialty Products Partners, L.P.	CLMT	Oil & Gas - Integrated	982.734
Capital One Financial Corp.	COF	Consumer Financial Services	19251.56
Cell Therapeutics, Inc.	CTIC	Biotechnology & Drugs	103.837
Cenveo, Inc.	CVO	Printing Services	965.718
Citigroup Inc.	C	Money Center Banks	150480.09
Cogent, Inc.	COGT	Computer Services	1024.51
Composite Technology Corporation	CPTC	Electronic Instr. & Controls	294.393
ConAgra Foods, Inc.	CAG	Food Processing	12079.04
Constellation Brands, Inc.	STZ	Beverages (Alcoholic)	5172.95
Contango Oil & Gas Company	MCF	Oil & Gas Operations	790.458
Cousins Properties Incorporated	CUZ	Real Estate Operations	1162.16
Crosstex Energy GP, L.P.	XTEX	Natural Gas Utilities	1387.69
Cullen/Frost Bankers, Inc.	CFR	Regional Banks	2960.21
Del Monte Foods Company	DLM	Food Processing	1765.7
Duke Energy Corporation	DUK	Electric Utilities	25485.21
eBay Inc.	EBAY	Retail (Specialty)	42866.27
Endeavour International Corporation	END	Oil & Gas Operations	143.039
Energy Conversion Devices, Inc.	ENER	Electronic Instr. & Controls	1258.88
Enova Systems, Inc.	ENA	Electronic Instr. & Controls	72.737
Enzo Biochem, Inc.	ENZ	Healthcare Facilities	476.98
EPIX Pharmaceuticals, Inc.	EPIX	Biotechnology & Drugs	142.435
Flagstar Bancorp, Inc.	FBC	S&Ls/Savings Banks	405.621
Focus Media Holding Limited (ADR)	FMCN	Advertising	7331.84
Force Protection, Inc.	FRPT	Aerospace & Defense	336.461
Franklin Street Properties Corp.	FSP	Real Estate Operations	1067.78
FTI Consulting, Inc.	FCN	Business Services	2736.84
General Electric Company	GE	Conglomerates	369584.09
General Maritime Corporation	GMR	Water Transportation	849.028
Gilead Sciences, Inc.	GILD	Biotechnology & Drugs	42610.74
GOL Linhas Aereas Inteligentes SA (ADR)	GOL	Airline	5118.2
Google Inc.	GOOG	Computer Services	211908.8
Greenhill & Co., Inc.	GHL	Consumer Financial Services	1820.78

**Audit Integrity 2007 Investor WatchList  
(cont.)**

Company	Ticker	Industry	Market Cap (\$mm)
Home Solutions of America, Inc.	HSOA	Business Services	44.199
I.D. Systems, Inc.	IDSY	Communications Equipment	143.26
IndyMac Bancorp, Inc.	IMB	S&Ls/Savings Banks	474.079
ING Groep N.V. (ADR)	ING	Insurance (Life)	79512.4
InterDigital, Inc.	IDCC	Communications Equipment	956.976
Interleukin Genetics, Inc	ILI	Healthcare Facilities	30.403
Ionatron, Inc.	IOTN	Aerospace & Defense	239.567
Jones Soda Co. ( USA )	JSDA	Beverages (Non-Alcoholic)	203.822
Keryx Biopharmaceuticals	KERX	Biotechnology & Drugs	382.384
Las Vegas Sands Corp.	LVS	Casinos & Gaming	39570.66
Linn Energy, LLC	LINE	Oil & Gas Operations	3671.07
Madison Energy Corp.	MDC	Metal Mining	3.039
Marvel Entertainment, Inc.	MVL	Recreational Products	2112.04
Matria Healthcare, Inc.	MATR	Healthcare Facilities	460.867
McAfee, Inc.	MFE	Software & Programming	5886.45
Microvision, Inc.	MVIS	Scientific & Technical Instr.	230.871
Morgan Stanley	MS	Investment Services	58096.5
Nanometrics Incorporated	NANO	Semiconductors	166.486
National City Corporation	NCC	Regional Banks	10350.71
National Retail Properties, Inc.	NNN	Real Estate Operations	1671.47
Nelnet, Inc.	NNI	Consumer Financial Services	601.002
NexCen Brands Inc.	NEXC	Retail (Apparel)	234.059
Nortel Networks Corporation (USA)	NT	Communications Equipment	6861.54
Nuance Communications Inc.	NUAN	Software & Programming	3627.37
NutraCea	NTRZ	Food Processing	147.06
NutriSystem Inc.	NTRI	Personal Services	929.341
Oilsands Quest Inc.	BQI	Oil & Gas Operations	874.943
One Liberty Properties, Inc.	OLP	Real Estate Operations	191.887
Openwave Systems Inc.	OPWV	Software & Programming	209.721
Orezone Resources Inc.	OZN	Metal Mining	155.49
Orthofix International NV	OFIX	Medical Equipment & Supplies	1020.01
OSI Pharmaceuticals, Inc.	OSIP	Biotechnology & Drugs	2897.04
Overseas Shipholding Group Inc.	OSG	Water Transportation	2345.79
PacificNet Inc.	PACT	Communications Services	54.935
Panacos Pharmaceuticals, Inc.	PANC	Biotechnology & Drugs	44.436
Pinnacle Entertainment, Inc	PNK	Casinos & Gaming	1398.81
PMC-Sierra, Inc.	PMCS	Semiconductors	1419.37
Premier Exhibitions, Inc.	PRXI	Misc. Transportation	296.677
Progenics Pharmaceuticals, Inc.	PGNX	Biotechnology & Drugs	570.709
Progressive Gaming International Corp.	PGIC	Casinos & Gaming	94.486
Pure Cycle Corporation	PCYO	Construction Services	160.844
QLT Inc. (USA)	QLTI	Biotechnology & Drugs	344.746
Quanta Capital Holdings Ltd.	QNTA	Insurance (Prop. & Casualty)	192.166
Rackable Systems, Inc.	RACK	Computer Hardware	293.686
RealNetworks, Inc.	RNWK	Software & Programming	868.827
Resource America, Inc.	REXI	Misc. Financial Services	263.024
Saks Incorporated	SKS	Retail (Department & Discount)	2918.4
Santander BanCorp	SBP	Regional Banks	400.164
Savient Pharmaceuticals, Inc.	SVNT	Biotechnology & Drugs	1111.42
Sempra Energy	SRE	Natural Gas Utilities	16034.95
Ship Finance International Ltd.	SFL	Water Transportation	2031.73

**Audit Integrity 2007 Investor WatchList  
(cont.)**

Company	Ticker	Industry	Market Cap (\$mm)
Shire plc (ADR)	SHPGY	Biotechnology & Drugs	12542.23
Shuffle Master, Inc.	SHFL	Casinos & Gaming	433.401
Silverleaf Resorts, Inc.	SVLF	Hotels & Motels	155.054
Solvay S.A. (ADR)	SVYSY	Chemicals - Plastics & Rubber	11455.83
Sotheby's	BID	Retail (Specialty)	2514.85
Stratus Properties Inc.	STRS	Construction Services	230.317
Symantec Corporation	SYMC	Software & Programming	13989.19
Taiwan Semiconductor Mfg. Co. Ltd. (ADR)	TSM	Semiconductors	51081.93
TD Ameritrade Holding Corp.	AMTD	Investment Services	11627.61
Temecula Valley Bancorp Inc. (CA)	TMCV	S&Ls/Savings Banks	120.337
Tessera Technologies, Inc.	TSRA	Semiconductors	1939.53
Teva Pharmaceutical Industries Ltd (ADR)	TEVA	Biotechnology & Drugs	33661.84
The First Marblehead Corporation	FMD	Consumer Financial Services	1132.29
True Religion Apparel, Inc.	TRLG	Apparel/Accessories	501.262
U.S. Energy Corp.	USEG	Oil & Gas Operations	90.254
UBS AG (USA)	UBS	Investment Services	87280.83
United Therapeutics Corporation	UTHR	Biotechnology & Drugs	2107.53
Valence Technology, Inc.	VLNC	Electronic Instr. & Controls	247.042
Vimpel-Communications (ADR)	VIP	Communications Services	38391.58
Wells Fargo & Company	WFC	Money Center Banks	102710.9
Winthrop Realty Trust	FUR	Real Estate Operations	349.664
WPT Enterprises, Inc.	WPTE	Motion Pictures	34.631
Wright Express Corporation	WXS	Business Services	1376.53