

## CHAIRMAN'S CORNER

by James A. Kaplan



### ***“Trust Me” – There’s No Substitute for Due Diligence***

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How many times must we be beaten about the head before a lesson is learned?

Looking back over the last few years seems to point out that beatings about the head will have to continue forever. A “Chairman’s Corner” listing every lie that has cost shareholders a bundle would be exhausting.

The last few years present enough blatant transgressions to warrant my conclusion. I intentionally listed the Deception Club according to the size of the scam in proportion to the slender degree of due diligence effort that would have protected stakeholders from being damaged.

<b><u>“Trust Me” Scam</u></b>	<b><u>Protective Due Diligence Required</u></b>
Bernie Madoff ponzi scheme	> Check the credentials of his auditors.
Lehman Bros. collapse	> Do an Accounting-101 check on their financials. > Notice the confusion in rhetoric from the CEO.
S&P/Moody’s ratings failure	> Ask who pays for the ratings they publish.
Maxim Integrated options backdating	> Follow the options trail provided in proxy statement.
Goldman Sachs’ marketing of high-risk instruments	> Get independent verification of the risk of products packaged, promoted, and sold by Goldman.

I know my due diligence suggestions seem naïve and after-the-fact, but the reality is that most “Trust Me” statements can be supported or discarded with very little examination of factual evidence. Of course, not many deceptions are as blatant as those listed above; in the public corporations arena where Audit Integrity operates, most corporations are working hard to mask their deceit. It is our specific task to locate and unmask this deceit by shining a light in the dark corners of governance and accounting practice.

Risk mitigation through due diligence may not be as entertaining as “swinging for the fences,” but the payoff for time invested in due diligence far surpasses the brief adrenaline of the occasional home run.

Following is a list of 10 companies that fail our due diligence test. Before I would be a proud investor in any of these companies, I strongly suggest you examine the “Trust Me” component that is part of the company’s valuation.

**TABLE I  
Companies to Examine**

Company Name	Ticker	Market Cap	Close Price	52 wk Range	Short Interest Ratio*	Average Daily Volume
Belo Corp.	BLC	792	7.77	1.60 - 9.45	7	745,822
Caterpillar Inc.	CAT	42,773	65.96	30.01 - 72.83	3	7,079,607
Expedia, Inc.	EXPE	6,706	23.55	13.09 - 27.51	3	5,637,632
Wyndham Worldwide Corporation	WYN	4,831	25.24	9.94 - 27.94	4	2,414,816
Compuware Corporation	CPWR	1,958	8.43	6.30 - 8.95	2	1,554,354
United Online, Inc.	UNTD	690	7.43	5.70 - 9.46	6	515,838
Republic Airways Holdings Inc.	RJET	216	6.03	4.10 - 10.64	6	1,093,797
SkyWest, Inc.	SKYW	838	14.34	9.57 - 18.56	5	356,834
Air Transport Services Group Inc.	ATSG	349	5.5	0.62 - 5.75	1	1,682,392
Steel Dynamics, Inc.	STLD	3,402	15.47	10.95 - 20.47	2	4,143,589

\*Short interest ratio = # of shares shorted / average daily volume

The obvious rule of thumb is to obtain independent third-party verification before investing. That is neither hard, expensive, nor time-consuming – and avoids continuous head-slapping.

**Audit Integrity Client Services**

**Phone: (877) 880-8820**

**E-mail: [support@auditintegrity.com](mailto:support@auditintegrity.com)**

**[www.AuditIntegrity.com](http://www.AuditIntegrity.com)**

**[www.TrustworthyCorporations.com](http://www.TrustworthyCorporations.com)**

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