



Corporate Governance

The 100 Most Trustworthy Companies

Helen Coster, 04.05.10, 06:00 PM EDT

These are the American businesses that have the most transparent and conservative accounting practices and most prudent management.

Events of the last few years--corporate scandals, bankruptcies, the recession--have greatly damaged investors' trust in some of the country's largest public companies. We wanted to identify the most transparent and trustworthy businesses that trade on American exchanges, so Forbes turned to Audit Integrity, an independent financial analytics company in Los Angeles. Audit Integrity looks beyond the raw data on companies' income statements and balance sheets to assess the true quality of corporate accounting and management practices.

As early as August 2005, Audit Integrity's proprietary rating system signaled potential problems at [Lehman Brothers](#) ([LEHMQ](#) - [news](#) - [people](#)). In December of 2005 it gave [American International Group](#) ([AIG](#) - [news](#) - [people](#)) a significant downgrade. Last year it flagged the Chicago management consultancy [Huron Consulting Group](#) ([HURN](#) - [news](#) - [people](#)) several months before the company announced it was reissuing its financial statements for three fiscal years and its chief executive, chief financial officer and accounting chief resigned.

For the fourth year, Audit Integrity has provided Forbes with a list of companies that are at the other end of the spectrum from the beleaguered firms that make so many of today's headlines. Audit Integrity finds that its 100 Most Trustworthy Companies have consistently demonstrated transparent and conservative accounting practices and solid corporate governance and management. They do not play games with revenue and expense recognition or with asset valuation. "These are the good guys," says Jack Zwigli, the chief executive of Audit Integrity. "They've consistently shown accuracy and transparency in their financial reporting."

[In Pictures: The Most Trustworthy Large-Cap Companies](#)

[In Pictures: The Most Trustworthy Mid-Cap Companies](#)

[In Pictures: The Most Trustworthy Small-Cap Companies](#)

[Tables: The 100 Most Trustworthy Companies](#)

They've also fared well on Wall Street. The shares of the average company on the 2009 Most Trustworthy Companies list are up 53% in the 52 weeks leading to March 24, compared with 45% for the Standard & Poor's 500.

Audit Integrity's evaluation penalizes companies for unusual or excessive executive compensation, high levels of management turnover, substantial insider trading relative to their corporate peers or high levels of short-term executive compensation, which encourages management to focus on short-term results. Good housekeeping practices leave companies better prepared to handle an economic downturn, especially one as severe as right now. The absence of negative events counts, as much as the existence of positive events, in getting businesses on the list. "These companies have made it through our screening process and shown consistent high quality," Zwigli says. "Healthy individuals are often that way because they don't engage in unhealthy behavior. These companies are the same way."






To create the list, Audit Integrity scans more than 8,000 companies traded on U.S. exchanges. Every three months it assigns each company an accounting and governance risk score, or AGR, based on proprietary modeling designed to identify practices that historically have had a high correlation with increasing shareholder risk.

Audit Integrity rates the 15% of companies in its universe with the highest AGR scores as "conservative" and the 10% of companies with the lowest scores as "very aggressive." Companies in between those extremes are rated either "average" or "aggressive." "We are recognizing that for the most part companies are responsible in reporting their financial performance," Zwingli says. "Those that are not--about one third of the companies we rate--are at heightened risk of negative events like litigation, restatements and bankruptcy."

Audit Integrity claims that it has established a direct correlation between its AGR assessments and the likelihood of negative events such as class-action litigation, Securities and Exchange Commission enforcement actions, financial reporting delays, bankruptcy filings and poor stock price performance. For more detail on Audit Integrity's methodology, click [here](#).

As in previous years, Audit Integrity sorts its 100 Most Trustworthy Companies into three groupings, according to market capitalization. In this year's crop, three mid- and small-cap companies received the highest AGR score, 100. The two large-caps to come closest, the retailer **Bed Bath & Beyond** ([BBBY - news - people](#)) and the energy company **Enbridge Energy Partners** ([EEP - news - people](#)), each scored 95.

To qualify for the roster, the 100 companies all had to have market caps of \$200 million or more at the time Audit Integrity prepared the list, AGR ratings of "conservative" or "average" over each of the last four quarters and no amended filings with the Securities and Exchange Commission or material restatements over the last year. They also had to rank high in Audit Integrity's Equity Risk Ranking, which indicates a positive forecast for equity returns. "We want to make sure, from an investor's perspective, that these companies have substantial market cap and are viewed as very liquid," Zwingli says.

COMPANY 	AUDIT INTEGRITY INDUSTRY 	AVERAGE AGR SCORE ¹ 	CURRENT QUARTER AGR SCORE 	MARKET CAP (\$ MIL) ² 
Bed Bath & Beyond	Retail (Specialty)	95	92	11,560
Enbridge Energy Partners LP ³	Oil Well Services & Equipment	95	90	5,925
Hess ³	Oil & Gas - Integrated	94	97	20,105
Jacobs Engineering Group	Construction Services	93	98	5,727
Ameren	Electric Utilities	92	86	6,056
Estee Lauder Cos	Personal & Household Prods.	81	89	12,543
Consolidated Edison ³	Electric Utilities	79	68	12,334
Fastenal	Constr. & Agric. Machinery	79	88	7,127
Salesforce.com	Software & Programming	79	75	9,688
Flowserve	Misc. Capital Goods	78	90	6,067
Lowe's Companies	Retail (Home Improvement)	78	87	35,570
Consol Energy	Coal	77	71	8,279
Hormel Foods	Food Processing	75	84	5,594
Fluor	Construction Services	74	59	8,362
Paychex	Business Services	74	73	11,688
Chubb	Insurance (Prop. & Casualty)	73	62	17,033
Genuine Parts	Auto & Truck Parts	71	78	6,726
Cameron Intl	Oil Well Services & Equipment	69	85	10,253
Whirlpool	Appliance & Tool	69	67	6,668

1 Last four quarters. 2 Market Cap as of March 24, 2010. 3 Repeat from 2009 Most Trustworthy Companies. AGR: Accounting and Governance Risk. AGR is a proprietary score from Audit Integrity based on its analysis of accounting and governance factors that have been historically linked to fraud and increased shareholder risk. Source: Audit Integrity; Interactive Data and Thomson Reuters Fundamentals via FactSet Research Systems.