

## NEWS

**RISK CONCERNS IN THE MEDIA**

***Insanity: doing the same thing over and over again  
and expecting different results. - Albert Einstein***

It almost seems like an eternity ago that TARP bailouts and the Madoff Ponzi scheme dominated the headlines but incredibly that was just 12 months ago. Accounting fraud and corporate (mis)behavior once again became a major focus of the media and corporate stakeholders. Regulators were scrambling to explain how massive scandals were missed, while politicians were once again calling for “financial reform.”

Sound familiar? As the financial fallout came fully to bear in 2009, and the markets remained volatile, corporate stakeholders stayed focused on corporate risks. Naturally, in this environment Audit Integrity was a sought after resource for the mainstream, financial and trade media. This article summarizes what the media was most interested in from our perspective.

Dominating the media's agenda was suspicious bank balance sheets and fraud. So reporters frequently turned to our flagship Accounting and Governance Risk (AGR<sup>®</sup>) rating which provided them timely information that sheds light on such an opaque world. In particular we pointed out concerns about asset valuation in banks that received TARP funds shortly before several banks took additional multi-billion dollar write-downs resulting in stories in *TIME Magazine*, *Bloomberg*, *American Banker*, *Reuters*, and elsewhere.

Valuation concerns weren't limited to the financial sector. For our part, Audit Integrity compiled a report identifying which corporations were most likely to write-down goodwill assets. The report elicited media coverage in *Barron's*, *CFO.com*, *BusinessWeek* among other high-impact media outlets. Quite literally, weeks and months after the reports were published a significant number of the corporations Audit Integrity singled out announced over-valued goodwill assets and write-downs.

Boldly underscoring AGR's importance was a study we compiled on behalf of *Crain's Chicago Business* where we identified the riskiest corporations located in Chicago. One corporation we warned about was Huron Corp and its transactional accounting. Shortly thereafter the company imploded due to a scandal involving the accounting related to M&A activities. Huron wasn't an isolated incident and whether its goodwill and intangibles or valuation concerns, it's widely held that the cyclical result of the past decade's M&A boom will be ever riskier balance sheets and solvency concerns.

Indeed, corporate bankruptcies surged in 2009 and are predicted to continue to rise into 2010. Again, it was Audit Integrity that was front-and-center on the issue. We launched our bankruptcy risk model in Q3, along with a white paper that demonstrated the model's

improved predictive abilities when compared to traditional models such as the Altman Z-Score. The model garnered widespread interest from national media outlets, including CNBC, which interviewed Audit Integrity's CEO Jack Zwingli, all major news wires, the Wall Street Journal's Bankruptcy Blog and in dozens of other publications. Audit Integrity will soon release bankruptcy rankings on smaller corporations, Canada and Europe.

Clearly 2009 was a year when risk had to be weighed against a surging equity market. What happens next year is anyone's guess, but what we can say for certain is that only the corporations with the highest integrity and most transparent balance sheets are reliable stewards of your trust. That is why we will continue to highlight corporations that have the highest integrity as we have done for several years with Forbes and the list of "100 Most Trustworthy Corporations." Rest assured, we'll continue to ensure our clients are on the right side of the trade or transaction before the inevitable headline risk manifests itself.

A complete representation of Audit Integrity's media coverage follows, but we would be remiss if we didn't single out a few headlines included below in particular. Thank you for your continued support of Audit Integrity and have a happy and prosperous New Year.

***Bloomberg***

December 2008

**[Treasury Bailout Finances "Very Risky" Companies, Study Finds](#)**

***Barron's***

February 2009

**[Goodwill Hunting: Balance Sheets' Latest Torment](#)**

***CFO.com***

March 2009

**[The Growing Concern over "Going Concern"](#)**

***Reuters***

June 2009

**[Wishing Away Toxic Assets](#)**

***Time Magazine***

June 2009

**[Does Morgan Stanley Deserve to Be Free of TARP?](#)**

***American Banker***

July 2009

**[VIEWPOINT: Fed's Tests Aren't Nearly Stressful Enough](#)  
**[By James Kaplan](#)****

***Crain's Chicago Business***

September 2009

**[How Huron Jumped the Tracks](#)**

***Reuters***

September 2009

**[Airline, Media and Auto Co's Risk Bankruptcy-Study](#)**

***Business Week***

October 2009

**[Magic Tricks on the Corporate Books](#)**

***Business Insider***

December 2009

**[Audit Integrity: 'Socially Responsible' Companies Have Worse Accounting Practices than Normal Ones](#)**

A more complete list of news featuring Audit Integrity can be found, [here](#).

While this article is meant to be a look back on the media interest in fraud and risky behavior during 2009, one safe prediction for 2010 and beyond is that there will be major fraud and accounting scandals. Paul Krugman of the New York Times [summed up the past decade appropriately](#) as “The Big Zero,” noting: “What was truly impressive about the decade past, however, was our unwillingness, as a nation, to learn from our mistakes.”

Here's hoping that those most concerned and proactive about assessing and managing risks remain vigilant and avoid the scandals that are sure to come.

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