

Audit Integrity Risk Models

Concerns over corporate integrity and related risks have never been greater. The impact of integrity-related incidents has a devastating impact on investors and other corporate stakeholders. Audit Integrity risk ratings and analytics identify companies most likely to have negative events such as:

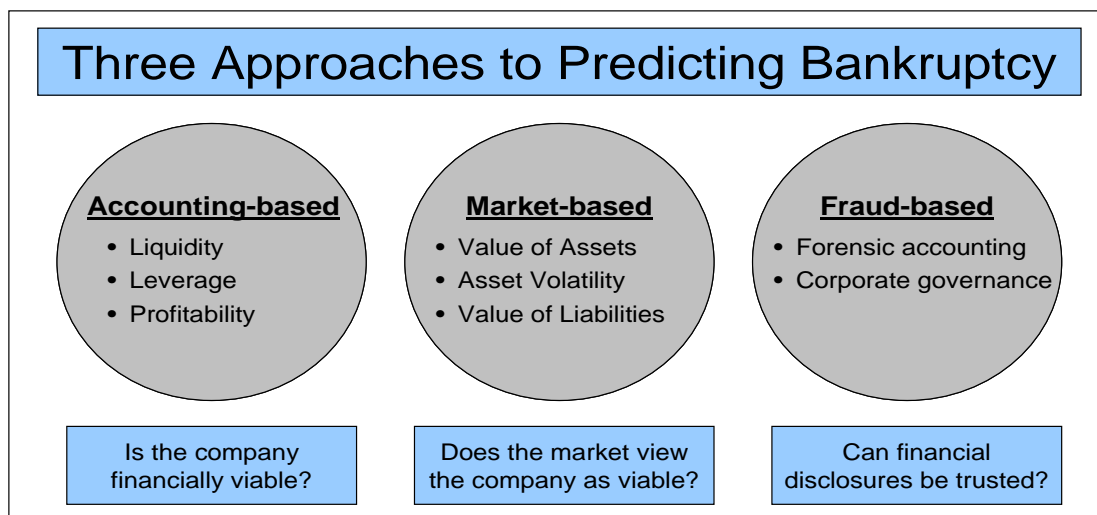
- Regulatory Actions
- Shareholder Litigation
- Bankruptcy
- Financial Restatements

As a leading provider of accounting and governance risk analysis on public companies, Audit Integrity is widely used to objectively identify, measure and monitor risks related to financial reporting and corporate governance practices.

The Audit Integrity Accounting and Governance Risk (AGR[®]) rating is a forensic measure of the transparency and reliability of a corporation's financial reporting and governance practices. The focus of AGR analysis is on identifying the measures most highly associated with known fraudulent behavior, and quantifying those risks to determine companies at greatest risk of negative events.

The Audit Integrity Bankruptcy Risk Model

Audit Integrity combined three distinct approaches to product a proprietary measure of bankruptcy risk, the Audit Integrity Bankruptcy Risk Model, or AI-B. In addition to the fraud-based measures identified in that AGR rating, Audit Integrity includes proven accounting-based and market-based measures that have been widely used and accepted in academic and business use. In summary, the three approaches used in AI-B are:

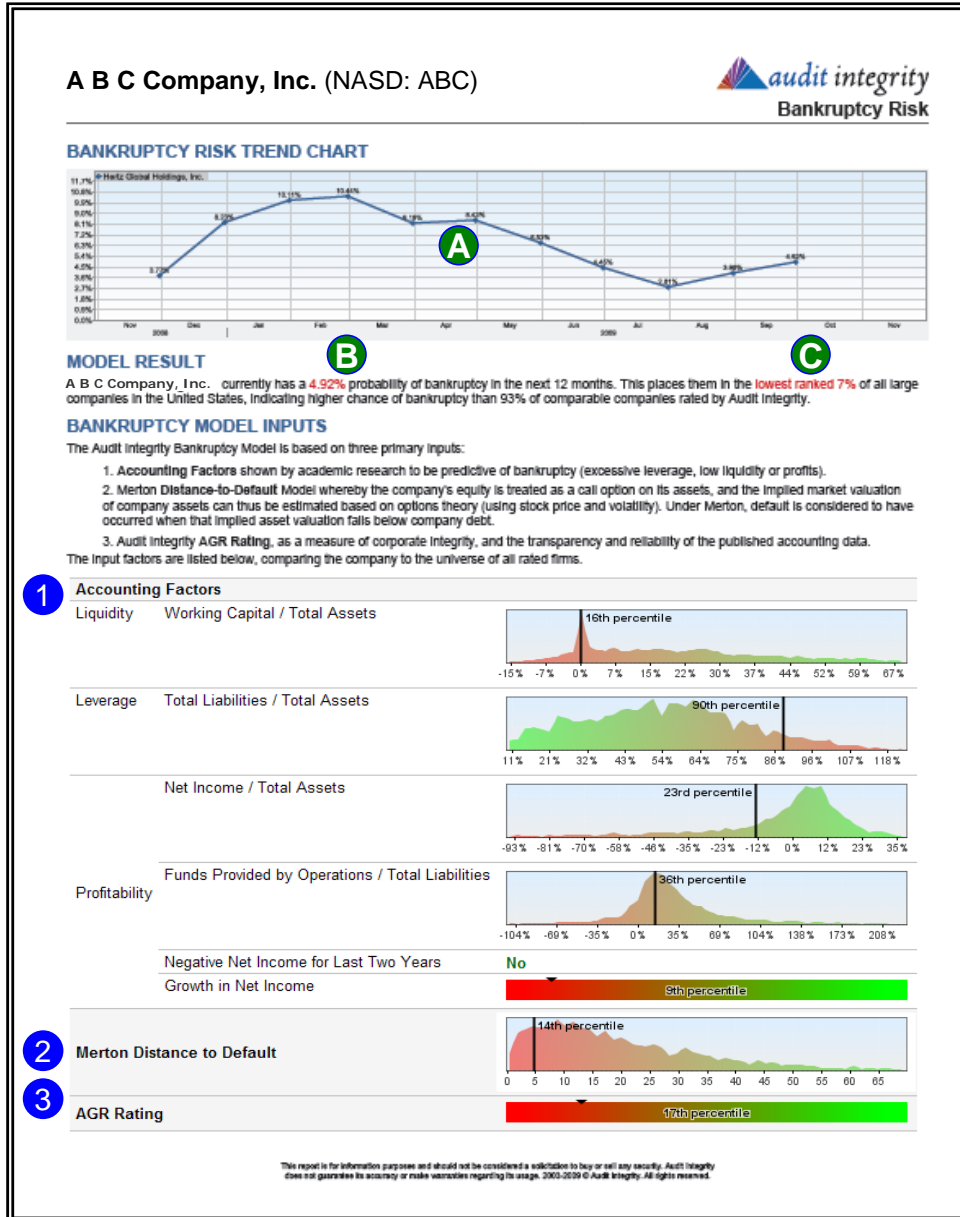


Each of these approaches is independently predictive of bankruptcy risk. Combined into the AI-B, they provide a demonstrably better way to identify companies at risk of bankruptcy or severe financial distress.

Key Benefits and Uses

- **Insurance Underwriting:** improve underwriting efficiency by identifying companies at risk of business failure.
- **Audit Reviews:** evaluate companies with potential going concern issues, using timely data.
- **Credit Management:** determine key risk potential and assess the financial health of new and existing clients.
- **Risk Management:** evaluate suppliers and partners, conduct M&A due diligence, prospect for new business using Audit Integrity risk ratings to identify high-risk companies and specific risk factors.

Audit Integrity Bankruptcy Risk Model probabilities are updated monthly, reflecting the latest market information. The Bankruptcy Risk report, as shown in an example below, is available from the Audit Integrity web site on a stand-alone basis, or as part of the more extensive Profile or RiskBook reports.



- ### AI-B Model Components
- 1 Accounting Factors** – accounting measures found to be predictive of bankruptcy include liquidity (does the company have cash to fund operations?), leverage (does the company have too much debt?), and profitability (is the company making money?)
 - 2 Distance-to-Default** – the DD model uses market-based factors to capture a timely assessment of bankruptcy risk. The DD Model reflects the extent to which the market value of assets exceeds debts. When assets are insufficient to repay debts, default and bankruptcy risk is high.
 - 3 AGR Rating** – a percentile score of 1-100, with the riskiest companies having the lowest score. AGR measures the transparency and reliability of financial disclosure.

Key Report Features

- A Bankruptcy Trend Chart** – a 2-year chart of monthly bankruptcy probabilities, used to track potential deteriorating or improving conditions.
- B Bankruptcy Probability** – the probability that the company will file for bankruptcy in the next 12 months. The Probability can be used in models and simulations to forecast likelihood and impact of bankruptcy.
- C Bankruptcy Percentile** – a percentile score of 1-100%, with the riskiest companies having the lowest score. A percentile score of 12 means that the company falls in the bottom 12% of all companies covered by Audit Integrity.