

ABOUT AUDIT INTEGRITY

Audit Integrity

Audit Integrity ratings and research help corporations and their stakeholders manage risk, improve performance and enhance returns.

Audit Integrity produces objective ratings and reports on over 9,000 public corporations. The Audit Integrity Accounting and Governance Risk rating (AGR[®]) is a measure of the overall risk related to corporate accounting and governance practices.

Audit Integrity Services

Companies suffer severe penalties as a result of misrepresenting financial information. The long run costs for aggressive accounting and governance practices are large and often dramatic. Audit Integrity proprietary ratings and analysis identify companies at risk, and provide specific analysis of areas at risk.

In study after study, the AGR[®] has been proven to be a significant and unique measure of equity and litigation risk. Aggressive companies have lower returns and are more likely to be sued.

In addition to determining the overall risk, Audit Integrity provides analysis of the critical factors behind the risk. Services include:

- **Company Reports**
- **Detailed Risk Analysis**
- **Sophisticated Research Tools**

The Cost of High-risk Behavior

High-risk behavior can destroy investor returns and lead to costly litigation and restatements. Across businesses large and small, the AGR[®] has been highly effective at identifying risk *before it is too late*.

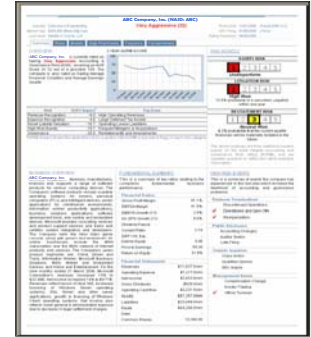
- Companies with **Very Aggressive** AGR[®]'s underperform in stock returns
- Companies identified as high risk are far more likely to be sued by shareholders
- High risk companies as a group will suffer much higher rates of restatements and Sarbanes-Oxley Internal Control Deficiencies

Everyone wants to avoid being, owning, insuring or servicing the next Enron. Audit Integrity provides a different, highly effective approach to help corporate stakeholders do just that.

How Audit Integrity Is Used

The AGR[®] rating and related research is used in three basic ways. For making a quick, informed decision, the Company Profile report provides a snapshot of overall risk and specific areas of concern:

- **Profile Report** – actionable information in an easy-to-use format. Great for a summary overview or when a decision is needed quickly. Includes Risks, Events and Ratios pages. Updated quarterly.



For more detailed analysis, additional key reports provide greater transparency into company accounting and governance practices, such as the Risk History and High Risk Events reports:

- **Risk History Report** – detailed risk factors, based on Audit Integrity *forensic analysis*.

audit integrity		ABC Company, Inc.		Industry: Retail (Retail)											
		AGR Score: Very Aggressive (26)		Market Cap: \$4697.2mn											
				Period Ending: Apr 30, 2005											
Risk Issue Metric	Operation	Current Quarter	2004 Q-1	2005 Q-4	2005 Q-3	2005 Q-2	2005 Q-1	2004 Q-4	2004 Q-3	2004 Q-2	2004 Q-1	2003 Q-4	2003 Q-3	2003 Q-2	2003 Q-1
Revenue Recognition		-10.2													
High Operating Revenues															
Operating Revenues over Operating Expenses															
Large Accounts Receivable															
Accounts Receivable over Sales															
Large Inventory															
Inventory over Operating Revenues															
Expense Recognition		-19.2													

- **High Risk Events** – quickly filter *relevant* risk news, with extensive history.

For uncovering investment ideas or identifying companies of concern, additional services include:

- **Research Briefs and Early Warnings** – Analyst-prepared reports on high risk companies.
- **WatchLists** – Proprietary lists of companies at high risk to investors and insurers.
- **Research Tools** – such as Advanced Search, Alerts, user-defined WatchLists & Downloads.

Everyone wants to avoid the next Enron, and proactively manage risk. Audit Integrity provides independent, objective research that evaluates the transparency, reliability and risks of corporate accounting and governance practices.

AUDIT INTEGRITY METHODOLOGY

The Audit Integrity Accounting and Governance Risk (AGR[®]) rating is a measure of the overall risk of potentially fraudulent or misleading activity. The AGR[®] is based on identifying the measures most highly associated with fraud, and applying those metrics to “red flag” company risk.

Audit Integrity conducts extensive accounting and governance tests to identify high-risk companies:

- **Accounting Risks** – a forensic assessment of the risk that financial results are misrepresented in public disclosures.
- **Governance Risks** – quantifiable metrics measuring many key aspects of corporate governance and what Audit Integrity has classified as high-risk events further contribute to AGR[®] effectiveness.

The basic processes that make up the Audit Integrity Methodology are as follows:

DATA INPUTS

- Audit Integrity operates a large-scale data center; over 25 different data feeds are integrated
- One of the most comprehensive unified sources of information on public companies
- Proprietary data collection includes over 1,000 SEC Enforcement Actions

METRICS ENGINE

- Generates the measures which form the building blocks in identifying fraudulent behavior
- Each metric is evaluated for unusual values (“outliers”), based on peer comparisons
- Metrics are organized within the Audit Integrity Taxonomy, to make analysis and presentation simple and intuitive. An example:

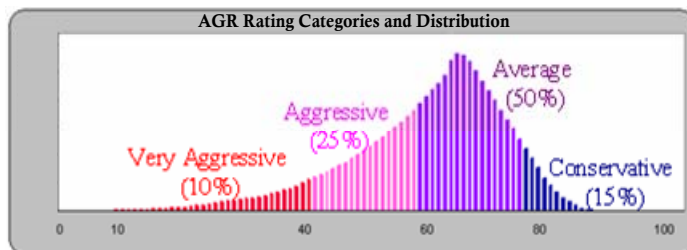
High-level Risk	Business Issue	Forensic Metric (Ratio)
REVENUE RECOGNITION	RECEIVABLES ACCOUNTING	ACCOUNTS RECEIVABLE over SALES
EXPENSE RECOGNITION	DEPRECIATION POLICIES	ACCUMULATED DEPRECIATION over PLANT, PROPERTY & EQUIPMENT
ASSET-LIABILITY VALUATION	PENSION ACCOUNTING	UNDERFUNDED PENSION BENEFITS over LIABILITIES
HIGH RISK EVENTS	ACCOUNTING CHANGES	CUMULATIVE ACCOUNTING CHANGES over OPERATING EXPENSES
GOVERNANCE	FINANCIAL DISCLOSURE	NUMBER OF AMENDED FILINGS IN THE LAST YEAR

STATISTICAL MODELING

- Audit Integrity measures hundreds of metrics without preconceived bias as to what defines fraud
- Over 200 accounting and governance metrics were tested to determine which were most highly associated with fraud
- The AGR[®] identifies companies that exhibit extreme values in these metrics

AGR

- The AGR[®] score ranges from 0-100, with corresponding ratings from Very Aggressive to Conservative.



Companies rated Very Aggressive or Aggressive have proven to be much more likely to have class action litigation and financial restatements, and to suffer severe equity loss

The AGR[®] model has been rigorously tested and validated using accepted industry standards, and has proven to be accurate and independent of bias. For further information, contact us at 877-880-8820 or www.auditintegrity.com.