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Research Update

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Agenda

- Disclosure Control (302) Analysis
- Foreign Deregistration Analysis
- Foreign Deregistration by Region, Reason & Industry
- Total Public Registrant Historical Analysis
- Public Registrant Industry Analysis
- Public Registrant Type of Entity Analysis
- Updated Restatement Analysis (Annuals)
- Original Restatement Analysis Report
- Third Quarter (404) Analysis Report

Section 302 Disclosures by Quarter

Calendar Quarter Ended	Ineffective Section 302 Disclosure Controls	Material Weaknesses Cited in Explanation	Total Section 302 Filings	Percentage of Ineffective Disclosure Controls
4 th Qtr 2002	27	24	4,853	0.556%
1 st Qtr 2003	28	29	4,559	0.614%
2 nd Qtr 2003	28	30	4,607	0.608%
3 rd Qtr 2003	36	40	4,658	0.773%
4 th Qtr 2003	66	73	5,078	1.300%
1 st Qtr 2004	44	59	4,761	0.924%
2 nd Qtr 2004	70	77	4,834	1.448%
3 rd Qtr 2004	112	133	4,894	2.289%
4 th Qtr 2004	418	421	5,393	7.751%
1 st Qtr 2005	405	432	4,920	8.232%
2 nd Qtr 2005	418	438	5,074	8.238%
3 rd Qtr 2005	433	459	5,101	8.489%
4 th Qtr 2005	501	519	5,635	8.891%
1 st Qtr 2006	333	348	4,914	6.777%

Source: All public registrants (domestic, foreign and non accelerated filers) with current revenue in excess of \$10 million).

1. Initial adoption through first two years was minimal.
2. Jump in last quarter of 2004 was dramatic – clearly impacted by 404
3. Much higher adoption of intended Disclosure Control reporting after 4th quarter of 2004.
4. Increase in 4th qtr total 302 filings a function of foreign registrants and overall increase in registrants meeting the criteria evidence of the growth in registrant health over the same period.
5. In theory, the chart should have been reversed with the highest levels of ineffective controls being in the beginning.
6. The “Material Weakness” column identifies the number of registrants that use the terminology of material weakness in identifying deficiencies.

Section 302 Disclosures Cumulative

Cumulative	Ineffective Section 302 Disclosure Controls	Material Weaknesses Cited in Explanation	Total Section 302 Filings	Percentage of Ineffective Disclosure Controls
Full Yr 2003	99	100	5,333	1.856%
Full Yr 2004	474	480	5,627	8.424%
Full Yr 2005	860	872	5,830	14.751%

Cumulative	Other Self Reported Information in Disclosure Controls	Percentage of Companies Self Reporting Non-standard Information[1]
Full Yr 2003	155	4.76%
Full Yr 2004	320	14.11%
Full Yr 2005	429	22.11%

1. A view of these disclosures by full year provides evidence of the extent of improvement in self assessment of disclosure controls. For fiscal year 2005 a full 860 or 14.75% of this registrant population identified ineffective disclosure controls in at least one quarter during the year. This is key information that the market never had prior to Sarbanes.
2. The second chart identifies registrants that reported information in their Disclosure Control assessments other than having had a material weakness. This could include disclosures about significant deficiencies, changes in internal controls or internal control issues surrounding acquisitions. The bottom line is that in 2005 a full 22.11% of these registrants disclosed information about challenges facing them in the area of financial reporting.

Foreign Registrant Analysis

	2003	2004	2005	2006 (half year)	Total
Total Foreign Company Deregistrations	16	54	74	42	186
Funds and Trusts, Asset Backed Securities	1	6	5	6	18
Affiliated Entities			6	1	7
Net Active Co Deregistrations	15	48	63	35	161
Total Foreign Registrations					1131
Percentage of Foreign Co Deregistrations over 5 year period					14.24%

Source:

Deregistration filings for companies indicating a foreign location (other than Canada) as their principle location during the period from Jan 2003 to June 2006.

1. While increasing from 2003 to 2004, the number of foreign deregistrations seems to have remained fairly constant.
2. No account of foreign registrations either through IPOs or reverse mergers with blank check companies is considered in this analysis and could indicate net gains in foreign registrations.

Foreign Registrant Analysis by Region

Breakdown by Region	2003	2004	2005	2006 (half year)	Total	% of Foreign Registrants
United Kingdom	0	14	17	9	40	24.84%
Europe	4	15	15	10	44	27.33%
Asia	4	0	10	4	18	11.18%
South America	1	6	12	6	25	15.53%
Tax Havens	4	5	1	4	14	8.70%
Australia	1	3	3	1	8	4.97%
Africa	0	1	0	0	1	0.62%
Middle East	1	4	5	1	11	6.83%
Total Foreign Registrants	15	48	63	35	161	

1. A review of foreign deregistrations indicates a fairly predictable distribution of deregistrations by country or region.. No one area sticks out.
2. Tax Havens includes Bermuda, Barbados, Caymen Islands,...etc.

2006 Foreign Deregistration Analysis

Deregistration Reasons	Number	Percentage of Total
Going concern, reorganization or financial difficulty matters	10	28.57%
Debt or Quasi debt instruments were only reason for registration	12	34.29%
American depository Shares (ADRs) were reason for registration	5	14.29%
Mergers or acquisitions	3	8.57%
Going private for reasons unspecified	2	5.71%
Other reasons	3	8.57%
Total 2006 Foreign Deregistrations	35	100%

1. A view of foreign deregistrations by reason or circumstance indicates little or no evidence of flight from the US public markets for reasons of the implementation of Section 404.
2. Only the “Going private” or “Other” (totaling 5) could reasonably be attributable, to flight from Sarbanes but none say so.
3. The biggest category (“Debt or Quasi Debt”) was for foreign registrants that had registered debt not equity instruments.
4. The next most numerous was “Going Concern..” which indicated registrants that were in financial difficulty.

Foreign Deregistration by Industry

Industry	# of Deregistrations	% of Deregistrations
Telecommunications	37	22.98%
Software and related systems development services	13	8.07%
Holding companies, blank checks and other non operating businesses	9	5.59%
Hotels and casinos	4	2.48%
Financial services	19	11.80%
Transportation	5	3.11%
Wholesalers	12	7.45%
Electronics manufacturers	12	7.45%
Materials manufacturing	12	7.45%
Home and food manufacturing	10	6.21%
Mining, crude and energy	13	8.07%
Other	15	9.32%
Total Foreign Deregistrations 2003-2006	161	100%

1. A view of foreign deregistrations by industry further indicates that many of the deregistrations may have been associated with financial difficulties as the industries implicated are generally considered to have the highest risks.

Registrant Population Historical Overview

(from January 1, 2001 to August 14, 2006)

Registrant Type	Historical Totals
All Registrants	26,409
Tickered Registrants	9,256
Non-Tickered Registrants	17,153
Deregistered	3,614
Inactive ²	4,563
Ch. 7 Bankruptcies	28
Ch. 11 Bankruptcies	683
Voluntary Filers	455
Shell	803
Non-Tick Subsidiaries ³	707
Well-Know Seasoned Issuer	1,853
Accelerated Filer ⁴	4,700
Large Acc. Filer (subset of above)	1,751

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Source: Audit Analytics analysis of all corporate registrations where a company has indicated some activity during the period from January 1, 2001 until August 14th 2006.

1. The total number of registrants (26,409) indicates that at some point during the past 6 years, we have identified an auditor with that registrant.
2. The “inactive” number of 4,653 may further breakdown to bankruptcy, going private, etc.
3. Our definition of “inactive” is that such a company has not filed any filings since Jan 1, 2005.
4. Some effort by the last known auditor of these inactive companies may be required in order for the registration requirements to be fulfilled.
5. Large Acc Filer is to identify those company that have a shorter time period to file their 10K for this upcoming year.

Registrants by Industry

Industry Category	Total	Terminations	Non-Tickered	Inactive 2	Tickered	Active
Asset Backed	1624	606	1608	689	16	329
Operator of Nonresidential Bldg. & Other R.E.	130	32	110	21	20	77
Operator of Residential & Apt. Building	79	13	71	5	8	61
Lessors of Real Property	60	13	54	6	6	41
Blank Checks	580	50	441	151	139	379
Oil Royalty Traders	23	2	7	3	16	18
Patent Lessors	50	9	19	4	31	37
Mineral Royalty Traders	14	2	6	3	8	9
REITs & Other Real Estate Activity	453	79	242	39	211	335
Non-Operational Establishments	432	54	369	142	63	236
Funds & Trusts	8502	894	7473	1576	1029	6032
Real Estate Agent Offices	57	3	42	12	15	42
Corporate, Bank & Other Offices	1470	177	1088	346	382	947

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1. This chart is a further breakdown of categories in the chart on page 9.
2. To identify active registrants one should take the first column “total” less the second column (“Terminations”) and the fourth column (“Inactive”).
3. It is important to note that in most cases the number of active public registrants exceeds the number of tickered registrants by a measurable number.
4. The “Tickered” column equals the first column total less the non-tickered column.

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Industry Category	Total	Terminations	Non-tickered	Inactive 2	Tickered	Active
Agriculture & Forestry	55	11	35	11	20	33
Metal Mining	487	24	220	32	267	431
Non-Metal Mining	139	10	74	14	65	115
Oil & Gas (incl. wells & exploration)	661	59	325	82	336	520
Pharmaceuticals	450	45	131	33	319	372
Semiconductors	219	19	39	9	180	191
Telephone, Telegraph & Other Communications	576	120	321	89	255	367
Radio & Television Broadcasting	193	20	143	100	50	73
Natural Gas Piping	98	13	47	5	51	80
Retail Stores (except auto and restaurant)	433	81	196	46	237	306
Banks	1358	347	485	52	873	959
Insurance	299	47	119	33	180	219
Software-Prepackage	587	135	278	72	309	380
Movie Theaters	119	2	112	2	7	115
Ethyl Alcohol Manufacturing	34	1	30	2	4	31
Cable Subscription Programming	84	24	75	21	9	39
Internet Publishing & Broadcasting	120	20	63	27	57	73
Casinos & Casino Hotels	109	33	84	12	25	64
Parking Lots & Garages	5	3	3	0	2	2

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1. This chart identifies the tickered and active registrants by major industry groups.
2. The largest groups of registrants are 1. financial services, 2. mining and oil and gas, 3 Software, 4 Pharmaceuticals and 5 Telecommunications

Restatement Analysis by Auditor

	2004		2005		Jan-Jun 2006	
	All Restatements	Restate Period 1 Year+	All Restatements	Restate Period 1 Year+	All Restatements	Restate Period 1 Year+
Ernst & Young	98	75	206	173	80	66
% of Category Total	11.2%	10.9%	13.2%	14.1%	7.9%	8.4%
PricewaterhouseCoopers	196	162	288	245	132	115
% of Category Total	22.4%	23.6%	18.5%	20.0%	13.0%	14.6%
KPMG	136	124	179	150	59	46
% of Category Total	15.6%	18.1%	11.5%	12.2%	5.8%	5.8%
Deloitte & Touche	127	101	238	208	134	104
% of Category Total	14.5%	14.7%	15.3%	17.0%	13.2%	13.2%
Grant Thornton	33	29	70	58	35	34
% of Category Total	3.8%	4.2%	4.5%	4.7%	3.5%	4.3%
BDO Seidman	29	17	53	44	34	21
% of Category Total	3.3%	2.5%	3.4%	3.6%	3.4%	2.7%
Crowe Chizek	2	2	4	2	3	2
% of Category Total	0.2%	0.3%	0.3%	0.2%	0.3%	0.3%
McGladrey & Pullen LLP	4	2	13	13	5	4
% of Category Total	0.5%	0.3%	0.8%	1.1%	0.5%	0.5%
Regional & Local Firms	249	174	508	334	530	396
% of Category Total	28.5%	25.4%	32.6%	27.2%	52.4%	50.3%
Totals	874	686	1559	1227	1012	788

This charts updates some of the information in our September 2005 Restatement report by both adding “annual only” financial restatement information by firm and updating the first of 06 numbers for new restatement data. Generally, no change has been noted as a result of this analysis from the earlier report.

Thank You

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For further questions about this data, please contact us at Info@auditanalytics.com