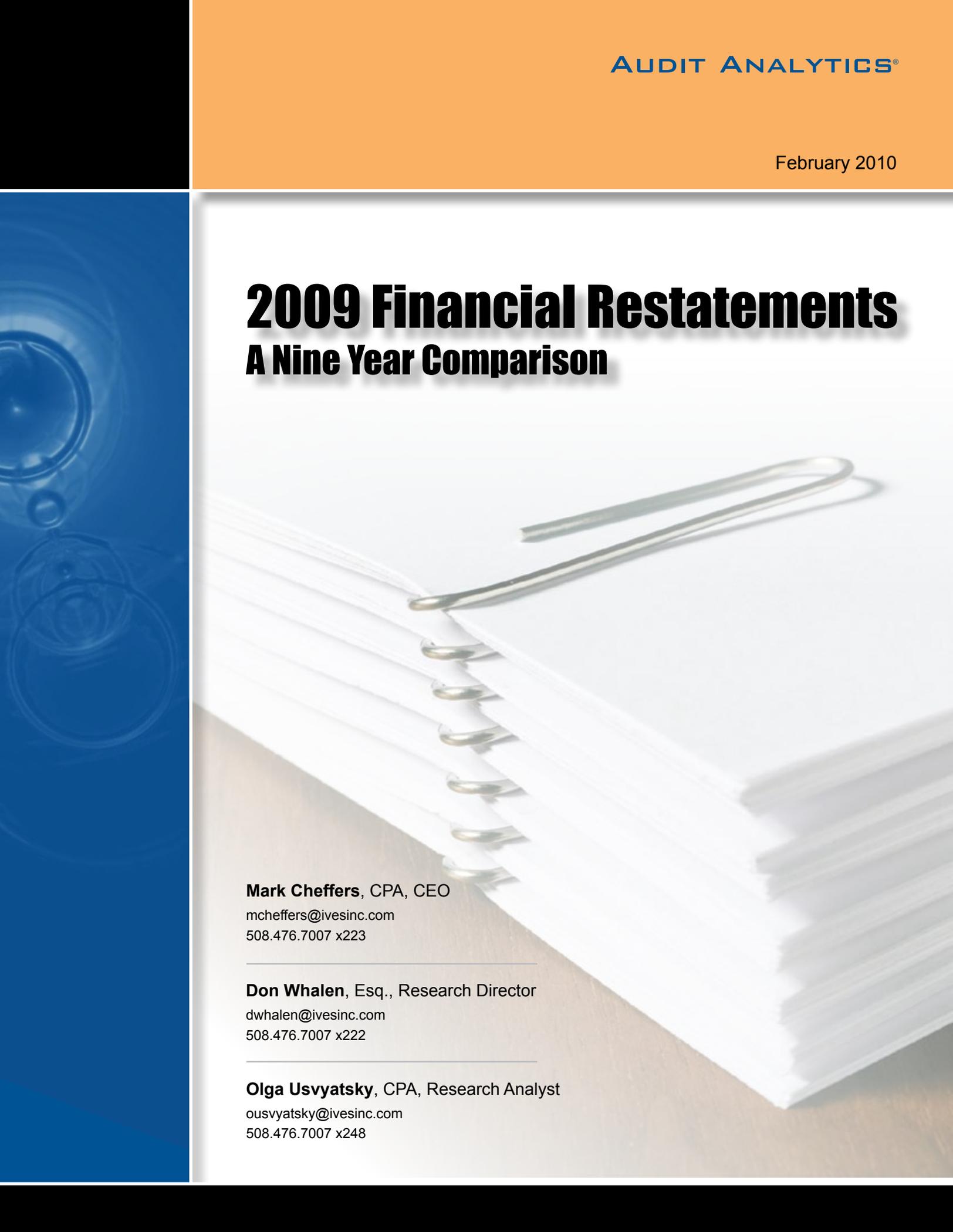


# 2009 Financial Restatements A Nine Year Comparison



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## 2009 Financial Restatements: A Nine Year Comparison

### Introduction

Last year, the restatement review by Audit Analytics found that after six years of consecutive increases, calendar year 2007 experienced the first decline in restatement disclosures as compared to the year prior. In addition to a drop in quantity, the restatements dropped in severity. The downward trend identified in 2007 continued in 2008 and, again, in 2009.

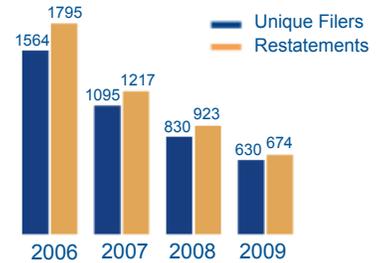
**For the third year in a row, financial restatements have decreased in quantity and severity.**

During 2009, public companies filed 674 restatements, a drop of 27.0% from the 923 restatements filed in 2008. In addition to a drop in quantity, calendar year 2009 experienced a continued drop in severity. When reviewing the adverse effect of the restatements filed in 2009, Audit Analytics found an equivalence or reduction in severity in every criteria quantified: (1) the negative impact on net income, (2) the average cumulative impact on net income per restatement, (3) the percentage of restatements with no impact on income statements, (4) the average number of days restated, and (5) the average number of issues identified in the restatements. In addition, the number of days needed by a company to calculate and file a restatement dropped dramatically in 2009. All these factors appear to be a positive manifestation of improved internal controls over financial reporting (ICFRs) adopted pursuant to the Sarbanes Oxley Act of 2002. The improved ICFRs not only increased the accuracy and reliability of more corporate financial disclosures, but gave companies the tools needed to quickly correct accounting errors when they nevertheless arose.

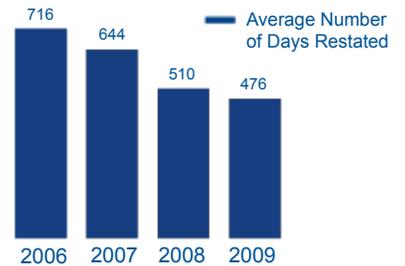
Some observers, however, attribute the decline in restatements, to some extent, to a belief that the SEC relaxed standards in 2008 regarding the materiality of errors and the need to file restatements. This belief was reinforced in August of 2008 when the Advisory Committee on Improvements to Financial Reporting (ACIFR) submitted its final report to the SEC that concluded that the number of restatements in the recent years was too high and, at times, caused by minor errors that would not have triggered a restatement prior to 2002. The committee noted that unnecessary restatements harm investors because the process of restating is costly and, ironically, stifles the flow of financial information because the attempt to disclose corrected past financial information causes a company to refrain from disclosing current financial data until the restatement process is completed (a "dark period"). Some observers believe that the ACIFR's recommendations about restatements were consistent with practices already adopted by the SEC and that these relaxed policies accounted for some of the decline in restatements in 2008 and 2009.

One other concern expressed by the ACIFR was the quantity of stealth restatements. The SEC requires registrants to disclose within four business days a determination that past financial restatements should no longer be relied upon. This disclosure is to appear in Item 4.02 of an 8-K. A stealth restatement is defined as a restatement contained in a periodic report without a prior disclosure in Item 4.02. Although the number of stealth restatements decreased since 2006, the percentage of stealth restatements has not followed the same trend. During the same period, because the total number of restatements has also decreased, the percentage of stealth restatements has not dipped below 40% and equaled 49% in 2009.

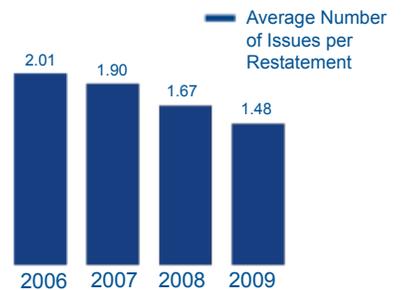
**Total Restatements by Year**



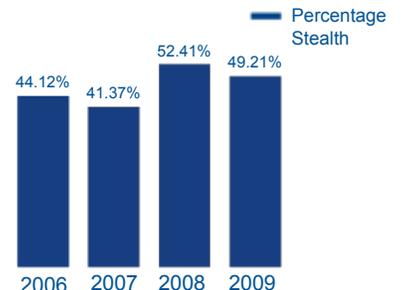
**Average Restatement Period Per Year**



**Average Issues Per Restatement**



**Stealth Restatements**



## 2009 Financial Restatements: A Nine Year Comparison

### Database Overview

The AuditAnalytics.com financial restatement database contains a depth and breadth of data not found elsewhere in the financial information marketplace. It includes data from more than 10,000 financial restatements and/or non-reliance filings disclosed by over 6000 SEC public registrants (big and small, foreign and domestic) since January 1, 2001. In addition to the areas identified in the attached charts, the database employs a taxonomy (issue classifications) of more than 40 different accounting error categories (e.g., Cash Flow Statement (FAS 95), Tax (FAS 109), Revenue Recognition, Intangible Assets, etc.). Search results from this level of granularity can be related to other demographic data such as industry, financial size, filing designation, location, audit firms and any number of peer groups. The relational nature of the database allows the researcher to introduce and compare financial restatement search results into other data sets such as accelerated filer status, legal exposures, director and officer changes, auditor changes, auditor fees, internal controls reports and other data populations. This content extension further allows the analyst to identify anomalies and market patterns that would not be readily apparent, to even other AuditAnalytics.com users, without performing this layered approach. The analysis included in this Executive Summary is high level, but nevertheless, only touches on the extent to which this data can be analyzed.

### Methodology

This 2009 Restatement Briefing Paper was compiled from data searched, categorized, and extracted from the [www.AuditAnalytics.com](http://www.AuditAnalytics.com) database. Restatement records are originated from one of two sources: 8-Ks or periodic reports (10-Ks, 10-K/As, 10-Qs, 10-KSB, 40F, 20F, etc.). Our restatement database covers all types of filer types: accelerated filers ("AF"), non-accelerated filers, funds and trusts, new company registrations, small business filers and foreign registrants. Our methodology is designed to identify so-called stealth restatements (those that file a restatement in a periodic report without first announcing it in Item 4.02 of an 8-K) by utilizing several manual and automated review procedures. After beginning a record that identifies a restatement cause or issue, we subsequently attach filings that address or add information to that original record, in essence creating a timeline. The timeline frequently begins with a press release or Item 4.02 disclosure. Generally, we consider such a history of filings to be one restatement. In certain circumstances, however, a company clearly identifies a completely new issue in a subsequent filing, and therefore this new issue is treated as a new restatement. For example, if a company files an 8-K indicating a revenue recognition problem, but then files a subsequent 10-K/A that discloses not only a revenue recognition issue, but also a Cash Flow Statement (FAS 95) issue, then a separate and second record is created to track that newly disclosed restatement issue as a distinct restatement. We do not, however, identify the revenue recognition issue in the second restatement so as not to double count the restatement issues in this process. Generally, the intent is to err on the side of combining new disclosures (such as a change in period or amounts) in restatements unless it is clear that the issues are different. Since we track newly disclosed issues separately, and in some instances a filer will file multiple restatements, the number of restatements we report is more than the number of unique filers who report them. As a result, we provide both data points (number of unique filers and number of reports) in our analysis.

### Population

As noted above, the Audit Analytics restatement database contains more than 10,000 financial restatements and/or non-reliance filings disclosed by over 6000 SEC public registrants since January 1, 2001. While keeping the database current, Audit Analytics also continually reviews and updates the historical population to refine the data set. For example, Audit Analytics reviews past restatements filed in close succession by a common registrant to determine if such restatements identified in the database as distinct (as discussed in the Methodology section above), should more appropriately be characterized as a single restatement. Other improvements included research to identify press releases regarding restatements and adding this event to the history of the restatement. Since Audit Analytics begins a restatement's history at the time of the first announcement, the discovery of an earlier announcement will cause an appropriate shift in the restatement's history. In addition, a review process exists to discover instances when an anticipated restatement announced in an 8-K does not subsequently materialize because the consequences were not as severe as expected

## 2009 Financial Restatements: A Nine Year Comparison

### Population *(continued)*

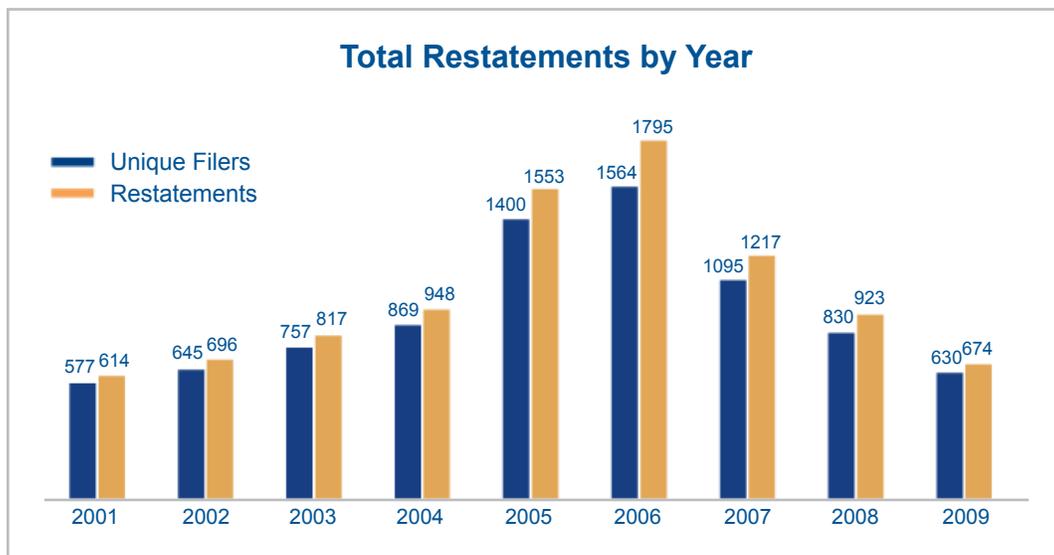
or the company chose to take a charge in the fourth quarter in lieu of a restatement. As identified, these abandoned 8-Ks, and initial restatement history, are removed from the database. These ongoing efforts provide the most current and refined the population of restatements and non-reliance filings available.

During the research performed for this brief, the population described above is further filtered in order to avoid the double counting of restatements when presenting the overall results. First, subsidiaries are removed if the parent also filed a restatement. In addition, interconnected registrants are identified and grouped together if each filed corresponding restatements. For example, an oil drilling entity may create partnerships and individual SEC registrants for each of many oil wells (or other assets/licenses). Under such a scenario, a large number of related partnerships may each file analogous restatements. In order to avoid a skew in the analysis that can result from counting all the equivalent restatements from interconnected registrants, Audit Analytics identified relationships and counted only one member of the group (and its restatement) as a representative of that group.

### Executive Summary - Financial Restatements 2001 to 2009

1. Calendar year 2009 has continued the decline in restatement disclosures first noted in 2007.

In 2007, restatements declined by 32.2% (from 1795 to 1217). (See graph on right and table on page 10: Total Restatements by Year.) In 2008, restatements declined another 24.2% (from 1217 to 923). This trend continued in 2009. The figures for 2009 represent a 27.0% drop in the amount of restatements (923 down to 674) and a 24.1% drop in the number of unique filers (830 down to 630). The steady decrease since 2006 appears to be attributable to the improved reliability of internal controls over financial reporting (ICFRs) implemented in response to the Sarbanes Oxley Act of 2002, but other observers suspect that the drop in restatements, at least to some extent, is due to a more relaxed approach adopted by the SEC regarding materiality and the need to file restatements. (See Executive Summary Item 6 on page 8.)



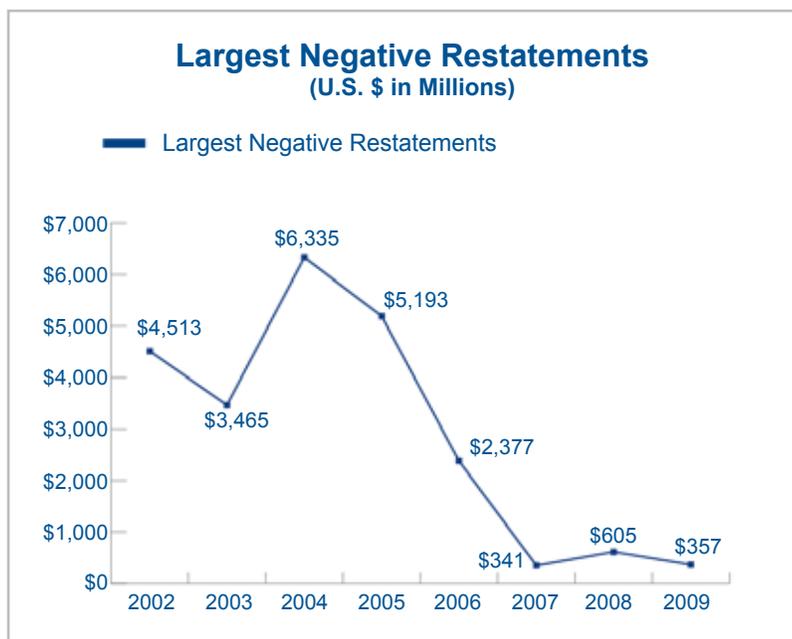
## 2009 Financial Restatements: A Nine Year Comparison

### Executive Summary - Financial Restatements 2001 to 2009 (continued)

2. In addition to a drop in quantity, calendar year 2009 experienced an equivalence or drop in the severity of restatements as compared to prior years.

#### a. Negative Impact on Net Income

When looking at net income, both 2004 and 2005 experienced restatements that resulted in very large negative adjustments.<sup>1</sup> The largest adjustment in 2006 was smaller, but nevertheless substantial. In 2004, Federal National Mortgage Assoc. (Fannie Mae) restated its net income to reflect a negative 6.335 billion dollar impact while, in 2005, American International Group Inc. (AIG) disclosed a negative 5.193 billion dollar impact. (See graph on right and table on page 13: Largest Negative Restatements by Year.) In 2006, Navistar International Corporation disclosed a negative 2.377 billion dollar impact. In contrast, the adjustments of the last three years were much lower than the past. General Electric's negative adjustment of 341 million dollars was the largest in 2007 and GLG Partner's negative 605 million dollar adjustment was the largest in 2008. Calendar 2009 experienced a dollar figure close to that occurring in 2007, with USB AG's negative adjustment of 357 million dollars representing the largest for the year.



#### b. Average Cumulative Impact on Net Income per Restatement

The continued drop in severity of restatements in 2009 is best displayed by calculating, during each of the last five calendar years, the impact an average restatement had on the net income of companies traded on one of the three major American stock exchanges (Amex, NASDAQ, and NYSE). The typical restatement in 2005 and 2006 had a negative adjustment of over 20 million dollars. (See table on right and on page 14: Cumulative Impact on Net Income of Publicly Traded Companies (on Amex, NASDAQ, or NYSE).) This figure dropped substantially in 2007, when the average restatement had a negative impact of 8.6 million dollars. The figure dropped again in 2008, with an average negative impact of 7.1 million dollars. A more dramatic drop occurred in 2009, when the average restatement had a negative impact of 4.6 million dollars. Therefore, calendar year 2009 not only experienced fewer restatements than recent years, each of these fewer restatements had a smaller negative effect.

Average Income Adjustment Per Restatement (companies on Amex, NASDAQ, and NYSE)	
2005	-\$20,950,002
2006	-\$23,498,376
2007	-\$8,570,397
2008	-\$7,183,457
2009	-\$4,624,605

<sup>1</sup> This analysis is limited to those companies presently traded on one of the three major American stock exchanges (Amex, NASDAQ, and NYSE).

## 2009 Financial Restatements: A Nine Year Comparison

### Executive Summary - Financial Restatements 2001 to 2009 *(continued)*

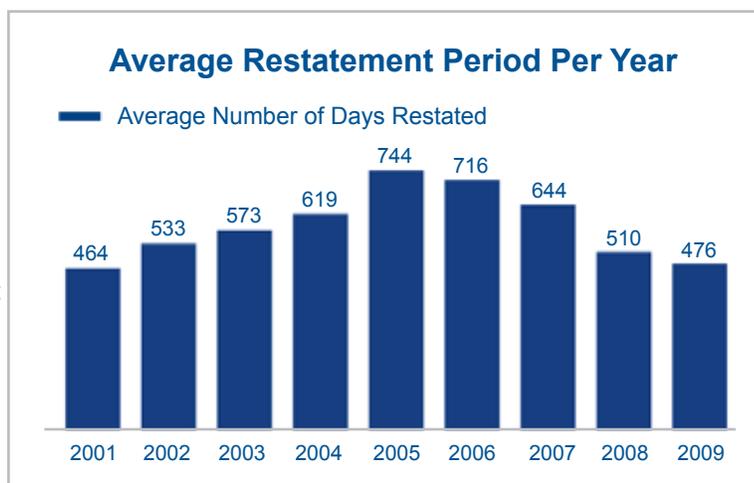
#### c. No Impact on Income Statements

Another indicator of the severity of restatements in a particular year is the percent of restatements that had no impact on the income statement. Such a review for calendar year 2009, of those companies trading on one of the three major American stock exchanges (Amex, NASDAQ, and NYSE), reveals that approximately 31% of the restatements had no impact on earnings. In 2009, a total of 72 out of 232 restatements had no impact. (See tables on page 15: Restatements with No Impact on Income Statement (companies on Amex, NASDAQ, and NYSE).) This percentage is a little lower than the prior two years but, nevertheless, indicates a low severity as compared to the 5 years from 2002 to 2006, inclusive. During those five years, 2006 experienced the best percentage, with 29.60% of restatements having no impact on the income statement.

Percentage of Restatements with No Impact on Income Statements (companies on Amex, NASDAQ, and NYSE)	
2006	29.60%
2007	33.16%
2008	34.55%
2009	31.03%

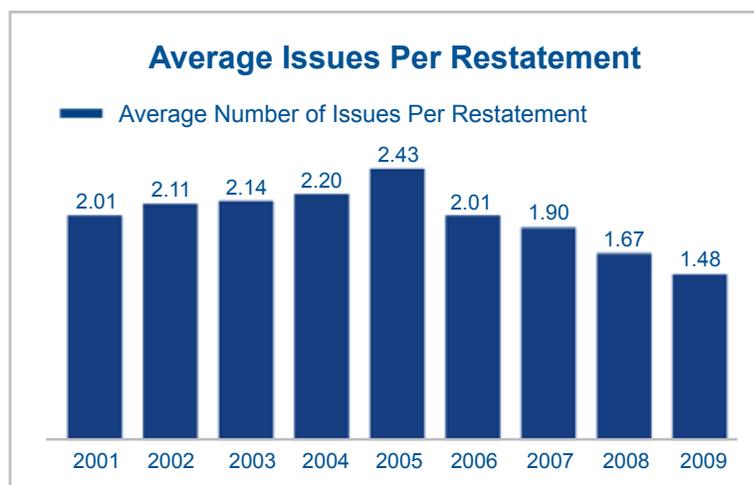
#### d. Average Number of Days Restated

As shown in the graph on the right, the number of days that were restated (the restatement period) of the average restatement in a given year peaked in 2005. (See also, table on page 16: Average Restatement Period per Year.) In 2005, the average restatement period was 744 days, followed by four consecutive years of decline: 716 days in 2006; 644 days in 2007; 510 days in 2008; and 476 days in 2009. Therefore, when compared to the prior four calendar years, the average restatement in 2009 did not have to look back as far into the past in order to correct previous financial statements.



#### e. Average Number of Issues per Restatement

In addition to identifying the number of restatements filed over the past nine years, Audit Analytics reviewed each restatement for the accounting issues implicated. From a taxonomy comprised of over 40 issues monitored, this report selected the most significant and relevant 24 accounting issues for analysis. (See table on page 21: Restatement Issue Breakdown by Year.) A review of these issues since 2001 shows that calendar year 2009 has experienced the lowest average number of issues per restatement. (See graph on right and page 16: Average Number of Issues per Restatement.) In 2005, the average number of issues peaked at 2.43 issues per restatement. In 2009, the average restatement implicated only 1.48 financial accounting issues.

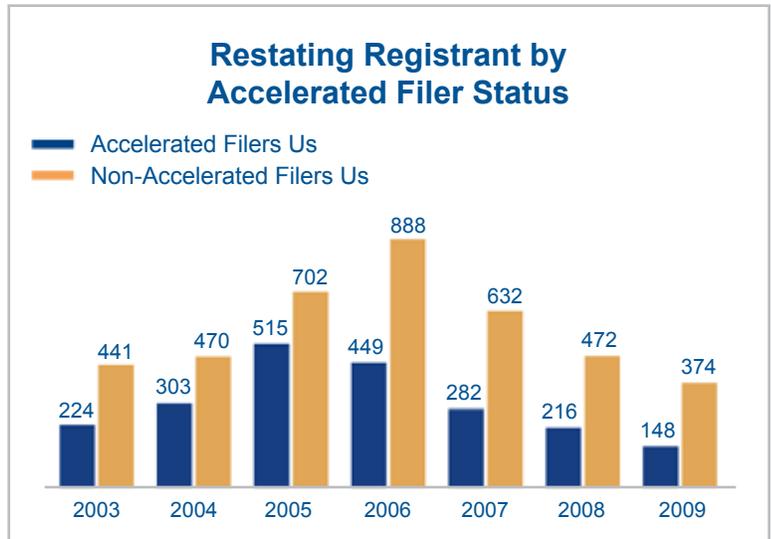


## 2009 Financial Restatements: A Nine Year Comparison

### Executive Summary - Financial Restatements 2001 to 2009 *(continued)*

#### 3. A Restatement Population Breakdown Based on Size (Accelerated Filer Status) and Location (U.S. or Foreign) Shows that all Four Categories have Shown a Decrease in Adjustments Since 2006.

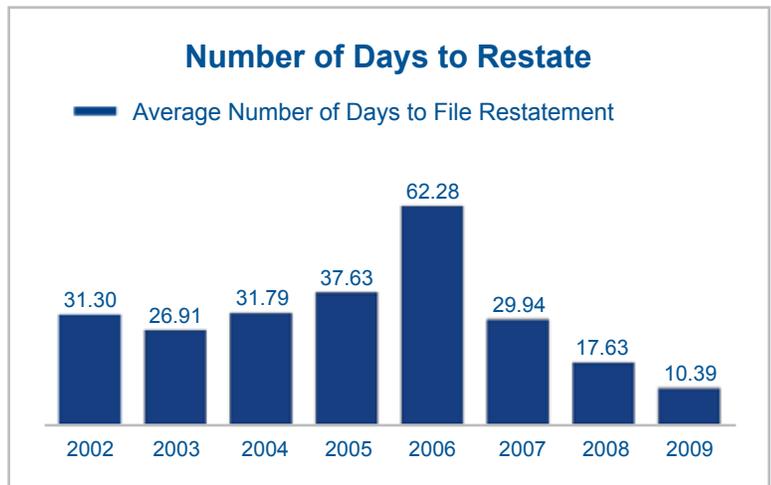
The restatement filer population can be separated into four categories based on size and location: (1) accelerated foreign filer, (2) non-accelerated foreign filer, (3) accelerated U.S. filer, and (4) non-accelerated U.S. filer. A review of these categories shows that all four experienced a drop in restatements for three straight years since 2006. (See tables on page 18: Restating Registrant by Accelerated Filer Status.) This breakdown shows that all categories of public registrants are improving the accuracy of their financial statements. For example, a total of 888 non-accelerated U.S. registrants (unique registrants) filed restatements in 2006 followed by 632 in 2007; 472 in 2008 and 374 in 2009. (See graph on above.) The graph above also shows that non-accelerated filers disclosed over 70% of the restatements by U.S. companies: 374 versus 148. As shown on page 18, this disparity is greater for foreign filers: 101 restatements from non-accelerated foreign filers compared to 7 from accelerated foreign filers.



#### 4. The Number of Days Needed by Registrants to File a Restatement has Decreased the Last Three Years.

As shown in the graph on the right, the average number of days a registrant needed to file a restatement after initial disclosure peaked in 2006, when the average duration required to restate was about 62 days. This time period dropped to about 30 days in 2007 and continued to drop to about 18 days in 2008. This downward trend continued in 2009, when the average duration required to restate was about 10 days.

The smaller time periods could be caused by a number of factors. In general, the number of days needed to restate is less for restatements made in response to less complicated errors. As shown in Executive Summary Item 2.d and 2.e, both the restatement period and the average number of issues decreased in 2009. In addition, the percentage of stealth restatements in 2009 represented almost half the restatements filed. An increase in the percentage of stealth restatements would cause a decrease in the average time period needed to restate. (See Executive Summary Item 5 on next page.) Furthermore, improved internal controls over financial reporting (ICFRs) would allow a company to recalculate and restate financials more quickly after an error is discovered. Improved ICFRs could cut response time notwithstanding the complexity of the restatement task.



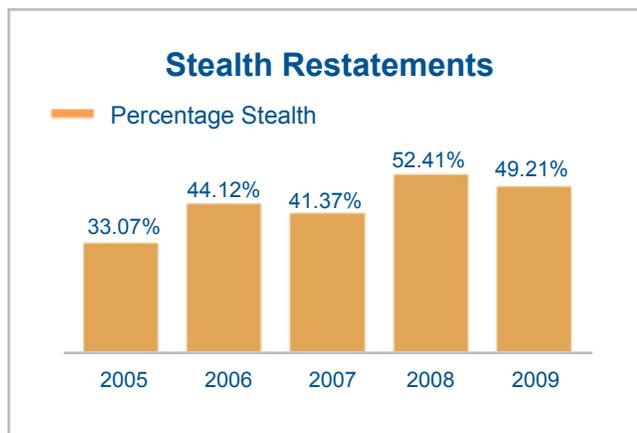
## 2009 Financial Restatements: A Nine Year Comparison

### Executive Summary - Financial Restatements 2001 to 2008 *(continued)*

#### 5. The Number of Stealth Restatements Decreased Every Year Since 2006, but the Percentage of Such Restatements has Stayed Over 40% Despite the Decrease.

In response to Section 409 of the Sarbanes-Oxley Act of 2002, entitled “Real Time Issuer Disclosures,” the SEC identified new reportable items that must be disclosed in an 8-K. This new set of disclosure requirements became effective on August 23, 2004. One of the new reportable events is the conclusion that a past financial statement should no longer be relied upon. Such an event is to be disclosed in an 8-K under Item 4.02, entitled Non-Reliance on Previously Issued Financial Statements or a Related Audit Report or Completed Interim Review. Therefore, in most occurrences, the first disclosure of a past unreliable financial statement should appear in the Item 4.02 of an 8-K filed with four business days of the conclusion.<sup>2</sup> The SEC expects an Item 4.02 to precede the adjustment and will likely review an instance where an Item 4.02 is filed on the same day as an amended periodic report.<sup>3</sup> A restatement that corrected a clerical error, or restated cash flow, could be produced quickly, but those requiring an investigation within the company should be preceded by an Item 4.02 disclosure if prior financial statements can no longer be relied upon.<sup>4</sup>

A stealth restatement, as defined in this analysis, is any restatement revealed in a periodic report without a prior disclosure in Item 4.02 of an 8-K.<sup>5</sup> As shown in the graphs above, although the number of stealth restatements have gone down over the last three years, the percentage of such restatements maintained a value of over 40%. From 2006 to 2009, the number of stealth restatements dropped by over 50% (from 690 to 310), but a concurrent drop in the total number of restatements caused the percentage of stealth restatements to increase over the same time period. In 2006, stealth restatements represented 44% of all restatements. In 2009, this percentage was 49%.<sup>6</sup> (See tables on page 19: Stealth Restatements.)



<sup>2</sup> Pursuant to SEC Release 33-8400 the registrants that must provide a disclosure are those “subject to the reporting requirements of Section 13(a) and Section 15(d) of the Exchange Act, other than foreign private issuers that file annual reports on Form 20-F or 40-F” (see <http://www.sec.gov/rules/final/33-8400.htm>). Therefore restatements filed by foreign filers are not defined as stealth restatements in this report

<sup>3</sup> See Louise M. Dorsey, Speech by SEC Staff: Remarks Before the 2006 AICPA National Conference on Current SEC and PCAOB Developments, (noting that “the trigger event is the decision that the financial statements are unreliable, not the completion of the restatement process,” and therefore if “a company files a 4.02 8-K on the same day it files an amended periodic report to restate its financial statements, it is highly likely that the staff would question the timing of the 8-K filing.” In such instances, the SEC would expect to find an adjustment that corrected a clerical error or other error that would not require an internal investigation.

<sup>4</sup> Although the phrase “stealth restatement” can be interpreted by some as implying sneaky conduct, not all stealth restatements are improper. Since a disclosure in Item 4.02 is required when it is determined that a past financial can no longer be relied upon, a restatement that provides an immaterial adjustment to the financials need not be preceded by a 4.02 because the adjustment does not undermine prior reliance.

<sup>5</sup> For example, the first disclosure could be in an annual report that provides the adjustment, in an NT filing (a notice of late filing), or in a press release filed in an 8-K.

<sup>6</sup> On August 1, 2008, the Advisory Committee on Improvements to Financial Reporting (ACIFR) submitted its final report to the SEC. This report recommended that the instructions for the 8-K form be amended to decrease the number of stealth restatements. The ACIFR also made recommendation concerning restatements in general. (See Executive Summary Item 6 on next page.)

## 2009 Financial Restatements: A Nine Year Comparison

### Executive Summary - Financial Restatements 2001 to 2009 *(continued)*

#### 6. The Advisory Committee's Recommendations to the SEC and a Perceived Policy Shift on the Part of the SEC that may have Resulted in Fewer Restatements.

On August 1, 2008, the Advisory Committee on Improvements to Financial Reporting (ACIFR) submitted its final report to the SEC.<sup>7</sup> Among other recommendations, the committee suggested that the SEC or FASB should issue guidance regarding financial restatements. The ACIFR concluded that the number of restatements that occurred during the last few years was too high and that many restatements resulted from accounting errors that were less significant than in the years prior to 2002. The committee noted that investors are harmed by unnecessary restatements because the restatement process is costly and, in addition, causes a cessation in the flow of financial information (a "dark period") until completion, a duration that can be longer than 12 months.

As a result, the ACIFR recommended an expanded use of professional judgment on the part of accountants and a decision approach based the objective standard of a reasonable investor. Although all accounting errors should be disclosed, the committee stated that all errors should not result in a restatement. An accountant should determine whether or not an accounting error is material based on the needs and perspective of a reasonable investor responding to all available information. (Recommendation 3.1). In addition, the conclusion regarding the appropriate method for correcting a material error should be a separate and distinct judgment, also based upon the current investment decisions of a reasonable investor. Therefore, a past material error that is unimportant to current investment decisions would require prompt disclosure but not a restatement of the financial statements in which the error occurred. (Recommendation 3.2). Since an auditor would be required to exercise greater judgment, the ACIFR recommended that the SEC and PCAOB issue statements explaining how the agencies evaluate the reasonableness of accounting judgments and what contemporaneous documents and information the agencies expect the auditor to retain in support of such decisions. (Recommendation 3.5).

It is clear, based on the ACIFR's final report of August 1, 2008, that the committee advocates that the SEC adopt an approach and issue guidance that will reduce the number of financial restatements. Many the professionals observing the SEC believe that the SEC already adopted such an approach many months prior to the issuance of the final report and that the decrease in restatements in 2008 and 2009, to some degree, is due to this change in approach.<sup>8</sup> The amount of decrease, if any, attributable to a change in SEC policy is uncertain.

decrease the number of stealth restatements. The ACIFR also made recommendation concerning restatements in general. (See Executive Summary Item 6 on next page

<sup>7</sup> Available at the SEC website: <http://sec.gov/about/offices/oca/acifr/acifr-finalreport.pdf>

<sup>8</sup> See the *Financial Week* article of August 25, 2008, suggesting that many months prior to the recommendations of the ACIFR, the SEC already relaxed its approach in order to reduce the number of restatements based on minor errors and to avoid restatements of prior periods if the error had no impact on the current periods, an effort that would delay the disclosure of current financial information simply to correct historical numbers. See Nicholas Fummell, *Tumble in restatements sparks criticism of SEC*, *Financial Week*, August 25, 2008, available at link below:

[www.financialweek.com/apps/pbcs.dll/article?AID=/20080825/REG/860815](http://www.financialweek.com/apps/pbcs.dll/article?AID=/20080825/REG/860815)

## 2009 Financial Restatements: A Nine Year Comparison

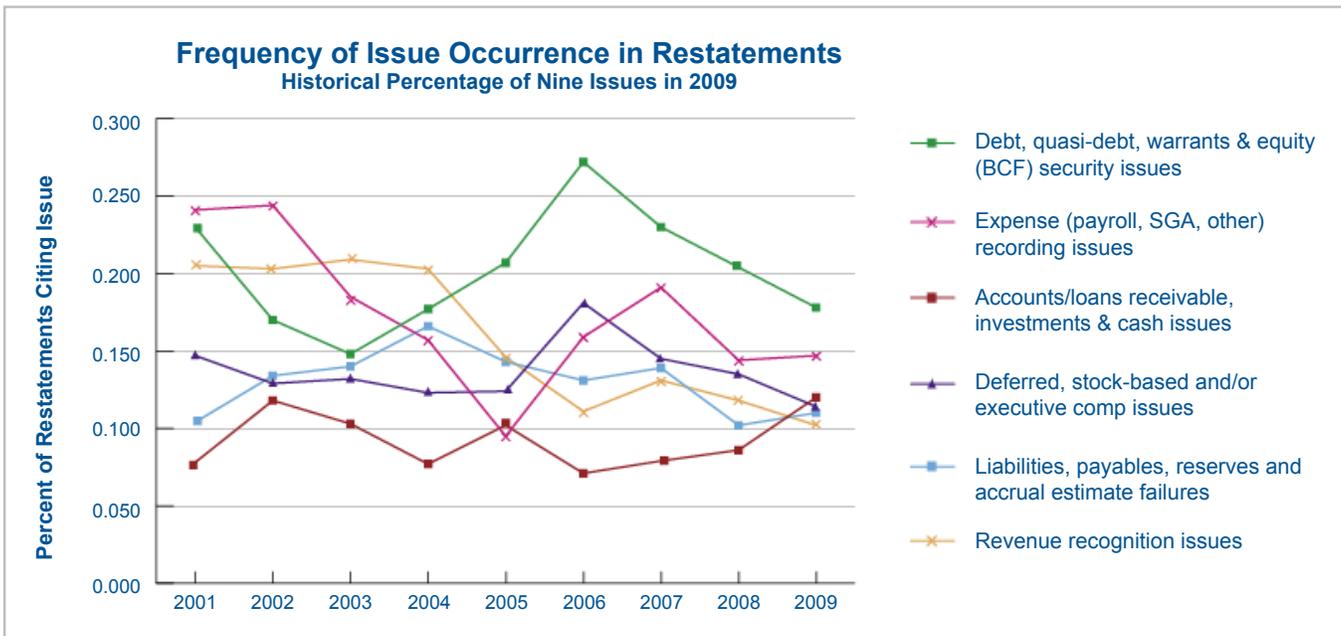
### Executive Summary - Financial Restatements 2001 to 2009 *(continued)*

7. The top nine issues in 2009 have been common causes for restatements over the last seven years, but during the last three years matters concerning accounts/loans receivable has steadily increased in prevalence to be ranked third in 2009.

In 2009, the top nine accounting issues implicated in restatements were as follows:

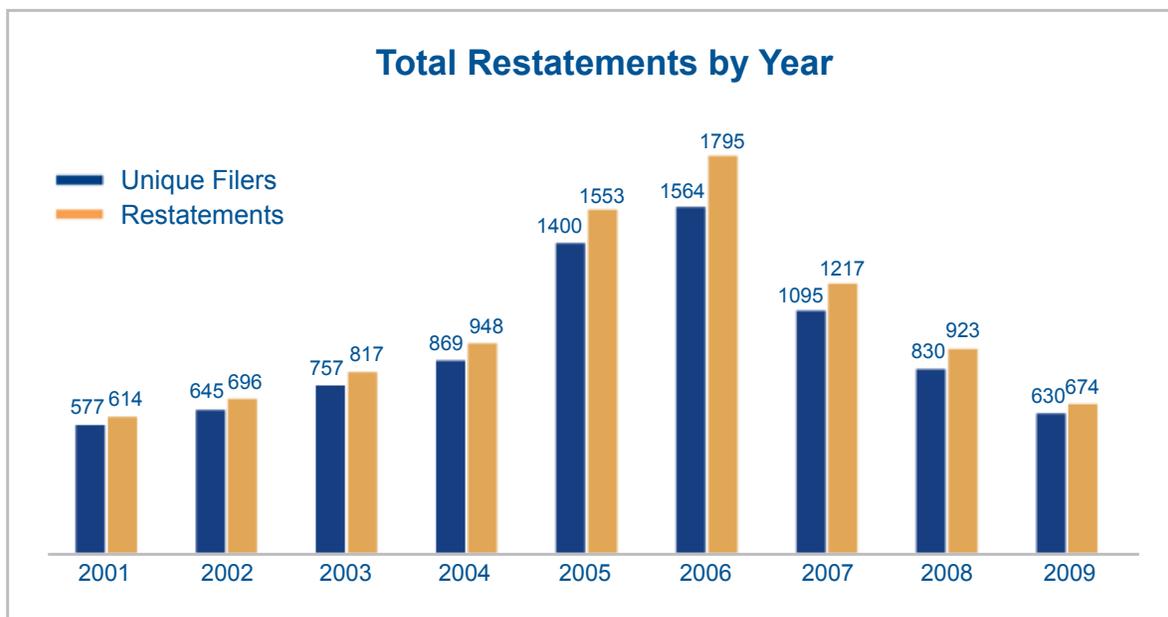
- debt, quasi-debt, warrants & equity (BCF) security issues;
- expense (payroll, SGA, other) recording issues;
- accounts/loans receivable, investments & cash issues;
- deferred, stock-based and/or executive compensation issues;
- liabilities, payables, reserves and accrual estimate failures;
- revenue recognition issues;
- acquisitions, mergers, disposals, reorganization accounting issues;
- tax expense, benefit, deferral and other (FAS 109) issues; and
- cash flow statement (SFAS 95).

(See table on page 21: *Restatement Issue Breakdown by Year*.) During the three years from 2006 to 2008, inclusive, the same issues occupied one of the top three spots: (1) debt, quasi-debt; (2) expense recording; and (3) deferred, stock-based compensation. (See graph below.) During the same time period, the rate of restatements implicating accounts/loans receivable issues consistently grew in prevalence. The increase in prevalence continued in 2009 and took the third spot in the issue ranking. In 2006, about 3.6% of the restatements adjusted figures in the category of accounts/loans receivable, investments & cash issues. The percentage increased to 4.2% in 2007 and to 5.1% in 2008. This upward trend experienced a larger increase in 2009, when 8.1% of the restatements adjusted figures in the category of accounts/loans receivable, investments & cash issues.



## 2009 Financial Restatements: A Nine Year Comparison

### Restatement Analysis - Total Restatements per Year



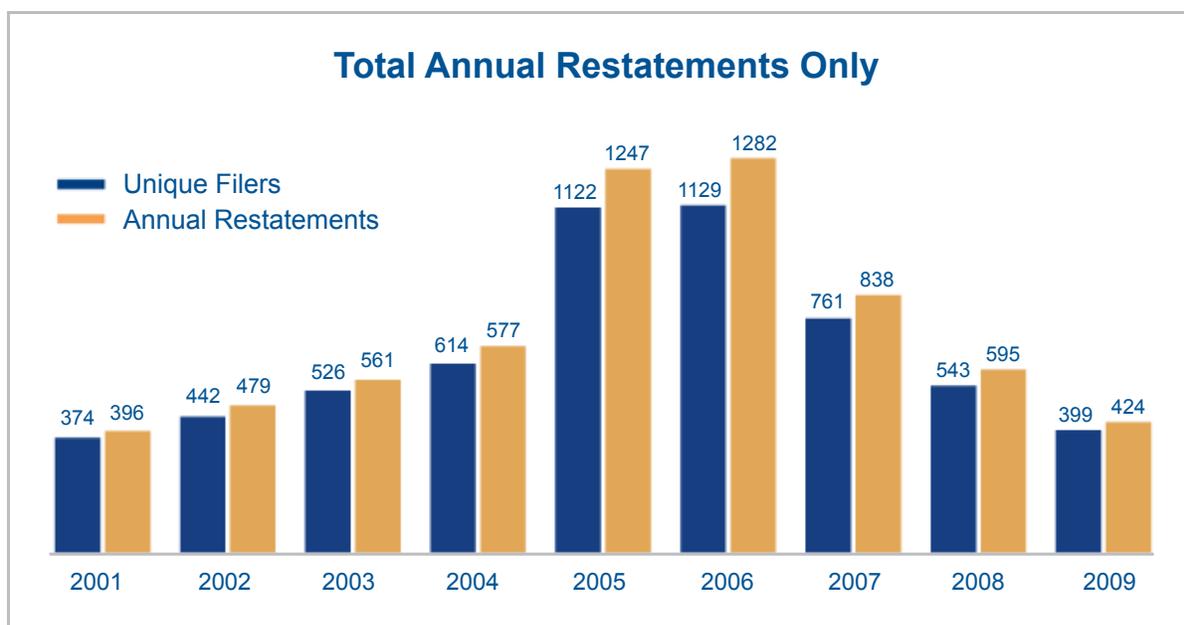
Total Restatements by Year			
	Unique Filers	Restatements	Growth Rate
2001	577	614	
2002	645	696	13.36%
2003	757	817	17.39%
2004	869	948	16.03%
2005	1400	1553	63.82%
2006	1564	1795	15.58%
2007	1095	1217	-32.20%
2008	830	923	-24.16%
2009	630	674	-26.98%

#### Notes

- 1) The research is based on SEC filings as of January 22, 2010 (database download of January 27, 2010).
- 2) The data counts all restatements when a registrant files multiple restatements.
- 3) The restatement population is filtered in order to avoid the double counting of restatements by assigning one representative for a group of interconnected non-tickered companies that file analogous restatements. (See Population section on page 3 of report.)

## 2009 Financial Restatements: A Nine Year Comparison

### Restatement Analysis - Total Annual Restatements Only per Year



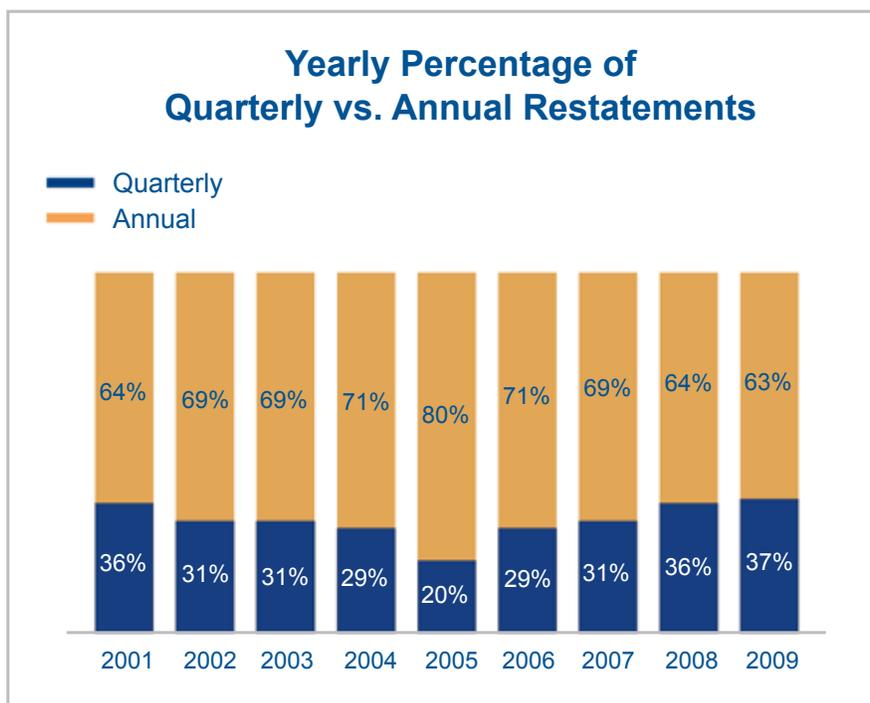
	Total Annual Restatements Only by Year		
	Unique Filers	Restatements	Growth Rate
2001	374	396	
2002	442	479	20.96%
2003	526	561	17.12%
2004	614	671	19.61%
2005	1122	1247	85.84%
2006	1129	1282	2.81%
2007	761	838	-34.63%
2008	543	595	-29.00%
2009	399	424	-28.74%

#### Notes

- 1) The research is based on SEC filings as of January 22, 2010 (database download of January 27, 2010).
- 2) The data counts all restatements when a registrant files multiple restatements.
- 3) Annual restatements include all the filings that disclosed affected period of 350 days or more.
- 4) The restatement population is filtered in order to avoid the double counting of restatements by assigning one representative for a group of interconnected non-tickered companies that file analogous restatements. (See Population section on page 3 of report.)

## 2009 Financial Restatements: A Nine Year Comparison

### Restatement Analysis - Yearly Percentage of Quarterly vs. Annual Restatements



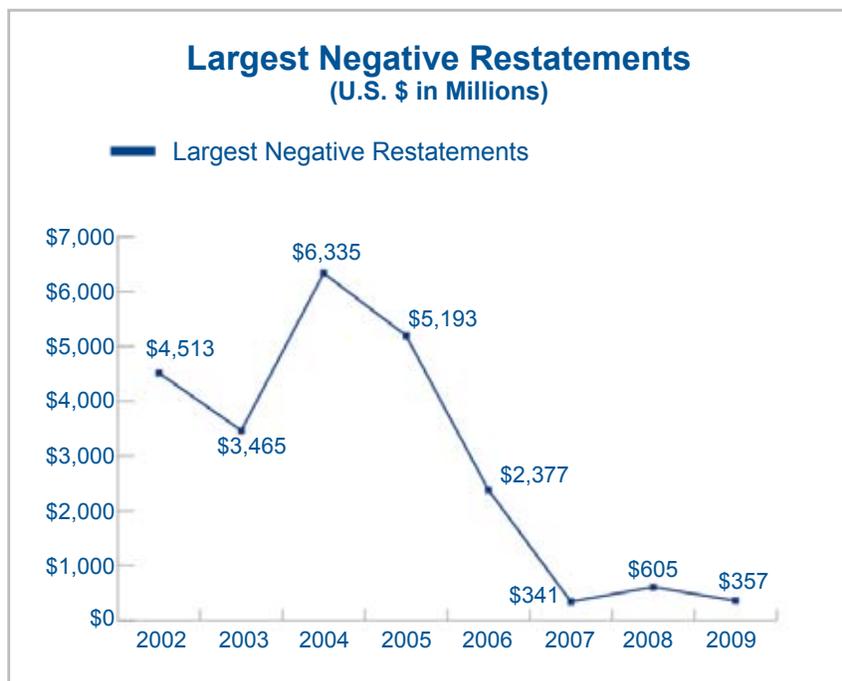
	Percentage of Quarterly vs. Annual Restatements				
	Total Restatements	Quarterly Restatements		Annual Restatements	
		Total	%	Total	%
2001	614	218	35.5%	396	64.5%
2002	696	217	31.2%	479	68.8%
2003	817	255	31.2%	562	68.8%
2004	948	277	29.2%	671	70.8%
2005	1553	306	19.7%	1247	80.3%
2006	1795	513	28.6%	1282	71.4%
2007	1217	379	31.1%	838	68.9%
2008	923	328	35.5%	595	64.5%
2009	674	250	37.1%	424	62.9%

#### Notes

- 1) The research is based on SEC filings as of January 22, 2010 (database download of January 27, 2010).
- 2) The data counts all restatements when a registrant files multiple restatements.
- 3) Annual restatements include all the filings that disclosed affected period of 350 days or more.
- 4) The % columns are based on a total number of Restatements filed for the particular year (see also, table on page 10: Total Restatements by Year ).

2009 Financial Restatements: A Nine Year Comparison

Restatement Analysis - Largest Negative Restatement by Year



Largest Negative Restatements by Year			
	Company	Market	Impact on Net Income (U.S. Dollars)
2002	TYCO INTERNATIONAL LTD /BER/	NYSE	-4,512,700,000
2003	HEALTHSOUTH CORP.	NYSE	-3,465,294,000
2004	FEDERAL NATIONAL MORTGAGE ASSOCIATION (FANNIE MAE)	NYSE	-6,335,000,000
2005	AMERICAN INTERNATIONAL GROUP INC.	NYSE	-5,193,000,000
2006	NAVISTAR INTERNATIONAL CORP.	NYSE	-2,377,000,000
2007	GENERAL ELECTRIC CO	NYSE	-341,000,000
2008	GLG PARTNERS INC.	NYSE	-604,580,000
2009	UBS AG	NYSE	-357,210,000

## 2009 Financial Restatements: A Nine Year Comparison

### Restatement Analysis of Companies - Listed in Amex, NASDAQ or NYSE

	Restatement Breakdown by Market Unique Registrants Restating								
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Amex	38	71	88	118	199	173	122	86	62
Nasdaq	8	10	19	25	42	60	43	36	25
NYSE	79	86	109	149	260	290	192	159	135
OTC	65	56	67	98	161	300	253	269	251
Not listed	387	422	474	479	738	741	485	280	157
Total	577	645	757	869	1400	1564	1095	830	630

#### Notes

1) The research is based on SEC filings as of January 22, 2010 (database download of January 27, 2010).

	Cumulative Impact on Net Income of Publicly Traded Companies (on Amex, NASDAQ, or NYSE)						
	Negative Restatements		Positive Restatements		Total Restatements		Average Income Adjustment Per Restatement
	Negative Restatements	Aggregate Negative Dollar Value	Positive Restatements	Aggregate Positive Dollar Value	Total Restatements	Aggregate Dollar Value	
2002	150	-\$14,084,444,956	26	\$612,774,801	176	-13,471,670,155	-\$76,543,580
2003	198	-\$9,231,054,567	28	\$208,832,064	226	-9,022,222,503	-\$39,921,339
2004	250	-\$11,799,485,070	54	\$796,251,354	304	-11,003,233,716	-\$36,194,848
2005	462	-\$14,422,266,834	99	\$2,669,315,536	561	-11,752,951,298	-\$20,950,002
2006	472	-\$15,005,301,318	99	\$1,587,728,775	571	-13,417,572,543	-\$23,498,376
2007	326	-\$3,979,024,881	63	\$645,140,488	389	-3,333,884,393	-\$8,570,397
2008	250	-\$2,488,470,221	51	\$326,249,538	301	-2,162,220,683	-\$7,183,457
2009	195	-\$1,244,458,512	37	\$171,550,251	232	-1,072,908,261	-\$4,624,605

#### Notes

1) The research is based on SEC filings as of January 22, 2010 (database download of January 27, 2010).

2) The impact on an income statement reported in foreign currency is converted to US dollars using historical conversion rate as of the date of the restatement announcement.

## 2009 Financial Restatements: A Nine Year Comparison

### Restatement Analysis of Companies - Listed in Amex, NASDAQ or NYSE *(continued)*

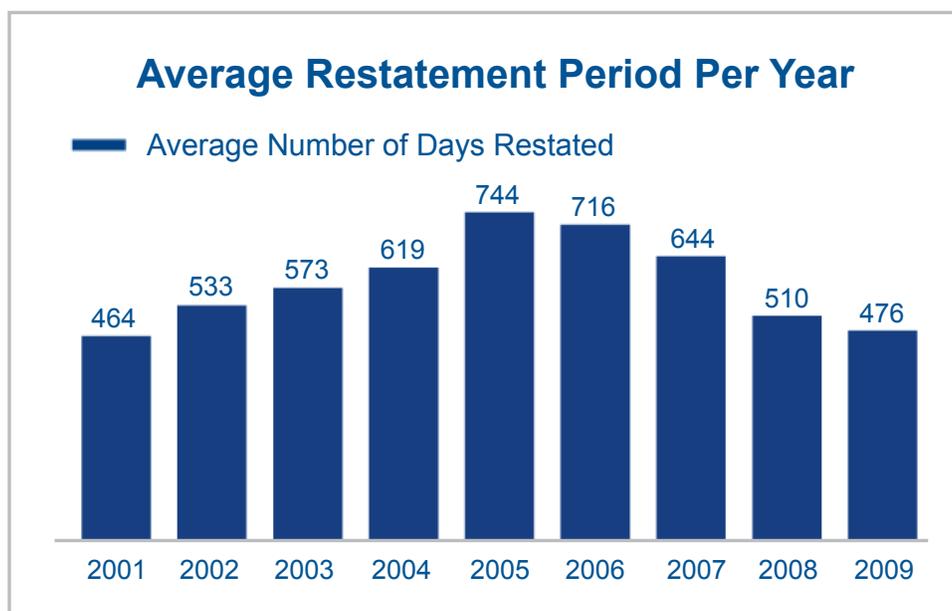
	Restatements with No Impact on Income Statements (companies on Amex, NASDAQ, and NYSE)		
	Total Restatements	Restatements with No Impact	%
2002	176	42	23.86%
2003	226	64	28.32%
2004	304	89	29.28%
2005	561	141	25.13%
2006	571	169	29.60%
2007	389	129	33.16%
2008	301	104	34.55%
2009	232	72	31.03%

#### Notes

The types of restatements that may have no impact on an income statement include, but are not limited to, restatements addressing (1) certain tax adjustments, (2) cashflow statements, (3) debt reclassification from short term to long term, (4) earning per share adjustments, and (5) redistribution of income from year to year without a net change in income.

## 2009 Financial Restatements: A Nine Year Comparison

### Restatement Analysis - Average Restatement Period per Year



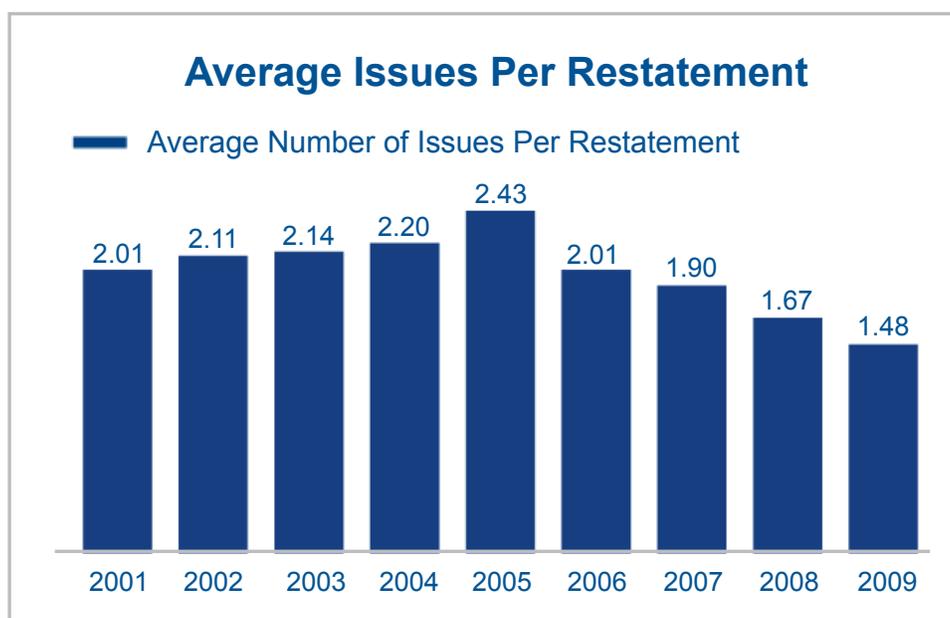
	Average Restatement Period		
	Restatements	Average # of Days Restated	Growth
2001	614	464	
2002	696	533	14.9%
2003	817	573	7.5%
2004	948	619	8.0%
2005	1553	744	20.2%
2006	1795	716	-3.8%
2007	1217	644	-10.1%
2008	923	510	-20.8%
2009	674	476	-6.7%

#### Notes

- 1) The research is based on SEC filings as of January 22, 2010 (database download of January 27, 2010).
- 2) For detail on the total number of restatements per year, see table on page 10: Total Restatements by Year.
- 3) The Total Days Restated is based on the non-reliance period disclosed by entities in their 8-K filings. The actual restated period may differ from the period disclosed in an 8-K.

## 2009 Financial Restatements: A Nine Year Comparison

### Restatement Issue Analysis - Average Number of Issues per Restatement



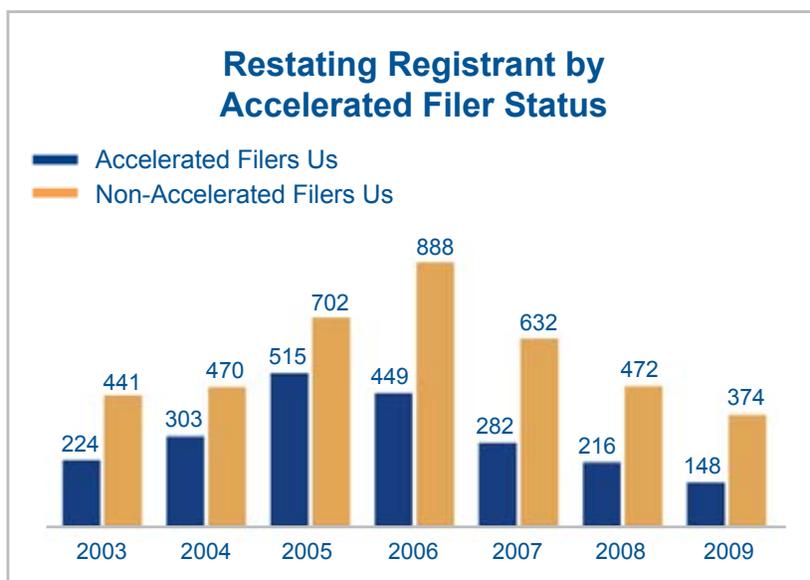
	Average # of Issues per Restatement Notification		
	Total Issues Restated	Total Restatements	Average # of Issues per Restatement
2001	1233	614	2.01
2002	1472	696	2.11
2003	1751	817	2.14
2004	2087	948	2.20
2005	3780	1553	2.43
2006	3603	1795	2.01
2007	2310	1217	1.90
2008	1539	923	1.67
2009	995	674	1.48

#### Notes

- 1) The research is based on SEC filings as of January 22, 2010 (database download of January 27, 2010).
- 2) For detail on the total number of issues restated per year, see table on page 20: Restatement Issue Breakdown by Year.
- 3) For detail on the total number of restatements per year, see table named All Restatements by Year.

## 2009 Financial Restatements: A Nine Year Comparison

### Restatement Analysis - Restating Registrants by Accelerated Filer Status



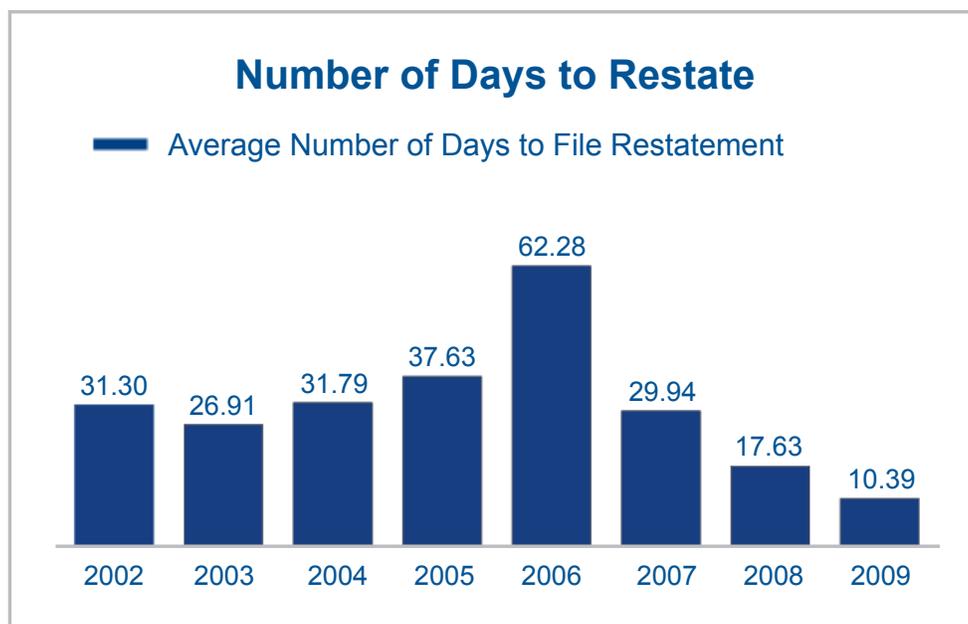
Restating Registrant by Accelerated Filer Status														
	2003		2004		2005		2006		2007		2008		2009	
	#	%	#	%	#	%	#	%	#	%	#	%	#	%
Accelerated Foreign Filers	8	1.1%	6	0.7%	41	2.9%	37	2.4%	35	3.2%	16	1.9%	7	1.1%
Non-accelerated Foreign Filers	84	11.1%	90	10.4%	142	10.1%	190	12.1%	146	13.3%	126	15.2%	101	16.0%
Accelerated U.S. Filers	224	29.6%	303	34.9%	515	36.8%	449	28.7%	282	25.8%	216	26.0%	148	23.5%
Non-accelerated U.S. Filers	441	58.3%	470	54.1%	702	50.1%	888	56.8%	632	57.7%	472	56.9%	374	59.4%
Total Unique Restaters	757		869		1400		1564		1095		830		630	

#### Notes

- 1) The research is based on SEC filings as of January 22, 2010 (database download of January 27, 2010).
- 2) The data counts all restatements when a registrant files multiple restatements.
- 3) A registrant's accelerated filer status is determined from the last filing of the relevant year.
- 4) Foreign filers include Canadian registrants.

## 2009 Financial Restatements: A Nine Year Comparison

### Restatement Analysis - Average Number of Days to Restate



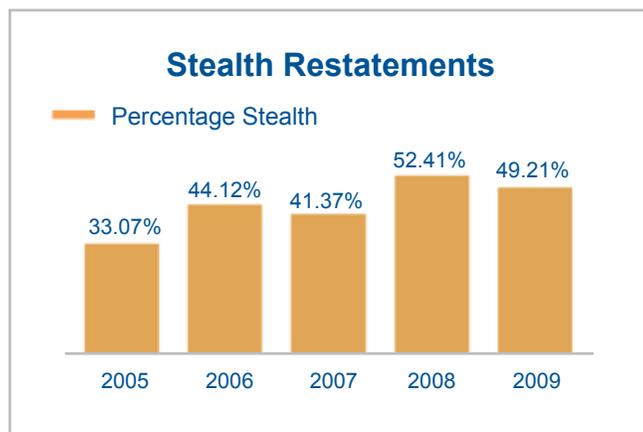
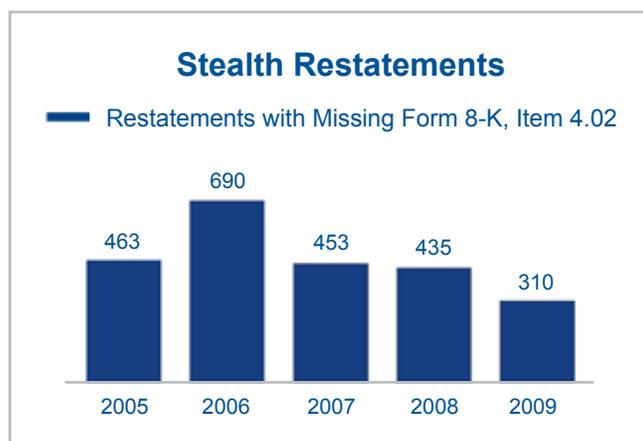
Average Number of Days to File Restatements	
Year	Days
2002	31.30
2003	26.91
2004	31.79
2005	37.63
2006	62.28
2007	29.94
2008	17.63
2009	10.39

#### Notes

- 1) The research is based on SEC filings as of January 22, 2010 (database download of January 27, 2010).
- 2) For detail on the total number of issues restated per year, see table on page 20: Restatement Issue Breakdown by Year.
- 3) For detail on the total number of restatements per year, see table named All Restatements by Year.

## 2009 Financial Restatements: A Nine Year Comparison

### Stealth Restatements (Restatements with Missing Prior Form 8-K, Item 4.02)



Stealth Restatements (Restatements with Missing Prior Form 8-K, Item 4.02)			
	Restatements with No Item 4.02	Total Restatements	Percentage Stealth
2005	463	1400	33.07%
2006	690	1564	44.12%
2007	453	1095	41.37%
2008	435	830	52.41%
2009	310	630	49.21%

Largest Negative Stealth Restatements (Restatements with Missing Prior Form 8-K, Item 4.02)			
	Company	First Announcement (Disclosure Form Type)	Dollar Impact of Restatement
2005	AES Corp.	NT	-96,000,000
2006	Washington Mutual, Inc.	10-K/A	-337,000,000
2007	Computer Sciences Corp.	10-K	-16,500,000
2008	General Motors Corp.	10-K	-211,000,000
2009	Albany Intn'l Corp./DE/	10-K	-16,438,000

#### Notes

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- 3) For detail on the total number of restatements per year, see table named All Restatements by Year.

2009 Financial Restatements: A Nine Year Comparison

Restatement Issue Analysis - Issue Breakdown by Year

Accounting issue restated	Restatement Issue Breakdown by Year																	
	2001		2002		2003		2004		2005		2006		2007		2008		2009	
	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%
Accounting issue restated	141	23.0%	118	17.0%	121	14.8%	168	17.7%	321	20.7%	489	27.2%	280	23.0%	188	20.4%	120	17.8%
Debt, quasi-debt, warrants & equity (BCF) security issues	148	24.1%	170	24.4%	151	18.5%	149	15.7%	147	9.5%	285	15.9%	232	19.1%	133	14.4%	99	14.7%
Expense (payroll, SGA, other) recording issues	48	7.8%	82	11.8%	84	10.3%	73	7.7%	158	10.2%	128	7.1%	96	7.9%	79	8.6%	81	12.0%
Accounts/bans receivable, investments & cash issues	90	14.7%	90	12.9%	108	13.2%	117	12.3%	193	12.4%	324	18.1%	176	14.5%	125	13.5%	77	11.4%
Deferred, stock-based and/or executive comp issues	64	10.4%	93	13.4%	114	14.0%	157	16.6%	222	14.3%	235	13.1%	169	13.9%	94	10.2%	74	11.0%
Liabilities, payables, reserves and accrual estimate failures	126	20.5%	141	20.3%	171	20.9%	192	20.3%	226	14.6%	200	11.1%	159	13.1%	109	11.8%	69	10.2%
Revenue recognition issues	126	20.5%	100	14.4%	128	15.7%	167	17.6%	242	15.6%	269	15.0%	166	13.6%	107	11.6%	63	9.3%
Acquisitions, mergers, disposals, re-org accounting issues	38	6.2%	48	6.9%	93	11.4%	120	12.7%	186	12.0%	176	9.8%	126	10.4%	105	11.4%	54	8.0%
Tax expense/benefit/deferral/other (FAS 109) issues	4	0.7%	13	1.9%	19	2.3%	45	4.7%	132	8.5%	194	10.8%	151	12.4%	109	11.8%	51	7.6%
Cash flow statement (SFAS 95) classification errors	53	8.6%	69	9.9%	79	9.7%	87	9.2%	142	9.1%	130	7.2%	67	5.5%	52	5.6%	43	6.4%
Inventory, vendor and/or cost of sales issues	69	11.2%	81	11.6%	113	13.8%	137	14.5%	206	13.3%	180	10.0%	90	7.4%	61	6.6%	41	6.1%
PPE intangible or fixed asset (value/diminution) issues	57	9.3%	82	11.8%	102	12.5%	111	11.7%	206	13.3%	201	11.2%	120	9.9%	59	6.4%	38	5.6%
Foreign, related party, affiliated, or subsidiary issues	42	6.8%	47	6.8%	84	10.3%	99	10.4%	142	9.1%	141	7.9%	56	4.6%	65	7.0%	33	4.9%
Consolidation issues incl Fin 46 variable interest & off-B/S	28	4.6%	34	4.9%	35	4.3%	52	5.5%	89	5.7%	78	4.3%	63	5.2%	43	4.7%	31	4.6%
EPS, ratio and classification of income statement issues	27	4.4%	52	7.5%	44	5.4%	54	5.7%	223	14.4%	57	3.2%	47	3.9%	35	3.8%	27	4.0%
Capitalization of expenditures issues	29	4.7%	30	4.3%	56	6.9%	59	6.2%	57	3.7%	86	4.8%	52	4.3%	20	2.2%	20	3.0%
Debt and/or equity classification issues	29	4.7%	47	6.8%	49	6.0%	70	7.4%	235	15.1%	80	4.5%	51	4.2%	34	3.7%	18	2.7%
Depreciation, depletion or amortization errors	15	2.4%	33	4.7%	13	1.6%	27	2.8%	66	4.2%	66	3.7%	33	2.7%	19	2.1%	15	2.2%
Financial derivatives/hedging (FAS 133) accounting issues	39	6.4%	41	5.9%	56	6.9%	41	4.3%	84	5.4%	69	3.8%	35	2.9%	28	3.0%	9	1.3%
Gain or loss recognition issues	16	2.6%	21	3.0%	27	3.3%	34	3.6%	63	4.1%	53	3.0%	34	2.8%	21	2.3%	8	1.2%
Balance sheet classification of assets issues	17	2.8%	42	6.0%	52	6.4%	62	6.5%	284	18.3%	79	4.4%	46	3.8%	15	1.6%	8	1.2%
Lease, SFAS 5, legal, contingency and commitment issues	23	3.7%	32	4.6%	31	3.8%	43	4.5%	90	5.8%	44	2.5%	23	1.9%	21	2.3%	7	1.0%
Intercompany, investment in subsidiary/affiliate issues	2	0.3%	5	0.7%	17	2.1%	18	1.9%	32	2.1%	25	1.4%	24	2.0%	10	1.1%	6	0.9%
Pension issues	2	0.3%	1	0.1%	4	0.5%	5	0.5%	34	2.2%	14	0.8%	14	1.2%	7	0.8%	3	0.4%
Comprehensive income issues																		

Notes

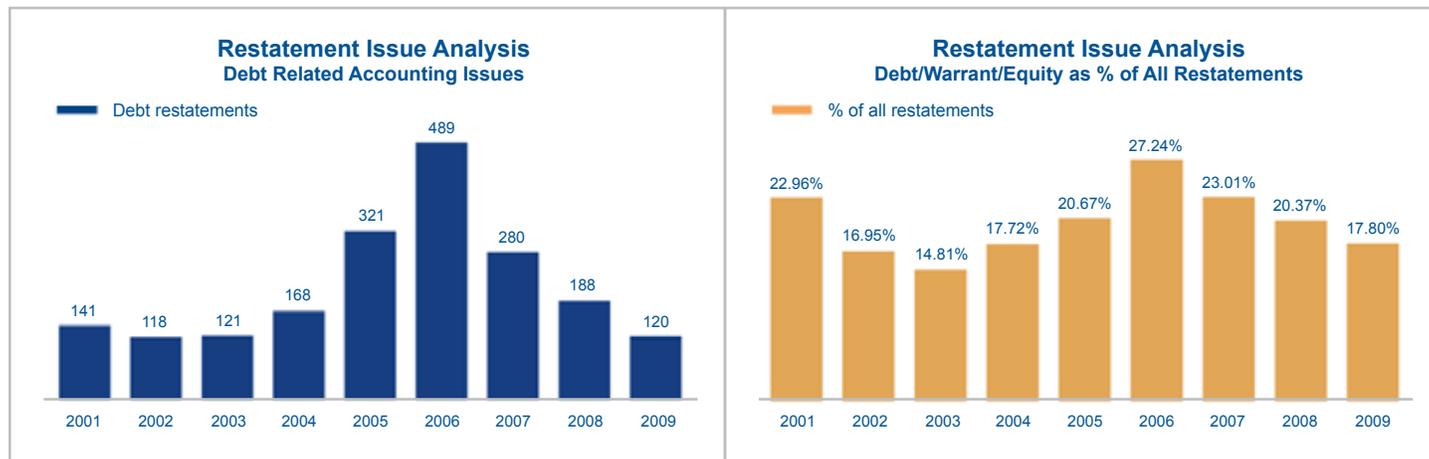
- 1) The research is based on SEC filings as of January 22, 2010 (database download of January 27, 2010).
- 2) The data counts all restatements when a registrant files multiple restatements.
- 3) The % columns indicate how many Restatements of the particular year affected the listed issue. The percentages are based on a total number of Restatements filed: 614 in 2001; 696 in 2002; 817 in 2003; 948 in 2004; 1553 in 2005; 1795 in 2006; 1217 in 2007; 923 in 2008; and 674 in 2009 (see table on page 10: Total Restatements by Year).

Source: [AuditAnalytics.com](http://AuditAnalytics.com)

Audit Analytics is a premium on-line market intelligence service available from IVES Group Inc., a leading independent research provider focused on the accounting, insurance, regulatory, legal and investment communities. For information, call (508) 476-7007, email [info@auditanalytics.com](mailto:info@auditanalytics.com) or visit [www.auditanalytics.com](http://www.auditanalytics.com).

## 2009 Financial Restatements: A Nine Year Comparison

### Restatement Issue Analysis - Debt, Quasi-Debt, Warrants & Equity (BCF) Security Issues



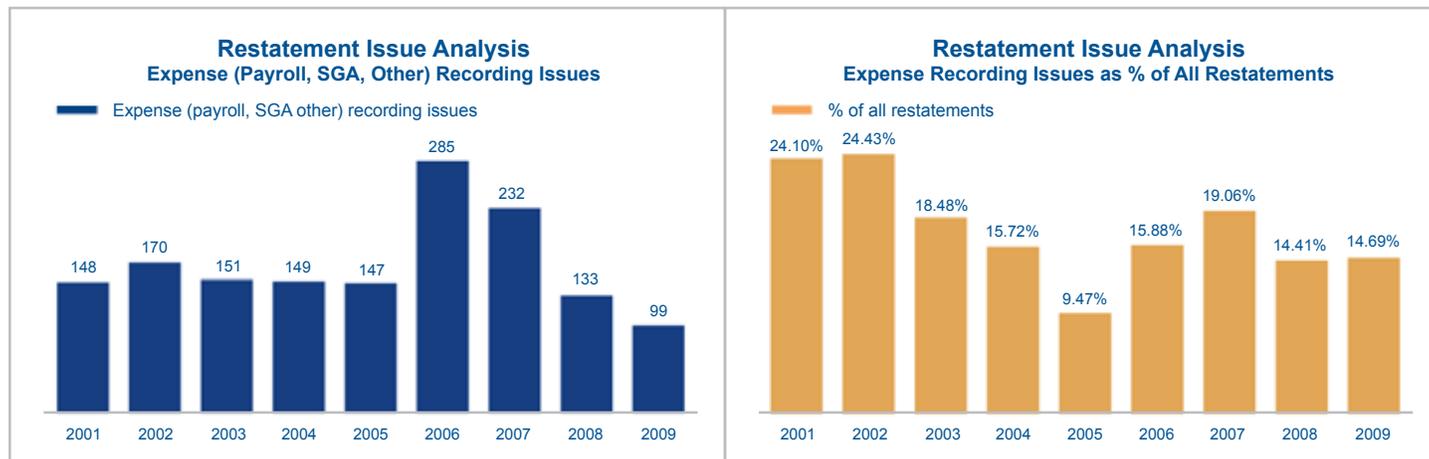
	Debt, Quasi-Debt, Warrants & Equity (BCF) Security Issues								
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Debt Restatements	141	118	121	168	321	489	280	188	120
Total Restatements	614	696	817	948	1553	1795	1217	923	674
% of All Restatements	22.96%	16.95%	14.81%	17.72%	20.67%	27.24%	23.01%	20.37%	17.80%

#### Notes

- 1) The research is based on SEC filings as of January 22, 2010 (database download of January 27, 2010).
- 2) The data counts all restatements when a registrant files multiple restatements.
- 3) The % of **All Restatements** row are based on a total number of Restatements filed for the particular year (see also, table on page 10: Total Restatements by Year).
- 4) **Debt, Quasi-Debt, Warrants & Equity (BCF) Security Issues** consists of errors or irregularities in approach, theory or calculation associated with the recording of debt or equity accounts. These restatements will often be about errors made in the calculation of balances arising from debt, equity or quasi debt/equity instruments with conversion options (including beneficial conversion features- BCF). For example when convertible debt is issued, converted, repurchased or paid off, the GAAP requirements can be challenging. In addition, certain debt instruments can be erroneously valued. Often FAS 123 (financial derivative) requirements are at issue.

## 2009 Financial Restatements: A Nine Year Comparison

### Restatement Issue Analysis - Expense (Payroll, SGA, Other) Recording Issues



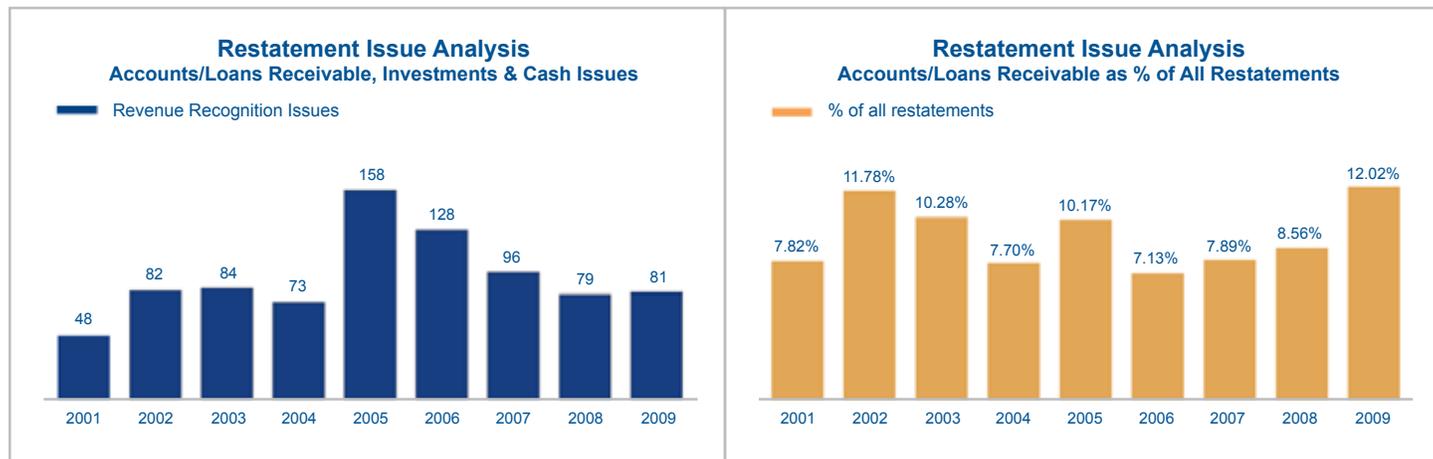
	Expense (Payroll, SGA, Other) Recording Issues								
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Expense Restatements	148	170	151	149	147	285	232	133	99
Total Restatements	614	696	817	948	1553	1795	1217	923	674
% of All Restatements	24.10%	24.43%	18.48%	15.72%	9.47%	15.88%	19.06%	14.41%	14.69%

#### Notes

- 1) The research is based on SEC filings as of January 22, 2010 (database download of January 27, 2010).
- 2) The data counts all restatements when a registrant files multiple restatements.
- 3) The % of **All Restatements** row are based on a total number of Restatements filed for the particular year (see also, table on page 10: Total Restatements by Year).
- 4) **Expense (Payroll, SGA, Other) Recording Issues** consists of errors or irregularities in approach, theory or calculation associated with the expensing of assets or understatement of liabilities. These issues can arise from any number areas including failure to record certain expenses, reconcile certain accounts or record certain payables on a timely basis. Also issues with payroll expenses or SG&A expenses are identified with this category.

## 2009 Financial Restatements: A Nine Year Comparison

### Restatement Issue Analysis - Accounts/Loans Receivable, Investments & Cash Issues



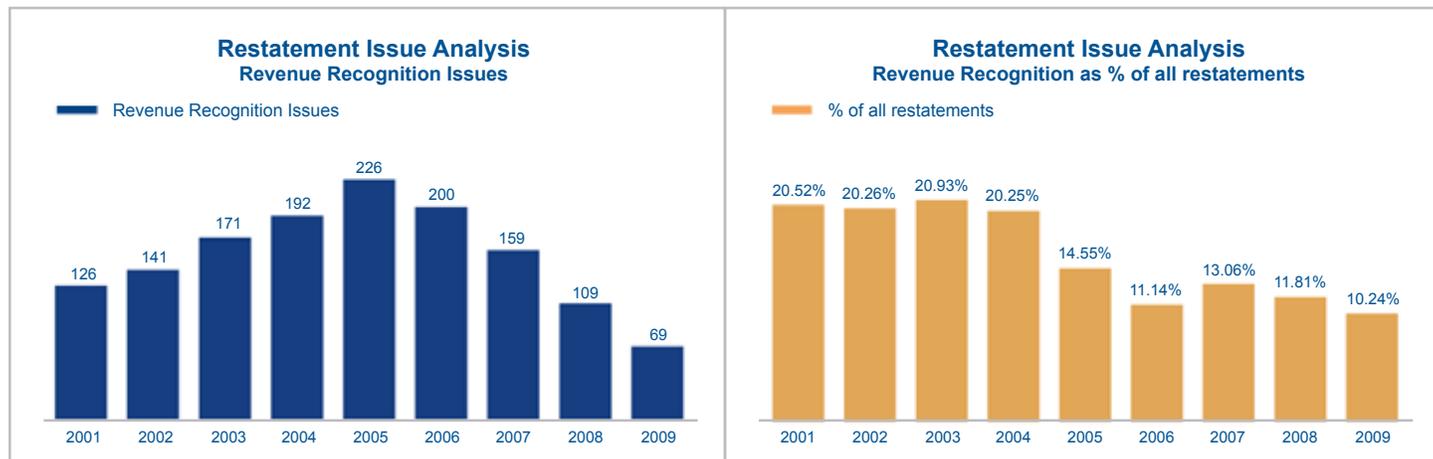
	Accounts/Loans Receivable, Investments & Cash Issues								
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Accounts/Loans Receivable	48	82	84	73	158	128	96	79	81
Total Restatements	614	696	817	948	1553	1795	1217	923	674
% of All Restatements	7.82%	11.78%	10.28%	7.70%	10.17%	7.13%	7.89%	8.56%	12.02%

#### Notes

- 1) The research is based on SEC filings as of January 22, 2010 (database download of January 27, 2010).
- 2) The data counts all restatements when a registrant files multiple restatements.
- 3) The % of **All Restatements** row are based on a total number of Restatements filed for the particular year (see also, table on page 10: Total Restatements by Year).
- 4) **Accounts/ Loans Receivable, Investments & Cash Issues** consists of errors or irregularities in approach, theory or calculations with respect to cash, accounts receivable, loans collectible, investments, allowance for uncollectibles, notes receivables and/or related reserves. These mistakes often manifest themselves in balance sheet and income statement errors or misclassifications. Based on GAAP rules, changes in estimates, such as allowances for bad debts, should not be reflected as a restatement but should be recorded in the period in which such change is identified.

## 2009 Financial Restatements: A Nine Year Comparison

### Restatement Issue Analysis - Revenue Recognition Issues



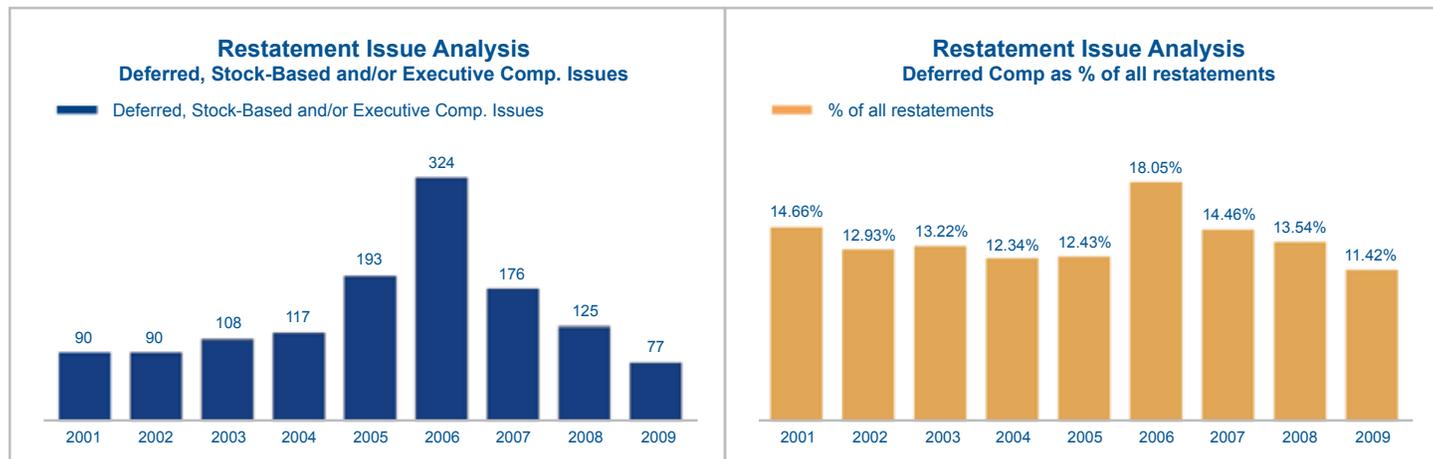
	Revenue Recognition Issues								
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Revenue Restatements	126	141	171	192	226	200	159	109	69
Total Restatements	614	696	817	948	1553	1795	1217	923	674
% of All Restatements	20.52%	20.26%	20.93%	20.25%	14.55%	11.14%	13.06%	11.81%	10.24%

#### Notes

- 1) The research is based on SEC filings as of January 22, 2010 (database download of January 27, 2010).
- 2) The data counts all restatements when a registrant files multiple restatements.
- 3) The **% of All Restatements** row are based on a total number of Restatements filed for the particular year (see also, table on page 10: Total Restatements by Year).
- 4) **Revenue Recognition Issues** consists of errors or irregularities in approach, understanding or calculation associated with the recognition of revenue. Many of these restatements originate from a failure to properly interpret sales contracts for hidden rebate, return, barter or resale clauses. Some of them also relate to the treatment of sales returns, credits and other allowances.

## 2009 Financial Restatements: A Nine Year Comparison

### Restatement Issue Analysis - Deferred Stock-Based and/or Executive Compensation Issues



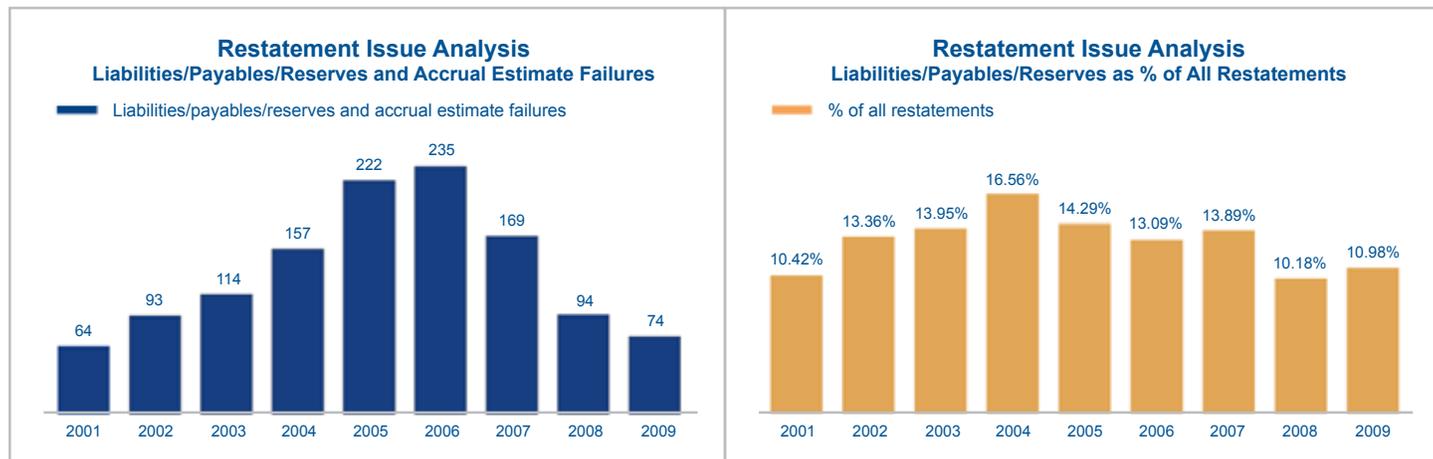
	Deferred Stock-Based and/or Executive Compensation Issues								
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Deferred Comp. Issues	90	90	108	117	193	324	176	125	77
Total Restatements	614	696	817	948	1553	1795	1217	923	674
% of All Restatements	14.66%	12.93%	13.22%	12.34%	12.43%	18.05%	14.46%	13.54%	11.42%

#### Notes

- 1) The research is based on SEC filings as of January 22, 2010 (database download of January 27, 2010).
- 2) The data counts all restatements when a registrant files multiple restatements.
- 3) The % of **All Restatements** row are based on a total number of Restatements filed for the particular year (see also, table on page 10: Total Restatements by Year).
- 4) **Deferred Stock-Based and/or Executive Compensation Issues** consists of errors or irregularities in approach, theory or calculation associated with the recording of deferred, stock based or executive compensation. The majority of these errors are associated with the valuation of options or similar derivative securities or rights granted to key executives. This category can also include restatements associated with the new FASB dealing with expensing of certain employee options as compensation expense in financial statements. A sub-category (FAS 123) has been created to capture only these issues.

## 2009 Financial Restatements: A Nine Year Comparison

### Restatement Issue Analysis - Liabilities, Payables, Reserves and Accrual Estimate Failures



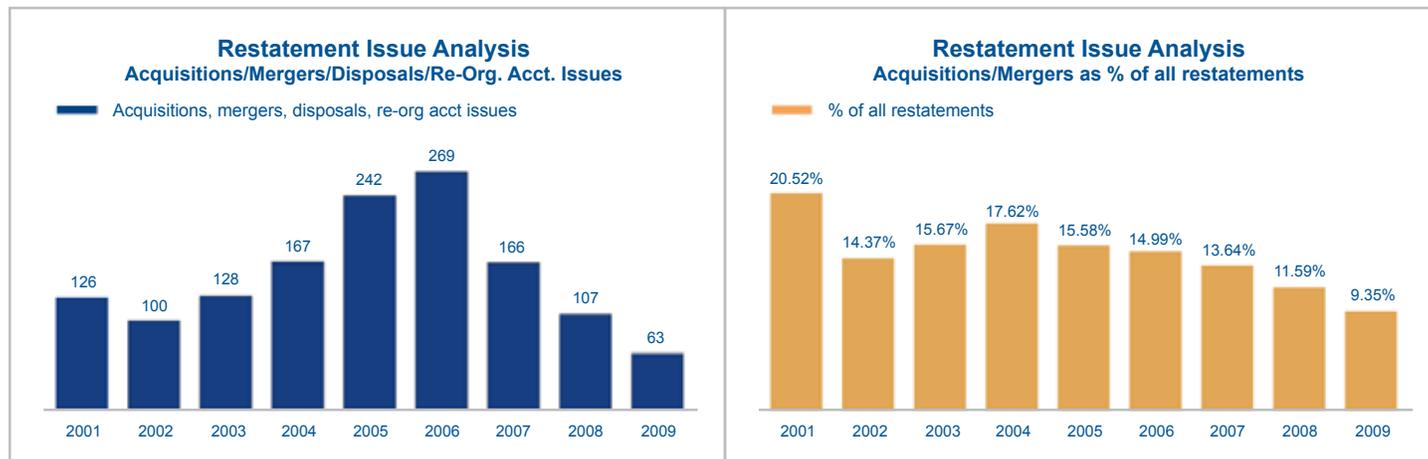
	Liabilities, Payables, Reserves and Accrual Estimate Failures								
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Liabilities Restatements	64	93	114	157	222	235	169	94	74
Total Restatements	614	696	817	948	1553	1795	1217	923	674
% of All Restatements	10.42%	13.36%	13.95%	16.56%	14.29%	13.09%	13.89%	10.18%	10.98%

#### Notes

- 1) The research is based on SEC filings as of January 22, 2010 (database download of January 27, 2010).
- 2) The data counts all restatements when a registrant files multiple restatements.
- 3) The % of **All Restatements** row are based on a total number of Restatements filed for the particular year (see also, table on page 10: Total Restatements by Year).
- 4) **Liabilities, Payables, Reserves and Accrual Estimate Failures** consists of errors, irregularities or omissions associated with the accrual or identification of liabilities on the balance sheet. These could range from failures to record pension obligations, to problems with establishing the correct amount of liabilities for leases, capital leases and other. This category could also include failures to record deferred revenue obligations or normal accruals.

## 2009 Financial Restatements: A Nine Year Comparison

### Restatement Issue Analysis - Acquisitions, Mergers, Disposals, Re-Organization Accounting Issues



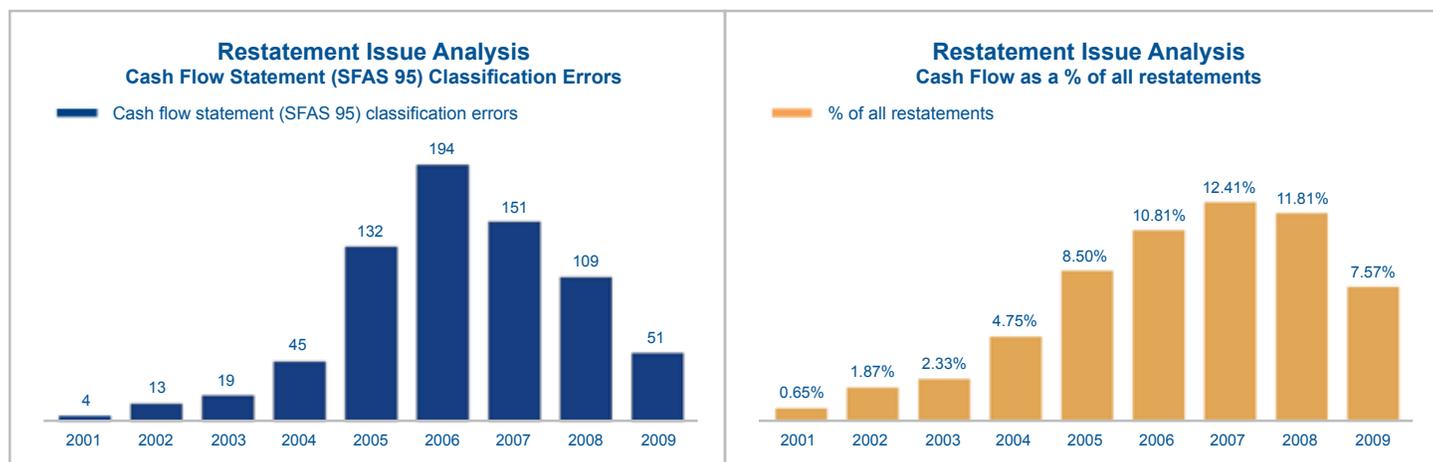
	Acquisitions, Mergers, Disposals, Re-Organization Accounting Issues								
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Acquisitions Restatements	126	100	128	167	242	269	166	107	63
Total Restatements	614	696	817	948	1553	1795	1217	923	674
% of All Restatements	20.52%	14.37%	15.67%	17.62%	15.58%	14.99%	13.64%	11.59%	9.35%

#### Notes

- 1) The research is based on SEC filings as of January 22, 2010 (database download of January 27, 2010).
- 2) The data counts all restatements when a registrant files multiple restatements.
- 3) The % of **All Restatements** row are based on a total number of Restatements filed for the particular year (see also, table on page 10: Total Restatements by Year).
- 4) **Acquisitions, Mergers, Disposals, Re-Organization Accounting Issues** consists primarily of errors or irregularities in approach, theory or calculation associated with mergers, acquisitions, disposals, reorganizations or discontinued operation accounting issues. The restatements in this area can be varied but they all deal with a company's failure to properly record an acquisition (such as valuation issues) or a failure to properly record a disposal (such as discontinued operations) or reorganization (such as in bankruptcy). It can also include failures to properly revalue assets and liabilities associated with fresh start rules.

## 2009 Financial Restatements: A Nine Year Comparison

### Restatement Issue Analysis - Cash Flow Statement (SFAS 95) Classification Errors



**Cash Flow Statement (SFAS 95) Classification Errors**

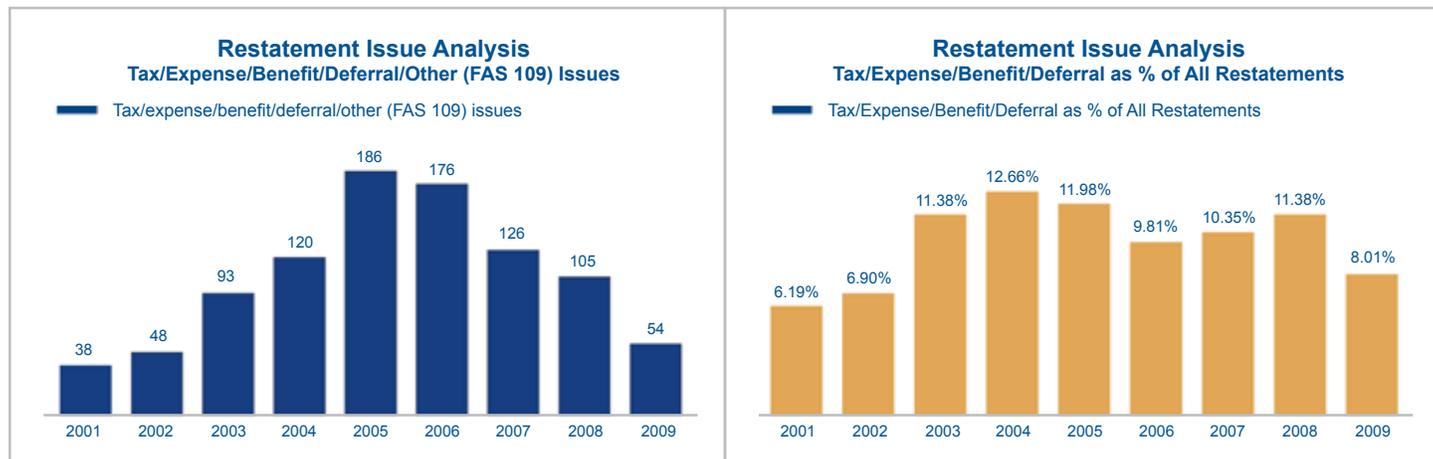
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Cash Flow Restatements	4	13	19	45	132	194	151	109	51
Total Restatements	614	696	817	948	1553	1795	1217	923	674
% of All Restatements	0.65%	1.87%	2.33%	4.75%	8.50%	10.81%	12.41%	11.81%	7.57%

#### Notes

- 1) The research is based on SEC filings as of January 22, 2010 (database download of January 27, 2010).
- 2) The data counts all restatements when a registrant files multiple restatements.
- 3) The **% of All Restatements** row are based on a total number of Restatements filed for the particular year (see also, table on page 10: Total Restatements by Year).
- 4) **Cash Flow Statement Issues** consists of errors or irregularities in approach, theory or calculation that manifested themselves in cash flow statements (FAS 95) that are not consistent with GAAP. These misclassifications can affect cash flow from operations, financing, non-cash and other investments.

## 2009 Financial Restatements: A Nine Year Comparison

### Restatement Issue Analysis - Tax Expense/Benefit/Deferral/Other (FAS 109) Issues



	Tax Expense/Benefit/Deferral/Other (FAS 109) Issues								
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Tax/Expense Restatements	38	48	93	120	186	176	126	105	54
Total Restatements	614	696	817	948	1553	1795	1217	923	674
% of All Restatements	6.19%	6.90%	11.38%	12.66%	11.98%	9.81%	10.35%	11.38%	8.01%

#### Notes

- 1) The research is based on SEC filings as of January 22, 2010 (database download of January 27, 2010).
- 2) The data counts all restatements when a registrant files multiple restatements.
- 3) The % of **All Restatements** row are based on a total number of Restatements filed for the particular year (see also, table on page 10: Total Restatements by Year).
- 4) **Tax Expense/Benefit/Deferral/Other (FAS 109) Issues** consists of errors or irregularities in approach, understanding or calculation associated with various forms of tax obligations or benefits. Many of these restatements relate to foreign tax, specialty taxes or tax planning issues. Some deal with failures to identify appropriate differences between tax and book adjustments.

## 2009 Financial Restatements: A Nine Year Comparison

### Financial Restatement issues - Definitions

#### Accounts/ Loans Receivable, Investments & Cash Issues

Consists of errors or irregularities in approach, theory or calculations with respect to cash, accounts receivable, loans collectible, investments, allowance for uncollectibles, notes receivables and/or related reserves. These mistakes often manifest themselves in balance sheet and income statement errors or misclassifications. Based on GAAP rules, changes in estimates, such as allowances for bad debts, should not be reflected as a restatement but should be recorded in the period in which such change is identified.

#### Acquisitions, Mergers, Disposal, Reorganization Accounting Issues

Consists primarily of errors or irregularities in approach, theory or calculation associated with mergers, acquisitions, disposals, reorganizations or discontinued operation accounting issues. The restatements in this area can be varied but they all deal with a company's failure to properly record an acquisition (such as valuation issues) or a failure to properly record a disposal (such as discontinued operations) or reorganization (such as in bankruptcy). It can also include failures to properly revalue assets and liabilities associated with fresh start rules.

#### Balance Sheet Classification of Assets Issues

Consists of errors or irregularities in approach, theory or calculation associated with how assets were classified on the balance sheet. This can include how assets were classified as short term/long term, how they were described or whether they should have been netted against some other liability.

#### Capitalization of Expenditures Issues

Consists of errors or irregularities in approach, theory or calculation associated with the capitalization of expenditures. These can include expenditures capitalized related to leases, inventory, construction, intangible assets, R&D, product development and other purposes.

#### Cash Flow Statement (FAS 95) Classification Errors Issues

Consists of errors or irregularities in approach, theory or calculation that manifested themselves in cash flow statements that are not consistent with GAAP. These misclassifications can affect cash flow from operations, financing, non-cash and other investments. (FAS 95 classification errors)

#### Comprehensive Income Issues

Made up of errors or irregularities related to misstatements of comprehensive income or accumulated income. These most commonly would include misstatements of pensions, foreign currency or derivatives.

#### Consolidation Issues, Including Fin 46 Variable Interest & Off-Balance Sheet

Consists of errors or irregularities in approach, theory or calculation with respect to the consolidation of subsidiaries including variable interest entities and off balance sheet arrangements. This can include mistakes in how joint ventures, off balance sheet entities or minority interests are recorded or manifested. It can also include issues associated with foreign currency translations of foreign affiliates.

#### Debt and/or Equity Classification Issues

Consists mainly of errors or irregularities in approach, theory or calculation associated with the proper classification of a debt instrument as short term or long term. Issues associated with determining the correct treatment can require an in depth understanding of the contractual nature of the debt instruments. These errors can also include differences misclassifications between debt and equity accounts.

## 2009 Financial Restatements: A Nine Year Comparison

### Financial Restatement issues - Definitions *(continued)*

#### Debt, Quasi-debt, Warrants, Equity (BCF) Issues

Consists of errors or irregularities in approach, theory or calculation associated with the recording of debt or equity accounts. These restatements will often be about errors made in the calculation of balances arising from debt, equity or quasi debt/equity instruments with conversion options (including beneficial conversion features- BCF). For example when convertible debt is issued, converted, repurchased or paid off, the GAAP requirements can be challenging. In addition, certain debt instruments can be erroneously valued. Often FAS 123 (financial derivative) requirements are at issue.

#### Deferred, Stock-Based or Executive Compensation Issues

Consists of errors or irregularities in approach, theory or calculation associated with the recording of deferred, stock based or executive compensation. The majority of these errors are associated with the valuation of options or similar derivative securities or rights granted to key executives. This category can also include restatements associated with the new FASB dealing with expensing of certain employee options as compensation expense in financial statements. A sub-category (FAS 123) has been created to capture only these issues.

#### Depreciation, Depletion or Amortization Errors

Consists of errors or irregularities in approach, theory or calculation associated with depreciation of assets, amortization of assets and/or amortization of debt premiums or discounts. A significant number of these items can be attributed to the recalculation of depreciation associated with revised leasehold improvements associated with the revised lease accounting rules.

#### EPS, Ratio and Classification of Income Statement Issues

Consists primarily of errors, omissions or irregularities associated with a registrant's disclosure of financial/operational ratios or margins and earnings per share calculation issues. Also included are circumstances where income statement items are misclassified, often between CGS and SGA.

#### Expense (Payroll, SGA, Other) Recording Issues

Consists of errors or irregularities in approach, theory or calculation associated with the expensing of assets or understatement of liabilities. These issues can arise from any number areas including failure to record certain expenses, reconcile certain accounts or record certain payables on a timely basis. Also issues with payroll expenses or SG&A expenses are identified with this category.

#### Financial Derivatives, Hedging (FAS 133) Accounting Issues

Consists of errors or irregularities in approach, theory or calculation of derivative instruments. These can include the valuation of financial instruments such as hedges on currency swings, interest rate swaps, purchases of foreign goods, guarantees on future sales and many other examples.

#### Foreign Related Party, Affiliated, or Subsidiary Issues

Consists primarily of errors, omissions or irregularities associated with disclosures about related, alliance, affiliated and/or subsidiary entities.

#### Gain or Loss Recognition Issues

Consists of errors or irregularities in approach, theory or calculation with respect to the recording of gains or losses from the sales of assets, interests, entities or liabilities. Mistakes in these areas often result from problems with calculating the appropriate basis for items that were sold or the proper sales amount when such amounts are of the nature of barter.

## 2009 Financial Restatements: A Nine Year Comparison

### Financial Restatement issues - Definitions *(continued)*

#### Intercompany, Investment in Subsidiary/Affiliate Issues

Consists primarily of errors or irregularities in approach, theory or calculation related to intercompany or affiliate balances, investment valuations or transactions. It is often the case that problems arise when intercompany balances are not recognized or that income figures are manipulated at the affiliate (foreign or US) levels.

#### Inventory, Vendor, Cost of Sales Issues

Consists of errors or irregularities in approach, theory or calculation associated with transactions affecting inventory, vendor relationships (including rebates) and/or cost of sales. Such errors primarily are related to the capitalization of activities in inventory or the calculation of balances at year end.

#### Lease, Legal, FAS 5 Contingency and Commitment Issues

Consists primarily of errors, omissions or irregularities associated with FAS 5 type contingencies and commitments. This description also deals with issues associated with the disclosure or accrual of legal exposures by registrants and issues associated with incorrectly identifying historical contractual lease terms. These terms can include treatment of “rent holidays”, tenant allowances and other such items.

#### Liabilities, Payables, Reserves and Accrual Failures

Consists of errors, irregularities or omissions associated with the accrual or identification of liabilities on the balance sheet. These could range from failures to record pension obligations, to problems with establishing the correct amount of liabilities for leases, capital leases and other. These categories could also include failures to record deferred revenue obligations or normal accruals.

#### Pension Issues

Includes liability and other issues related to pensions.

#### PPE, Intangible, Fixed Asset Issues

Consists of identifiable errors or irregularities either in calculation, approach or theory that have taken place in the recording of assets, goodwill, intangible or contra liabilities that are required to be valued or assessed for diminution in value on a periodic basis. Examples include: intangible assets, goodwill, buildings, securities, investments, lease-hold improvements, etc. This description also covers misreporting of fixed assets.

#### Revenue Recognition Issues

Consists of errors or irregularities in approach, understanding or calculation associated with the recognition of revenue. Many of these restatements originate from a failure to properly interpret sales contracts for hidden rebate, return, barter or resale clauses. Some of them also relate to the treatment of sales returns, credits and other allowances.

#### Tax Expense/Benefit/Deferral/Other (FAS 109) Issues

Consists of errors or irregularities in approach, understanding or calculation associated with various forms of tax obligations or benefits. Many of these restatements relate to foreign tax, specialty taxes or tax planning issues. Some deal with failures to identify appropriate differences between tax and book adjustments.

## 2009 Financial Restatements: A Nine Year Comparison

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