List and Definitions of the Taxonomy/Classification of Issues

SOX 302 Disclosure Controls - July 2007
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## Taxonomy and Classification of Issues Identified in Section 302 Disclosures

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## Definitions of Issues

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Taxonomy and Classification of Issues Identified in Section 302 Disclosures

Accounting Rule (GAAP/FASB) Application Failures

1. Acc - Accounts/loans receivable, investments & cash issues
2. Acc - Acquisition, merger, disposal or reorganization issues
3. Acc - Balance sheet classification of asset issues
4. Acc - Capitalization of expenditures issues
5. Acc - Cash flow statement (FAS 95) classification errors
6. Acc - Consolidation, (Fin46r/Off BS) & foreign curr transl iss
7. Acc - Debt and/or equity classification issues
8. Acc - Debt, quasi-debt, warrants & equity (BCF) security issu
9. Acc - Deferred, stock-based or executive comp issues
10. Acc - Depreciation, depletion or amortization issues
11. Acc - Expense recording issues
12. Acc - Fin Stmt, footnote, US GAAP, segment disclosure issues
13. Acc - Financial derivatives/hedging (FAS 133) acctg issues
14. Acc - Foreign, related party, affiliated and/or subsid issues
15. Acc - Gain or loss recognition issues
16. Acc - Income statement classification, margin and EPS issues
17. Acc - Intercompany/Investment w/ sub/affil issues
18. Acc - Inventory, vendor and cost of sales issues
19. Acc - Lease, FAS 5, legal, contingency & commit issues
20. Acc - Lease, leasehold and other FAS 13 (98) issues
21. Acc - Liabilities, payables, reserves and accrual est failures
22. Acc - PPE , intangible or fixed asset (value/diminution) issu
23. Acc - Revenue recognition issues
24. Acc - Tax expense/benefit/deferral/other (FAS 109)
25. Acc - Unspecified/unidentified/inapplicable FASB/GAAP issues
26. DC - Acquisition - integration and/or challenges noted
27. DC - Fin close process/ policy/info accum & timeliness issues
28. DC - Unspecified disclosure control deficiencies
29. IC - Restatement or nonreliance of company filings
30. Other - Defective or unreliable acctg/reporting records
31. Other - Loan covenant violations/issues
32. Other - Registration/security (incl debt) issuance issues
Taxonomy and Classification of Issues Identified in Section 302 Disclosures

Financial Fraud, Irregularities & Misrepresentations

1. Acc - Accounts/loans receivable, investments & cash issues
2. Acc - Acquisition, merger, disposal or reorganization issues
3. Acc - Capitalization of expenditures issues
4. Acc - Cash flow statement (FAS 95) classification errors
5. Acc - Consolidation, (Fin46r/Off BS) & foreign curr transl iss
6. Acc - Debt, quasi-debt, warrants & equity (BCF) security issu
7. Acc - Debt and/or equity classification issues
8. Acc - Deferred, stock-based or executive comp issues
9. Acc - Depreciation, depletion or amortization issues
10. Acc - Expense recording (payroll, SG&A) issues
11. Acc - Fin Stmt, footnote, US GAAP, segment disclosure issues
12. Acc - Financial derivatives/hedging (FAS 133) acctg issues
13. Acc - Foreign, related party, affiliated and/or subsid issues
14. Acc - Income statement classification, margin and EPS issues
15. Acc - Intercompany/Investment w/ sub/affil issues
16. Acc - Inventory, vendor and cost of sales issues
17. Acc - Lease, FAS 5, legal, contingency & commit issues
18. Acc - Lease, leasehold & FAS 13 (98) (subcategory) issues
19. Acc - Liabilities, payables, reserves and accrual est failures
20. Acc - PPE, intangible or fixed asset (value/diminution) issu
21. Acc - Revenue recognition issues
22. Acc - Tax expense/benefit/deferral/other (FAS 109) issues
23. Acc - Unspecified/unidentified/inapplicable FASB/GAAP issues
24. DC - Audit opinion/consent/registration issues
25. DC - Board, Audit Committee, Corp Governance issues
26. DC - Event (8Ks, Form 4s etc.) disclosure issues
27. DC - Fin close process/policy/info accum & timeliness issues
28. DC - Information technology, software, access/security issues
29. DC - Personnel inadequacies/segregation of duty issues
30. DC - Senior management tone and/or self dealing issues
31. DC - Unspecified disclosure control deficiencies
Errors in Accounting & Clerical Applications

1. Acc - Accounts/loans receivable, investments & cash issues
2. Acc - Acquisition, merger, disposal or reorganization issues
3. Acc - Balance sheet classification of asset issues
4. Acc - Capitalization of expenditures issues
5. Acc - Debt, quasi-debt, warrants & equity (BCF) security issue
6. Acc - Debt and/or equity classification issues
7. Acc - Deferred, stock-based or executive comp issues
8. Acc - Depreciation, depletion or amortization issues
9. Acc - Expense recording (payroll, SG&A) issues
10. Acc - Fin Stmt, footnote, US GAAP, segment disclosure issues
11. Acc - Financial derivatives/hedging (FAS 133) acctg issues
12. Acc - Gain or loss recognition issues
13. Acc - Income statement classification, margin and EPS issues
14. Acc - Inventory, vendor and cost of sales issues
15. Acc - Liabilities, payables, reserves and accrual est failures
16. Acc - PPE, intangible or fixed asset (value/dimunition) issues
17. Acc - Revenue recognition issues
18. Acc - Tax expense/benefit/deferral/other (FAS 109) issues
19. Acc - Unspecified/ unidentified/inapplicable FASB/GAAP issues
20. DC - Event (8Ks, Form 4s etc.) disclosure issues
21. DC - Information technology, software, access/security issues
22. Other - Defective or unreliable acctg/reporting records
Taxonomy and Classification of Issues Identified in Section 302 Disclosures

Disclosures / Omissions / Corrections

1. DC - Acquisition - integration and/or challenges noted
2. DC - Audit opinion/consent/registration issues
3. DC - Board, Audit Committee, Corp Governance issues
4. DC - Company size, financial constraints, other limiting issue
5. DC - Event (8Ks, Form 4s etc.) disclosure issues
6. DC - Fin close process/ policy/info accum & timeliness issues
7. DC - Fin records controlled in part or wholly by third party
8. DC - Information technology, software, access/security issues
9. DC - Insufficient management review, inadequate control procedu
10. DC - Internal investigation evident/noted
11. DC - Missing, revision or disclaimer of 302 or Auditor 404 re
12. DC - Non-standard or non-financial close processing issues
13. DC - Period end close & non-routine adjustment issues
14. DC - Personnel inadequacies/segregation of duty issues
15. DC - Proforma information disclosures inadequate
16. DC - Remediation of Disclosure Control Weakness asserted
17. DC - Restatement (recent past or pending) evident
18. DC - Revision made later to these 302/404 disclosures
19. DC - Sect 404 MW report (recent past or pending) filed
20. DC - Senior management “tone” and/or self dealing issues
21. DC - Unspecified disclosure control deficiencies
Definition of Issues
(Listed once even if found in more than one of the four issue classifications shown on the four preceding pages)

Acc - Accounts/loans receivable, investments & cash issues
Consists of internal control deficiencies in approach, theory or calculations with respect to cash, cash equivalents, accounts receivable, short term investments, certain long term investments, notes, loans collectible, allowance for uncollectibles, notes receivables and/or related reserves.

Acc - Acquisition, merger, disposal or reorganization issues
Consists primarily of internal control deficiencies in approach, theory or calculation associated with the merger, acquisitions, reorganization or disposal issues for registrants. The internal control issues in this area can vary from incorrect application of GAAP to calculate the proper intangible assets levels associated with acquisitions to failure to record the proper reserves for disposal or reorganization. Accounting rules in this area are considered complex and non-routine. This category is often attributed to failures by personnel in understanding certain issues associated with acquisitions or disposals.

Acc - Balance sheet classification of asset issues
Consists of internal control deficiencies in approach, theory or calculation associated with how assets were classified on the balance sheet. Primarily this category is made up of misclassified assets as short term versus long term or whether certain assets were properly considered cash equivalents versus short-term investments.

Acc - Capitalization of expenditures issues
Consists of internal control deficiencies in approach, theory or calculation associated with the capitalization of expenditures. These can include expenditures capitalized for inventory, construction, intangible asset, R&D, software or product development and other purposes. Whether capitalizing expenditures in inventory, leaseholds, buildings or product/software development, the proper methodology can be difficult and demanding on an internal control system.

Acc - Cash flow statement (FAS 95) classification errors
Consists of internal control deficiencies 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, investment, non-cash and other areas. Difficulties with respect to internal control systems over proper disclosure associated with cash flow statements typically occur with non-routine transactions.
Definition of Issues

Acc - Consolidation, (Fin46r/Off BS) & foreign curr transl iss
Consists of internal control deficiencies 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 were recorded or disclosed. This category also identifies issues associated with foreign currency translations, minority interests, eliminations or other issues associated with consolidations.

Acc - Debt ,quasi-debt, warrants & equity (BCF) security issues
Consists of internal control deficiencies in approach, theory or calculation associated with the recording of financing/bank/securities debt or equity section accounts. Control issues in this area often arise because of incorrect recording of beneficial conversion features in debt/quasi debt or equity securities. They can also occur with the calculation of premiums/discounts on debt securities or the proper valuation of certain non-traded equity securities.

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.

Acc - Deferred, stock-based or executive comp issues
Consists of internal control deficiencies in approach, theory or calculation associated with the recording of deferred or executive compensation. The majority of these errors are associated with the valuation of options or similar derivative securities and their recording on the books. Sometimes this issue arises when personnel are paid with shares or options instead of cash. This category also includes other forms of internal control deficiencies associated with executive compensation arrangements.

Acc - Depreciation, depletion or amortization issues
Consists of internal control deficiencies in approach, theory or calculation associated with depreciation of assets, amortization of assets and/or amortization of debt premiums or discounts. This category can also include deficiencies associated with depletion of reserves or amortization of other fixed assets.
Definition of Issues

Acc - Expense recording (payroll, SG&A) issues
Consists of internal control deficiencies 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, write off certain assets or acknowledge certain liabilities. This category is used primarily for miscellaneous occurrences of expensible items including payroll and SG&A issues.

Acc - Fin Stmt, footnote, US GAAP , segment disclosure issues
This represents failures or inadequacies in internal controls related to review of preparation of financial statements, footnotes and/or related additions to financial statements. This can also include issues with conversion of foreign company financial statements to US SEC/US GAAP/ FASB Standards. It also includes internal control deficiencies associated with segment recording and related annual report disclosures.

Acc - Financial derivatives/hedging (FAS 133) acctg issues
Consists of internal control deficiencies 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 and other. Often this category is checked when registrants fail to follow the FAS 133 rules for proper documentation or application of its principles.

Acc - Foreign, related party, affiliated and/or subsid issues
Consists primarily of internal control deficiencies associated with disclosures about related, alliance, affiliated and/or subsidiary entities. This can also refer to accounting issues detected at foreign subsidiaries. This box is checked mostly in conjunction with other categories to indicate that an issue has been raised in association with a failure at a subsidiary (often foreign sub) that has been deemed to be material to the overall financial condition of the company.

Acc - Gain or loss recognition issues
Consists of internal control deficiencies 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 proper basis for disposing of an asset or the proper amount to record as sales revenue. Generally, this category relates to issues associated with non-routine or significant transactions.
Definition of Issues

**Acc - Income statement classification, margin and EPS issues**
Consists primarily of internal control deficiencies 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 between say gross margin and selling general and administrative expenses. This may also deal with issues associated with exceptional items.

**Acc - Intercompany/Investment w/ sub/affil issues**
Consists primarily of internal control deficiencies 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 reconciled and accounted for on a timely basis.

**Acc - Inventory, vendor and cost of sales issues**
Consists of internal control deficiencies in approach, theory or calculation associated with transactions affecting inventory, vendor relationships (including rebates) and/or cost of sales. The proper recording of inventory can be a complex area of accounting requiring many estimates. The issues can range from simple valuation calculations to estimates of completion on construction projects.

**Acc - Lease, FAS 5, legal, contingency & commit issues**
Consists primarily of internal control deficiencies 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 leases and lease commitments. One significant area of impact has been internal control deficiencies associated with determining the proper accounting or determination of operating vs. capitalized leases.

**Acc - Lease, leasehold & FAS 13 (98) (subcategory) issues**
The category is checked when a lease, leasehold or related issue has been identified with internal or financial reporting controls. This represents a subcategory of the Lease, FAS 5 category.

**Acc - Liabilities, payables, reserves and accrual est failures**
Consists of internal control deficiencies 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 payables, accruals or other reserves. From an internal control perspective, issues in this area most often occur because of cut-off failures in recording liabilities and matching them to related revenue or inventory accounts.
Definition of Issues

Acc - PPE, intangible or fixed asset (value/diminution) issues
Consists of internal control deficiencies in calculation, approach or theory that have taken place in the recording of PPE, fixed, intangible, goodwill or long term assets. It also applies to contra liabilities that are required to be valued or assessed for diminution. Generally issues associated with long term development projects and goodwill associated with acquisitions are included in this category.

Acc - Revenue recognition issues
Consists of control deficiencies in approach, understanding or calculation associated with the recognition of revenue. Such control deficiencies or issues include a failure to properly interpret sales contracts for hidden rebates, returns, barter or resale arrangements. Also relevant are instances of misapplied credits or debits associated with customer accounts. This account is generally checked without regard to other accounts they impact, such as accounts receivable.

Acc - Tax expense/benefit/deferral/other (FAS 109) issues
Consists of internal control deficiencies in approach, understanding or calculation associated with various forms of income tax obligations or benefits. These can relate to foreign tax, local taxes or tax planning issues. The accounts impacted can include expense, deferral or allowances. With the change in goodwill accounting, a number of issues have arisen with the failure of companies to change the level of permanent differences in their FAS 109 calculations.

Acc - Unspecified/unidentified/inapplicable FASB/GAAP issues
This flag is used when the 302 or 404 disclosure lacks sufficient information to identify what accounts or areas of financial reporting are being impacted by internal control deficiencies. It may also indicate that a GAAP/FASB effect is not applicable.

DC - Acquisition - integration and/or challenges noted
Consists of instances where a company is stating that they have acquired another entity and consider the integration of that entity into their existing control system to be material enough to note. Sometime the company will also note that they are having challenges with integrating or getting information out of a newly acquired company. This also can also be checked when a company notes that they have acquired a company but not included it in their evaluation.
Definition of Issues

DC - Audit opinion/consent/registration issues
Consists of registrants who cannot meet their filing obligations because of issues associated with their auditors opinions or permission. Many public quarterly and annual filings require auditor consent. Where disputes arise or the auditors fail to register with the PCAOB, issues can arise. It is generally considered that a internal control issue exists when a company cannot have an audit opinion or consent ready for filing on a timely basis.

DC - Board, Audit Committee, Corp Governance issues
This category applies to registrants who identify material weaknesses associated with corporate governance issues such as no audit committee or audit committee expert etc. This category can also apply to a broad range of corporate governance issues.

DC - Company size, financial constraints, other limiting issue
This category is demographic in nature and identifies registrants that are claiming that they have internal or disclosure control deficiencies that derive from financial, size or similar issues. This category does not generally include issues associated with segregation of duty issues as this is covered in a different category.

DC - Event (8Ks, Form 4s etc.) disclosure issues
This category identifies registrant failures to disclose reportable events in a timely manner. This can include many 8K items such as insider transactions, director changes, auditor changes etc.

DC - Fin close process/ policy/info accum & timeliness issues
This category is a general catch all for disclosure control issues. It can include a range of issues associated with the financial close process including issues with timely gathering of data for use in the close process to the application of the appropriate FASB principles in the recording. It can also include issues with accounting policies and procedures that prevent timely, accurate or complete information from being reported.

DC - Fin records controlled in part or wholly by third party
Refers to situations where disclosure documentation is deemed inadequate or control over documentation supporting the financial records is held in part or wholly by a third party. It can be difficult to opine on the veracity of disclosure controls when one does not control the compilation or delivery of the underlying data. This category can also include circumstances where the underlying financial records are not reliable. This may refer to investments consolidated under Fin 46r or other such circumstances.
Definition of Issues

DC - Information technology, software, access/security issues
This category of disclosure control issues identifies registrants that have indicated that their material weaknesses or disclosure issues are associated with or derive from deficiencies in their internal information reporting systems, software processing, access controls and/or security systems. This category is also used to identify circumstances when a company has indicated that they are implementing a new ERP or financial reporting system within their organization.

DC - Insufficient management review, inadequate control procedures
This category is checked when the filing indicates that at least in part, the disclosure control failure resulted from deficient review systems being in place to catch problems. It is also utilized to identify when companies state that their internal control systems are in need of improvement but do not identify actual deficiencies.

DC - Internal investigation evident/noted
This category is checked whenever an independent internal investigation is noted. This category does not indicate an internal control weakness directly but seems to indicate a level of severity with respect to a registrant’s internal control deficiencies.

DC - Missing, revision or disclaimer of 302 or Auditor 404 report
This check identifies circumstances where the auditors have issued a 404 opinion disclaimer, revised their earlier 404 opinion or the registrant has issued a 302 and/or 404 disclaimer with respect to their disclosure or internal controls. This identification does not make any judgment about whether or not the disclaimer was legitimate. Also, if no 302 opinion is offered, that should be reflected here.

DC - Non-standard or non-financial close processing issues
This category includes a wide variety of non-financial issues associated with the ongoing reporting requirements of SEC registrant companies. They could include timing, accuracy or completeness issues associated with: 1. Insider share transactions, 2. Director information, 3. Miscellaneous proxy information, 4. Material contract disclosures etc., Checking this category does not necessarily mean that disclosure controls are ineffective.

DC - Period end close & non-routine adjustment issues
This category is used primarily when it is evident that a period end company or auditor initiated adjustment is required to correct quarterly or annual financial statements. This category is also checked when it is evident that material changes have been required to the period procedures to ensure proper recording. In many cases, one has to refer to the annual 404 opinion for support for this categorization.
Definition of Issues

DC - Personnel inadequacies/segregation of duty issues
This category represents circumstances where deficiencies in the number, training, qualifications, conduct or personnel are identified as being part of the cause of the disclosure control qualification. It also is used when issues associated with segregation of duties are raised as a disclosure control weakness.

DC - Proforma information disclosures inadequate
This category is used when the disclosure control deficiencies are associated with "proforma" disclosures. These are typically related to unaudited or projected results.

DC - Remediation of Disclosure Control Weakness asserted
Often a registrant will state that its disclosure controls are effective but will identify a series of material weaknesses or other disclosures that have been overcome. Typically they will state affirmatively that their control deficiencies have been remediated. This category is utilized when this is the circumstance.

DC - Restatement (recent past or pending) evident
Identifies circumstances where a restatement is noted in a disclosure control filing either directly or indirectly. It could be for example that the restatement is noted indirectly because reference is made of it in a 404 opinion which includes the identification of a restatement. further, it could be that the company has filed a restatement but not indicated such in a disclosure control declaration. A restatement is considered a significant factor in the determination of both 302 and 404 adverse statements.

DC - Revision made later to these 302/404 disclosures
This category is primarily checked when a company revises at a later date a current 302 or 404 opinion. This occurs primarily because of some latent event (restatement, etc.). It is also used as a miscellaneous category where something unusual has taken place that cannot be attributed elsewhere.

DC - Sect 404 adverse report (recent past/pending) filed
This categorization refers to disclosure control reports that make reference to material weaknesses associated with previously issued section 404 reports of year end financial reporting. A reader should consider integrating what has been reported in the disclosure control section with that of the section 404 report to gain a full picture of the weaknesses. This box is checked only when there has been a previously issued 404 report issued (as opposed to noticed).
Definition of Issues

DC - Senior management tone and/or self dealing issues
“Tone” at the top represents a critical factor in internal and disclosure controls with respect to determining material weaknesses. This category may also include issues with board level make up and competence/qualifications.

DC - Unspecified disclosure control deficiencies
This category is checked when a company simply states that it’s disclosure controls are ineffective but does not detail the actual control deficiencies.

IC - Restatement or nonreliance of company filings
Consists of material weakness opinions deriving from problems that led to restatements. Restatements are often evidentiary of prima-facie internal control deficiencies.

Other - Defective or unreliable acctg/reporting records
Consists of disclosures by a registrant that a scope limitation exists with respect to the company’s ability to rely on accounting or internal control records. Typically no restatement is announced because the amount, if any, cannot be determined.

Other - Loan covenant violations/issues
This category primarily identifies issues where a registrant has failed to disclose some violation of a loan covenant or similar contingency.

Other - Registration/security (incl debt) issuance issues
The errors or irregularities in this category range from questions raised by the SEC in a registration statement to valuation and conversion issues associated with the issuance of new securities, both debt and equity.