

# Audit Analytics™

## Second Year 404 Dashboard With Updates for Year Three

April 2007 Review

**Mark Cheffers, CEO**  
mcheffers@ivesinc.com, 508-476-7007 x23

**Donald Whalen, Esq., Product Director**  
dwhalen@ivesinc.com, 508-476-7007 x22

Audit Analytics™ SOX Section 404 Dashboard



## Executive Summary

---

A great deal continues to be written about Sarbanes Oxley's Section 404 and its impact on public company compliance costs and the overall quality of public company financial reporting. As the first significant wave of third year Section 404 filings begins to ebb, one thing should be clear: the quality and reliability of public company financial statement reporting has improved dramatically under SOX directives. Based upon the results of the first 3,000 third year Section 404 filers (out of approximately 4,500 that will file throughout the entire year), the adverse Section 404 opinion rates<sup>1</sup> have dropped precipitously. As of filings through April 1<sup>st</sup>, the year 3 adverse opinion rate had dropped to 5.4%, down from 10.5% in year 2 and 16.9% in year 1.<sup>2</sup> And, while we expect that third year 5.4% rate to increase steadily as lagging and troubled filers submit their assessments, based on prior year trends, we do not expect that number to grow more than a couple of percentage points.

Consistent with our recent report on financial restatements (see Audit Analytics™ 2006 Financial Restatements. A Six Year Comparison. February 2007: <http://www.auditanalytics.com/doc/report-re-20070212.pdf>), the attached analysis on Section 404 reporting evidences that 404 provisions are working to boost internal controls over financial reporting and reduce the number of material financial restatements. To put the impact of Section 404 in perspective, however, the magnitude of 404's impact should be considered from a market cap point of view. During its first three years of implementation, companies with a combined market capitalization of \$2.037 trillion (as of April 7, 2007) have notified the investing community of at least one major deficiency in their controls over financial reporting at their year end. Further, if one were to include all companies that have reported either an adverse 404 opinion or a financial restatement during that same period,<sup>3</sup> the equivalent market capitalization amount would total \$5.584 trillion. In short, companies that currently comprise between \$2.0 and \$5.6 trillion in market capitalization have benefited from the requirements of Sarbanes Oxley and more specifically Section 404. Financial statements at these companies have been materially improved. One could claim that every investor, big or small, has benefited from the elimination of substantial deficiencies in registrant financial reporting.

This report focuses deficient primarily on data derived from Section 404 opinions that have been filed during the first 2 full years of Section 404 reporting<sup>4</sup> and the first (but most significant) wave of Year 3 filings.<sup>5</sup> In analyzing this data we employ more than 50 data points (taxonomies) associated with both accounting and internal control issues. The data provided in this report presents only a sample of the data available to our subscribers and researchers in the Audit Analytics™ database.

---

<sup>1</sup> In referring to adverse opinion filings, we are referring specifically to registrants who are submitting adverse opinions that have been independently assessed by their independent auditor. We are not referring to companies that are filing only their own assessment, without such an independent opinion.

<sup>2</sup> In compiling this report, we have updated our results from previous years to take into account companies that have restated their opinions because of subsequent information that had come to light. In our previous report the level of adverse opinions was 9.6% in Year 2 and 15.9% in Year 1.

<sup>3</sup> Many restatements have arisen from Section 404 analysis performed by companies. These restatements have been reported and the unsatisfactory internal control over financial reporting issue corrected prior to year end; thereby, allowing the company to report a clean 404 opinion.

<sup>4</sup> In this analysis, Year 1 is defined to encompass annual reports for fiscal years ending November 15, 2004 to November 14, 2005, inclusive. Likewise, Year 2 is defined to encompass annual reports for fiscal years ending November 15, 2005 to November 14, 2006, inclusive. This staggered year approach is consistent with the SEC requirement that accelerated filers first comply with Section 404 in annual reports for fiscal years ending on or after November 15, 2004.

<sup>5</sup> Since Year 3 includes annual reports for fiscal years ending on or after November 15, 2006, the first part of Year 3 includes all calendar year end (December) filers; hence, it makes up about 2/3 of all Year 3 filers.

## Executive Summary (cont'd)

---

### Overview:

- 1. The overall rate of adverse Year 2 Section 404 opinions/assessments has dropped dramatically from Year 1, declining from 16.9% to 10.5% of all filers. Preliminary results from Year 3 filings indicate a further drop to the current 5.4%.<sup>6</sup>**

When first passed into law, a number of analysts predicted that public companies would need to invest significantly in improving their internal controls associated with financial reporting. Whether these improvements related to information technology upgrades, account reconciliations, non-routine transactions, fraud controls, complex accounting areas or overall attitudinal adjustments, significant effort was going to be necessitated to improve on financial reporting timeliness and accuracy. The above results seem to indicate that this initial upgrade period is generally coming to an end. Companies are moving into more of a routine. This is evidenced not only by the drop in adverse opinion filings, but also by the drop in the average number of material weaknesses being reported by registrants in a single adverse filing. For example the average number of material weaknesses being reported per adverse filer has dropped from 2.54 to 2.31 to 1.81 during the three year period in question.<sup>7</sup> These findings indicate that even when a company files an adverse opinion in year three of compliance, they are reporting lower rates of internal control deficiencies.

- 2. The percentage of adverse Section 404 filings in Year 2 associated with Financial Restatements has also declined significantly to 45.4% in Year 2 from 51.9% in Year 1. In Year 3, this trend has continued with Financial Restatements being directly associated with only 19.5% of adverse filings.**

A financial restatement is identified by PCAOB AS-2 as a strong indicator of a material weakness in a company's internal controls over financial reporting. Nevertheless, the PCAOB and SEC have been asking both firms and registrants to employ a greater level of judgment in making Section 404 decisions. This appears to have happened in Year 2 as financial restatements, many to correct technical accounting issues, resulted in lower numbers of adverse Section 404 opinions associated with financial restatements. In Year 1, 51.9% of adverse 404 opinions noted Financial Restatements while, in Year 2, 45.4% did so. (See Table on page 11: Year 2 Review of Internal Controls Issues.) Preliminary Year 3 results have come in at even lower attribution rates: 19.5%.<sup>8</sup> Given that there was a record number of financial restatements reported in 2006, this trend seems to indicate that companies are identifying potential restatements well in advance of their year ends and remediating them in time for auditor clearance.

---

<sup>6</sup> This figure is expected to increase as troubled and lagging filers submit their reports. We do not expect that number to grow more than a couple of percentage points.

<sup>7</sup> In Year 1 and 2, a single but different registrant filed an opinion that failed to indicate whether the internal controls over financial reporting were effective or not. This report treats such a filing as adverse. When determining the number of material weaknesses per filing, however, such an opinion is not considered because it would have a material weakness count of zero. Using this approach, Year 1 had 623 adverse filings identifying 1584 material weaknesses; Year 2 had 389 adverse filings identifying 899 material weaknesses; and Year 3, to date, had 164 adverse filings identifying 296 material weaknesses.

<sup>8</sup> In Year 3 to date, 164 adverse opinions were filed and 32 of those concerned Financial Restatements.

## Executive Summary (cont'd)

---

**3. Material year end or auditor adjustments associated with adverse 404 opinions has grown to 64.1% in Year 2 from 53.7% in Year 1. This trend appears to be continuing as preliminary Year 3 results show these rates increasing to 67.7%.<sup>9</sup>**

It appears that while financial restatements are associated to a lesser degree with adverse Section 404 opinions, the existence of material, auditor initiated or numerous year end adjustments has become the prime factor leading to an adverse opinion. (See Internal Controls Table on page 9.) This assertion seems understandable given that such adjustments provide clear evidence of a breakdown in, or structural problem with, internal controls over financial reporting. Also, unlike financial restatements, there is no time to remediate these deficiencies prior to the Section 404 reporting date.

**4. In Year 2, Ernst & Young's adverse Section 404 filer results were notably lower than the other three major firms. This divergence, however, seems to have disappeared in Year 3, with E&Y at 4.0% compared to 3.3% (PwC), 4.6% (KPMG), and 6.6% (D&T).**

As of the end of Year 2, Ernst & Young's adverse 404 opinion rate came in at 6.2%, compared to 11.0% for PricewaterhouseCoopers, 11.3% for KPMG and 10.8% for Deloitte & Touche. (See Table on page 7: Full Year 2 Review of Filed and Overdue Second-Year 404 Opinions.) It is difficult to attribute these differences between E&Y and the other Big Four firms as E&Y's lower percentages are consistent across all accounting deficiency areas. This result is in contrast to some of the firms who seemed to have focused on specific deficiency areas for their clients. For example, D&T's clients reflected 53.6% for all the Cash Flow Statement deficiencies in year 2. PwC's clients reflected 25.6% of all the Tax expense deficiencies. KPMG's clients also reflected a high level of Tax expense deficiencies at 24.8%. Preliminary Year 3 results, however, reflect a much closer result with E&Y reporting adverse opinions at 4.0%, PwC at 3.3%, KPMG at 4.6%, and D&T at 6.6%.

**5. Among internal control issues, personnel deficiencies in staffing, training or competence remains prevalent as a major factor in failing to achieve a clean Section 404 opinion.**

In Year 1, 48.7% of adverse opinions cited personnel deficiencies as a factor. In Year 2, that percentage increased slightly to 53.1%. (See Table on page 11: Year 2 Review of Internal Controls Issues.) One of the theories being proposed for significant increases in costs associated with Section 404 compliance was the need to pay for "deferred maintenance" with respect to systems and personnel. The extent of this citation in adverse reports seems to support those claims.

---

<sup>9</sup> In Year 3 to date, 164 adverse opinions were filed and 111 of those concerned Material Year End Adjustments.

## Executive Summary (cont'd)

---

**6. Grant Thornton's Year 2 adverse Section 404 opinions saw the biggest drop from Year 1, going from 30.5% to 12.8%. This trend has continued in Year 3 with the rate dropping to 4.4%**

Grant's rate of adverse Section 404 opinions dropped while its Accelerated Filer client levels have increased. Grant reported 155 Accelerated Filers in Year 2, up from 118 in Year 1. This change represents a 31.5% increase in numbers of Accelerated Filer clients.

**7. The GAAP/accounting areas of failure that were identified in support of adverse Section 404 opinions has remained largely consistent from Year 1 to Year 2.**

In Year 1, Revenue Recognition issues were cited as a factor in 31.7% of all adverse 404 opinions. The equivalent rate for Year 2 was 30.5%. (See Table on page 11: Year 2 GAAP/Accounting Areas of Failure.) Tax (FAS 109) issues were cited in 31.7% of adverse opinions in Year 1 and 34.1% in Year 2. Other issues experienced the same level of consistency: Inventory/Cost of Goods Sold at 27.6% (Yr. 1) v. 26.2%; Cash Flow Statements at 7.1% (Yr. 1) v. 7.2%; and Fixed/Intangible Assets at 19.2% (Yr. 1) v. 17.9%. The only accounting areas showing any real differences were in Leases, a decline from 17.0% (Yr 1) to 11.5%, and Debt/Quasi-Debt securities, a decline from 7.2% (Yr 1) to 4.9%. This observation seems to be fairly predicable as Year 1 experienced a larger than normal number of lease restatements because of SEC guidance and Debt/Quasi Debt security accounting problems now of rests primarily with non-Accelerated Filers.

## Summary: Internal Controls over Financial Reporting Tables

- § The following 8 tables present research data from a February 12, 2007 download (an April 1 download for Year 3 data) of the Audit Analytics™ database concerning Section 404 disclosures. The data is presented by auditor and identifies some of the issues categorized in the database.
- § Each table categorizes the disclosures and issues by the top 8 Auditors and also Regional & Local Firms:
1. Ernst & Young
  2. PricewaterhouseCoopers
  3. KPMG
  4. Deloitte & Touche
  5. Grant Thornton
  6. BDO Seidman
  7. Crowe Chizek & Company LLC
  8. McGladrey & Pullen LLP
  9. Regional & Local Firms
- § The **Full Year 2 Review of Filed and Overdue Second-Year Opinions** table presents a summary of the number of adverse Section 404 disclosures filed as of February 9, 2007. These numbers and percentages are arranged by auditor with a Year 1 and Year 3 (preview of partial year) comparison. The table also provides a breakdown by auditor of the number of accelerated filers that were required to file an annual report, with the requisite 404 disclosures, but failed to do so as of August 14, 2006. (An additional table inserted at the end of this report present more information regarding the registrants that are presently tardy.) The Year 3 preview data is based on filings as of April 1, 2007.
- § The 2 tables (Year 1 & Year 2) regarding Section 404 **Review of GAAP / Accounting Areas of Failure** identifies the following subset of issues categorized within the database. Definitions of these issues are given at the end of this report:
1. Revenue recognition issues
  2. Tax expense/ benefit/ deferral/ other (FAS 109) issues
  3. Inventory, vendor, cost of sales issues
  4. Consolidation, (Fin46r/Off BS) & foreign curr translation issues
  5. Cash flow statement (FAS 95) classification errors
  6. Debt, quasi-debt, warrants & equity (BCF) security issues
  7. Lease, FAS 5, legal, contingency & commit issues
  8. Depreciation, depletion or amortization issues
  9. PPE, intangible or fixed asset (value/diminution) issues
  10. FAS 109 tax expense, benefit, deferral issues



- § The 2 tables (Year 1 & Year 2) regarding Section 404 **Review of Internal Control Issues** identifies the following subset of issues categorized within the database. Definitions of these issues are given at the end of this report:
1. Accounting personnel resources, competency/ training
  2. Segregations of duties/ design of controls (personnel)
  3. Restatement or nonreliance of company filings
  4. Material and/or numerous auditor/YE adjustments
  5. Insufficient or non-existent internal audit function
  6. Information technology, software, security & access issues
- § The 2 tables (Year 1 & Year 2) regarding Section 404 **Review of Exemptions** identifies the following subset of reasons for an exemption categorized within the database. Definitions of these reasons for claiming an exemption are given at the end of this report:
1. Acquisition(s) during the past year (exemption)
  2. Equity method investee (Fin 46R) issues (exemption)
- § The **Registrants with Overdue Section 404 Opinions For Year 2** table provides a list of registrants that were required to file a Section 404 disclosure in Year 2, but has not yet done so.

**Year 2 Internal Controls over Financial Reporting Weaknesses - (404) Opinions Analysis\***  
**Full Year 2 Review of Filed and Overdue Second-Year 404 Opinions**

	Second year 404 Opinions Filed <sup>1</sup>	Number of Second Year 404s that were from 1st Time Filers (newly required)	Second year 404 Adverse Opinions (filed as of 2-9-07)	Pending & Late 404 Adverse Opinions <sup>1</sup>	Total Pending and Filed 404 Opinions	Total Pending and Filed Adverse 404 Opinions	Percentage of Pending and Filed Adverse 404 opinions	Yr. 1 Comparison: Percentage of Adverse 404 Opinions Filed First Year <sup>2</sup>	Yr. 3 Comparison: First Quarter Preview (Rough Estimate) of Third Year 404 Trends <sup>3</sup>
<b>Ernst &amp; Young</b>	943	103	57	2	945	59	6.2%	12.7%	4.0%
% of Firm's Total <sup>4</sup>		10.9%	55.3%	0.2%					
% of Category Total <sup>5</sup>	29.0%	23.8%	14.6%	18.2%					
<b>PricewaterhouseCoopers</b>	792	66	87	0	792	87	11.0%	16.0%	3.3%
% of Firm's Total		8.3%	131.8%	0.0%					
% of Category Total	24.4%	15.2%	22.3%	0.0%					
<b>KPMG</b>	724	68	79	3	727	82	11.3%	16.5%	4.6%
% of Firm's Total		9.4%	116.2%	0.4%					
% of Category Total	22.3%	15.7%	20.3%	27.3%					
<b>Deloitte &amp; Touche</b>	674	76	71	2	676	73	10.8%	17.3%	6.6%
% of Firm's Total		11.3%	93.4%	0.3%					
% of Category Total	20.8%	17.6%	18.2%	18.2%					
<b>Grant Thornton</b>	155	18	19	1	156	20	12.8%	30.5%	4.4%
% of Firm's Total		11.6%	105.6%	0.6%					
% of Category Total	4.8%	4.2%	4.9%	9.1%					
<b>BDO Seidman</b>	118	21	28	0	118	28	23.7%	35.3%	5.9%
% of Firm's Total		17.8%	133.3%	0.0%					
% of Category Total	3.6%	4.8%	7.2%	0.0%					
<b>Crowe Chizek &amp; Company LLC</b>	41	3	1	1	42	2	4.8%	18.2%	2.2%
% of Firm's Total		7.3%	33.3%	2.4%					
% of Category Total	1.3%	0.7%	0.3%	9.1%					
<b>McGladrey &amp; Pullen LLP</b>	26	4	3	0	26	3	11.5%	15.0%	7.4%
% of Firm's Total		15.4%	75.0%	0.0%					
% of Category Total	0.8%	0.9%	0.8%	0.0%					
<b>Regional &amp; Local Firms (133)<sup>6</sup></b>	318	74	45	2	320	47	14.7%	23.5%	12.9%
% of Firm's Total		23.3%	60.8%	0.6%					
% of Category Total	9.8%	17.1%	11.5%	18.2%					
<b>Totals</b>	3248	433	390	11	3802	401	10.5%	16.9%	5.5%
<b>% Total Pending and Filed 404 Opinions</b>		13.3%	12.0%	0.3%		10.5%			

\* Research as of February 12, 2007 and includes all filings as of February 9, 2007. Year 2 is defined as annual reports for fiscal years ending Nov. 15, 2005 to Nov. 14, 2006, inclusive, to be consistent with the SEC requirement that accelerated filers comply with Section 404 in annual reports for fiscal years ending on or after Nov. 15, 2004. The count of Opinions Filed excludes (1) non-tickered funds and trusts within a group if the group of funds is represented in the population by the presence of at least one remaining entity (tickered or non-tickered) and (2) non-tickered subsidiaries if the parent company submitted a comparable filing; thus, this analysis excludes duplicate material weakness filings by non-tickered subsidiaries.

<sup>1</sup> See attached table name "Registrants With Overdue 404 Opinions For Year 2, which provides a list of registrants that are expected to file adverse opinions because they are accelerated filers that have not filed a 404 assessment for Year 2 although such assessment is due.

<sup>2</sup> Prior Full Year values based on updated Year 1 research contained in this Dashboard Report. See the attached Year 1 tables entitled "Review of Internal Control Issues" and "Review of GAAP / Accounting Areas of

<sup>3</sup> Year 3 reasearch as of April 10, 2007. The companies culled in the Year 2 analysis were also culled from the Year 3 if they filed a Year 3 SOX 404 opinion. This preview analysis does not attempt to identify Late Filers at this stage.

<sup>4</sup> The "% of Firms Total" calculation for these columns equals ([Firm's Total of Column's Category]/[Firm's Overall Total of 404 Opinions])x100; e.g., (103/943) x 100 = 10.9%.

<sup>5</sup> The "% of Category Total" calculation for these columns equals ([Firm's Total of Column's Category]/[Column's Total of Column's Category])x100; e.g. (103/433) x 100 = 23.8%

<sup>6</sup> In addition to the Big 4 and national firms, a total of 133 regional and local accounting firms signed section 404 internal control opinions in Year 2.

**Source: AuditAnalytics.com**

Editor's note: AuditAnalytics.com 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 or visit www.auditanalytics.com.

### Year 1 Internal Controls over Financial Reporting Weaknesses - (404) Opinions Analysis\* Review of Internal Control Issues

	First Year 404 Opinions Filed*	First Year 404 Opinions with Material Weaknesses (MW) as of 2-9-07	Internal Control Issues (compared to the firm's total amount of MWs) <sup>1 2</sup>					
			Personnel Issues	Segregation of Duties	Restatements of Financials	Material YE Adjustments	Internal Audit Issues	IT Processing, Access Issues
<b>Ernst &amp; Young</b>	937	119	47	16	60	69	1	13
% of Firm's Total		12.7%	39.5%	13.4%	50.4%	58.0%	0.8%	10.9%
% of Category Total	25.3%	19.1%	15.5%	10.7%	18.5%	20.6%	5.9%	9.6%
<b>PricewaterhouseCoopers</b>	860	138	74	29	98	87	1	28
% of Firm's Total		16.0%	53.6%	21.0%	71.0%	63.0%	0.7%	20.3%
% of Category Total	23.2%	22.1%	24.3%	19.5%	30.2%	26.0%	5.9%	20.7%
<b>KPMG</b>	763	126	75	22	62	66	4	23
% of Firm's Total		16.5%	59.5%	17.5%	49.2%	52.4%	3.2%	18.3%
% of Category Total	20.6%	20.2%	24.7%	14.8%	19.1%	19.7%	23.5%	17.0%
<b>Deloitte &amp; Touche</b>	671	116	44	25	69	57	5	20
% of Firm's Total		17.3%	37.9%	21.6%	59.5%	49.1%	4.3%	17.2%
% of Category Total	18.1%	18.6%	14.5%	16.8%	21.3%	17.0%	29.4%	14.8%
<b>Grant Thornton</b>	118	36	14	15	11	11	2	17
% of Firm's Total		30.5%	38.9%	41.7%	30.6%	30.6%	6%	47.2%
% of Category Total	3.2%	5.8%	4.6%	10.1%	3.4%	3.3%	12%	12.6%
<b>BDO Seidman</b>	85	30	20	15	11	19	0	11
% of Firm's Total		35.3%	66.7%	50.0%	36.7%	63.3%	0.0%	36.7%
% of Category Total	2.3%	4.8%	6.6%	10.1%	3.4%	5.7%	0.0%	8.1%
<b>Crowe Chizek &amp; Company LLC</b>	33	6	0	1	1	5	0	1
% of Firm's Total		18.2%	0.0%	16.7%	16.7%	83.3%	0.0%	16.7%
% of Category Total	0.9%	1.0%	0.0%	0.7%	0.3%	1.5%	0.0%	0.7%
<b>McGladrey &amp; Pullen LLP</b>	20	3	2	0	2	2	0	0
% of Firm's Total		15.0%	66.7%	0.0%	66.7%	66.7%	0.0%	0.0%
% of Category Total	0.5%	0.5%	0.7%	0.0%	0.6%	0.6%	0.0%	0.0%
<b>Regional &amp; Local Firms (105 firms)<sup>3</sup></b>	213	50	28	26	10	19	4	22
% of Firm's Total		23.5%	56.0%	52.0%	20.0%	38.0%	8.0%	44%
% of Category Total	5.8%	8.0%	9.2%	17.4%	3.1%	5.7%	23.5%	16%
<b>Totals</b>	3700	624	304	149	324	335	17	135
<b>% Total of 404 Opinions</b>		16.9%	48.7%	23.9%	51.9%	53.7%	2.7%	21.6%

<b>Year 2 Comparison<sup>4</sup></b>	3791	390	207	57	177	250	4	79
		10.3%	53.1%	14.6%	45.4%	64.1%	1.0%	20.3%

\* Research as of February 12, 2007 and includes all filings as of February 9, 2007. Year 1 is defined as annual reports for fiscal years ending Nov. 15, 2004 to Nov. 14, 2005, inclusive, to be consistent with the SEC requirement that accelerated filers comply with Section 404 in annual reports for fiscal years ending on or after Nov. 15, 2004. The count of Opinions Filed excludes (1) non-tickered funds and tru within a group if the group of funds is represented in the population by the presence of at least one remaining entity (tickered or non-tickered) and (2) non-tickered subsidiaries if the parent company submitted a comparable filing; thus, this analysis excludes duplicate material weakness filings by non-tickered subsidiaries.

<sup>1</sup> The "% of Firms Total" calculation for these columns equals ([Firm's Total of Column's Category]/[Firm's Overall Total of 404 Opinions with MWs]) x 100; e.g., (47/119) x 100 = 39.5%.

<sup>2</sup> The "% of Category Total" calculation for these columns equals ([Firm's Total of Column's Category]/[Column's Total of Column's Category]) x 100; e.g., (47/304) x 100 = 15.5%

<sup>3</sup> In addition to the Big 4 and national firms, a total of 105 regional and local accounting firms signed section 404 internal control opinions for Year 1.

<sup>4</sup> The Year 2 Comparison values are obtained from the Year 2 Review of Internal Controls table attached to this report.

**Source: AuditAnalytics.com**

Editor's note: AuditAnalytics.com 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 or visit www.auditanalytics.com.

## Year 1 Internal Controls over Financial Reporting Weaknesses - (404) Opinions Analysis\*

### Review of GAAP / Accounting Areas of Failure

	First Year 404 Opinions Filed*	First Year 404 Opinions with Material Weaknesses (MW) as of 2-9-07	GAAP / Accounting Areas of Failure (compared to the firm's total amount of MWs) <sup>1 2</sup>								
			Revenue Recognition	Tax Accruals Deferrals etc.	Inventory / Vendor Cost of Sales	Consolidation Fin (46) Issues	Cash Flow Statement (FAS 95) Error	Debt, Warrants & Equity (BCF) Security Issues	Leases or Contingencies	Depreciation / Amortization	Fixed / Intangible Assets
<b>Ernst &amp; Young</b>	937	119	46	27	35	4	5	8	30	28	31
% of Firm's Total		12.7%	38.7%	22.7%	29.4%	3.4%	4.2%	6.7%	25.2%	23.5%	26.1%
% of Category Total	25.3%	19.1%	23.2%	13.6%	20.3%	6.9%	11.4%	17.8%	28.3%	35.9%	25.8%
<b>PricewaterhouseCoopers</b>	860	138	53	64	47	23	9	14	30	16	40
% of Firm's Total		16.0%	38.4%	46.4%	34.1%	16.7%	6.5%	10.1%	21.7%	11.6%	29.0%
% of Category Total	23.2%	22.1%	26.8%	32.3%	27.3%	39.7%	20.5%	31.1%	28.3%	20.5%	33.3%
<b>KPMG</b>	763	126	41	51	31	8	6	7	20	15	17
% of Firm's Total		16.5%	32.5%	40.5%	24.6%	6.3%	4.8%	5.6%	15.9%	11.9%	13.5%
% of Category Total	20.6%	20.2%	20.7%	25.8%	18.0%	13.8%	13.6%	15.6%	18.9%	19.2%	14.2%
<b>Deloitte &amp; Touche</b>	671	116	27	39	24	10	18	7	21	15	21
% of Firm's Total		17.3%	23.3%	33.6%	20.7%	8.6%	15.5%	6.0%	18.1%	12.9%	18.1%
% of Category Total	18.1%	18.6%	13.6%	19.7%	14.0%	17.2%	40.9%	15.6%	19.8%	19.2%	17.5%
<b>Grant Thornton</b>	118	36	7	6	8	4	0	1	0	0	1
% of Firm's Total		30.5%	19.4%	16.7%	22.2%	11.1%	0.0%	2.8%	0%	0%	2.8%
% of Category Total	3.2%	5.8%	3.5%	3.0%	4.7%	6.9%	0.0%	2.2%	0%	0%	0.8%
<b>BDO Seidman</b>	85	30	10	6	13	4	3	2	3	2	5
% of Firm's Total		35.3%	33.3%	20.0%	43.3%	13.3%	10.0%	6.7%	10.0%	6.7%	16.7%
% of Category Total	2.3%	4.8%	5.1%	3.0%	7.6%	6.9%	6.8%	4.4%	2.8%	2.6%	4.2%
<b>Crowe Chizek &amp; Company LLC</b>	33	6	1	0	0	0	0	0	1	1	1
% of Firm's Total		18.2%	16.7%	0.0%	0.0%	0.0%	0.0%	0.0%	16.7%	16.7%	16.7%
% of Category Total	0.9%	1.0%	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.9%	1.3%	0.8%
<b>McGladrey &amp; Pullen LLP</b>	20	3	1	0	1	0	0	1	0	0	0
% of Firm's Total		15.0%	33.3%	0.0%	33.3%	0.0%	0.0%	33.3%	0.0%	0.0%	0.0%
% of Category Total	0.5%	0.5%	0.5%	0.0%	0.6%	0.0%	0.0%	2.2%	0.0%	0.0%	0.0%
<b>Regional &amp; Local Firms (105 firms)<sup>3</sup></b>	213	50	12	5	13	5	3	5	1	1	4
% of Firm's Total		23.5%	24.0%	10.0%	26.0%	10.0%	6.0%	10.0%	2.0%	2%	8%
% of Category Total	5.8%	8.0%	6.1%	2.5%	7.6%	8.6%	6.8%	11.1%	0.9%	1%	3%
<b>Totals</b>	3700	624	198	198	172	58	44	45	106	78	120
<b>% Total of 404 Opinions</b>		16.9%	31.7%	31.7%	27.6%	9.3%	7.1%	7.2%	17.0%	12.5%	19.2%
<b>Year 2 Comparison<sup>4</sup></b>	3791	390	119	133	102	37	28	19	45	26	70
		10.3%	30.5%	34.1%	26.2%	9.5%	7.2%	4.9%	11.5%	6.7%	17.9%

\* Research as of February 12, 2007 and includes all filings as of February 9, 2007. Year 1 is defined as annual reports for fiscal years ending Nov. 15, 2004 to Nov. 14, 2005, inclusive, to be consistent with the SEC requirement that accelerated filers comply with Section 404 in annual reports for fiscal years ending on or after Nov. 15, 2004. The count of Opinions Filed excludes (1) non-tickered funds and trusts within a group if the group of funds is represented in the population by the presence of at least one remaining entity (tickered or non-tickered) and (2) non-tickered subsidiaries if the parent company submitted a comparable filing; thus, this analysis excludes duplicate material weakness filings by non-tickered subsidiaries.

<sup>1</sup> The "% of Firms Total" calculation for these columns equals  $(\text{Firm's Total of Column's Category}) / (\text{Firm's Overall Total of 404 Opinions with MWs}) \times 100$ ; e.g.,  $(46/119) \times 100 = 38.7\%$ .

<sup>2</sup> The "% of Category Total" calculation for these columns equals  $(\text{Firm's Total of Column's Category}) / (\text{Column Total of Column's Category}) \times 100$ ; e.g.,  $(46/198) \times 100 = 23.2\%$ .

<sup>3</sup> In addition to the Big 4 and national firms, a total of 105 regional and local accounting firms signed section 404 internal control opinions for Year 1.

<sup>4</sup> The Year 2 Comparison values are obtained from the Year 2 Review of GAAP / Accounting Areas of Failure table attached to this report.

Source: AuditAnalytics.com

Editor's note: AuditAnalytics.com 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 or visit www.auditanalytics.com.

**Year 1 Internal Controls over Financial Reporting Weaknesses - (404) Opinions Analysis\***  
**Review of Exemptions**

	First Year 404 Opinions Filed*	First Year 404 Opinions with Exemptions as of 2-9-07	Exemptions (compared to the total number of firm's 404 opinions filed) <sup>1 2</sup>	
			Acquisitions during the past year	Equity Method Investee (Fin 46R) Issues
<b>Ernst &amp; Young</b>	937	90	85	3
% of Firm's Total		9.6%	9.1%	0.3%
% of Category Total	25.3%	21.6%	22.1%	20.0%
<b>PricewaterhouseCoopers</b>	860	115	105	7
% of Firm's Total		13.4%	12.2%	0.8%
% of Category Total	23.2%	27.6%	27.3%	46.7%
<b>KPMG</b>	763	93	91	2
% of Firm's Total		12.2%	11.9%	0.3%
% of Category Total	20.6%	22.4%	23.7%	13.3%
<b>Deloitte &amp; Touche</b>	671	74	69	3
% of Firm's Total		11.0%	10.3%	0.4%
% of Category Total	18.1%	17.8%	18.0%	20.0%
<b>Grant Thornton</b>	118	12	7	0
% of Firm's Total		10.2%	5.9%	0%
% of Category Total	3.2%	2.9%	1.8%	0%
<b>BDO Seidman</b>	85	13	11	0
% of Firm's Total		15.3%	12.9%	0%
% of Category Total	2.3%	3.1%	2.9%	0%
<b>Crowe Chizek &amp; Company LLC</b>	33	3	3	0
% of Firm's Total		9.1%	9.1%	0%
% of Category Total	0.9%	0.7%	0.8%	0%
<b>McGladrey &amp; Pullen LLP</b>	20	3	3	0
% of Firm's Total		15.0%	15.0%	0%
% of Category Total	0.5%	0.7%	1%	0%
<b>Regional &amp; Local Firms (105 firms) <sup>3</sup></b>	213	13	10	0
% of Firm's Total		6.1%	4.7%	0%
% of Category Total	5.8%	3.1%	2.6%	0%
<b>Totals</b>	3700	416	384	15
<b>% Total of 404 Opinions</b>		11.2%	10.4%	0.4%

<b>Year 2 Comparison <sup>4</sup></b>	3791	472	441	18
		12.5%	11.6%	0.5%

\* Research as of February 12, 2007 and includes all filings as of February 9, 2007. Year 1 is defined as annual reports for fiscal years ending Nov. 15, 2004 to Nov. 14, 2005, inclusive, to be consistent with the SEC requirement that accelerated filers comply with Section 404 in annual reports for fiscal years ending on or after Nov. 15, 2004. The count of Opinions Filed excludes (1) non-tickered funds and trusts within a group if the group of funds is represented in the population by the presence of at least one remaining entity (tickered or non-tickered) and (2) non-tickered subsidiaries if the parent company submitted a comparable filing; thus, this analysis excludes duplicate material weakness filings by non-tickered subsidiaries.

<sup>1</sup> The "% of Firms Total" value in these columns equals ([Firm's Total of Column's Category]/[Firm's Overall Total of 404 Opinions]) x 100; e.g., (85/937) x 100 = 9.1%.

<sup>2</sup> The "% of Category Total" calculation equals ([Firm's Total of Column's Category]/[Column's Total of 404 Opinions]) x 100; e.g. (85/384) x 100 = 22.1%

<sup>3</sup> In addition to the Big 4 and national firms, a total of 105 regional and local accounting firms have signed section 404 internal control opinions to date.

<sup>4</sup> The Year 2 Comparison values are obtained from the Year 2 Review of Exemptions table attached to this report.

**Source: AuditAnalytics.com**

Editor's note: AuditAnalytics.com is a premium on-line market intelligence service available from IVES Group Inc. a leading independent research provider focused on the accountin insurance, regulatory, legal and investment communities. For information, call (508) 476-7007, email info@auditanalytics.com or visit www.auditanalytics.com.

## Year 2 Internal Controls over Financial Reporting Weaknesses - (404) Opinions Analysis\*

### Review of Internal Control Issues

	Second Year 404 Opinions Filed*	Second Year 404 Opinions with Material Weaknesses (MW) as of 2-9-07	Internal Control Issues (compared to the firm's total amount of MWs) <sup>1 2</sup>					
			Personnel Issues	Segregation of Duties	Restatements of Financials	Material YE Adjustments	Internal Audit Issues	IT Processing, Access Issues
<b>Ernst &amp; Young</b>	943	57	30	1	35	34	0	3
% of Firm's Total		6.0%	52.6%	1.8%	61.4%	59.6%	0.0%	5.3%
% of Category Total	24.9%	14.6%	14.5%	1.8%	19.8%	13.6%	0.0%	3.8%
<b>PricewaterhouseCoopers</b>	792	87	42	17	54	55	0	16
% of Firm's Total		11.0%	48.3%	19.5%	62.1%	63.2%	0.0%	18.4%
% of Category Total	20.9%	22.3%	20.3%	29.8%	30.5%	22.0%	0.0%	20.3%
<b>KPMG</b>	724	79	49	11	29	56	1	16
% of Firm's Total		10.9%	62.0%	13.9%	36.7%	70.9%	1.3%	20.3%
% of Category Total	19.1%	20.3%	23.7%	19.3%	16.4%	22.4%	25.0%	20.3%
<b>Deloitte &amp; Touche</b>	674	71	31	8	33	47	1	14
% of Firm's Total		10.5%	43.7%	11.3%	46.5%	66.2%	1.4%	19.7%
% of Category Total	17.8%	18.2%	15.0%	14.0%	18.6%	18.8%	25.0%	17.7%
<b>Grant Thornton</b>	155	19	12	4	7	13	0	5
% of Firm's Total		12.3%	63.2%	21.1%	36.8%	68.4%	0%	26.3%
% of Category Total	4.1%	4.9%	5.8%	7.0%	4.0%	5.2%	0%	6.3%
<b>BDO Seidman</b>	118	28	17	5	6	17	1	7
% of Firm's Total		23.7%	60.7%	17.9%	21.4%	60.7%	3.6%	25.0%
% of Category Total	3.1%	7.2%	8.2%	8.8%	3.4%	6.8%	25.0%	8.9%
<b>Crowe Chizek &amp; Company LLC</b>	41	1	1	1	0	1	0	1
% of Firm's Total		2.4%	100.0%	100.0%	0.0%	100.0%	0.0%	100.0%
% of Category Total	1.1%	0.3%	0.5%	1.8%	0.0%	0.4%	0.0%	1.3%
<b>McGladrey &amp; Pullen LLP</b>	26	3	1	0	1	2	0	0
% of Firm's Total		11.5%	33.3%	0.0%	33.3%	66.7%	0.0%	0.0%
% of Category Total	0.7%	0.8%	0.5%	0.0%	0.6%	0.8%	0.0%	0.0%
<b>Regional &amp; Local Firms (133 firms)<sup>3</sup></b>	318	45	24	10	12	25	1	17
% of Firm's Total		14.2%	53.3%	22.2%	26.7%	55.6%	2.2%	38%
% of Category Total	8.4%	11.5%	11.6%	17.5%	6.8%	10.0%	25.0%	22%
<b>Totals</b>	3791	390	207	57	177	250	4	79
<b>% Total of 404 Opinions</b>		10.3%	53.1%	14.6%	45.4%	64.1%	1.0%	20.3%
<b>Year 1 Comparison<sup>4</sup></b>	3700	624	304	149	324	335	17	135
		16.9%	48.7%	23.9%	51.9%	53.7%	2.7%	21.6%

\* Research as of February 12, 2007 and includes all filings as of February 9, 2007. Year 2 is defined as annual reports for fiscal years ending Nov. 15, 2005 to Nov. 14, 2006, inclusive, to be consistent with the SEC requirement that accelerated filers comply with Section 404 in annual reports for fiscal years ending on or after Nov. 15, 2004. The count of Opinions Filed excludes (1) non-tickered funds and true within a group if the group of funds is represented in the population by the presence of at least one remaining entity (tickered or non-tickered) and (2) non-tickered subsidiaries if the parent company submitted a comparable filing; thus, this analysis excludes duplicate material weakness filings by non-tickered subsidiaries.

<sup>1</sup> The "% of Firm's Total" calculation for these columns equals  $(\text{Firm's Total of Column's Category}) / (\text{Firm's Overall Total of 404 Opinions with MWs}) \times 100$ ; e.g.,  $(30/57) \times 100 = 52.6\%$ .

<sup>2</sup> The "% of Category Total" calculation for these columns equals  $(\text{Firm's Total of Column's Category}) / (\text{Column's Total of Column's Category}) \times 100$ ; e.g.,  $(30/207) \times 100 = 14.5\%$

<sup>3</sup> In addition to the Big 4 and national firms, a total of 133 regional and local accounting firms signed section 404 internal control opinions in Year 2.

<sup>4</sup> The Year 1 Comparison values are obtained from the Year 1 Review of Internal Controls table attached to this report.

#### Source: AuditAnalytics.com

Editor's note: AuditAnalytics.com 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 or visit www.auditanalytics.com.

**Year 2 Internal Controls over Financial Reporting Weaknesses - (404) Opinions Analysis<sup>\*</sup>**  
**Review of GAAP / Accounting Areas of Failure**

	Second Year 404 Opinions Filed*	Second Year 404 Opinions with Material Weaknesses (MW) as of 2-9-07	GAAP / Accounting Areas of Failure (compared to the firm's total amount of MWs) <sup>1 2</sup>								
			Revenue Recognition	Tax Accruals Deferrals etc.	Inventory / Vendor Cost of Sales	Consolidation Fin (46) Issues	Cash Flow Statement (FAS 95) Error	Debt, Warrants & Equity (BCF) Security Issues	Leases or Contingencies	Depreciation / Amortization	Fixed / Intangible Assets
<b>Ernst &amp; Young</b>	943	57	18	19	15	5	0	2	7	5	13
% of Firm's Total		6.0%	31.6%	33.3%	26.3%	8.8%	0.0%	3.5%	12.3%	8.8%	22.8%
% of Category Total	24.9%	14.6%	15.1%	14.3%	14.7%	13.5%	0.0%	10.5%	15.6%	19.2%	18.6%
<b>PricewaterhouseCoopers</b>	792	87	31	34	30	10	5	3	14	9	15
% of Firm's Total		11.0%	35.6%	39.1%	34.5%	11.5%	5.7%	3.4%	16.1%	10.3%	17.2%
% of Category Total	20.9%	22.3%	26.1%	25.6%	29.4%	27.0%	17.9%	15.8%	31.1%	34.6%	21.4%
<b>KPMG</b>	724	79	24	33	14	8	5	4	7	6	10
% of Firm's Total		10.9%	30.4%	41.8%	17.7%	10.1%	6.3%	5.1%	8.9%	7.6%	12.7%
% of Category Total	19.1%	20.3%	20.2%	24.8%	13.7%	21.6%	17.9%	21.1%	15.6%	23.1%	14.3%
<b>Deloitte &amp; Touche</b>	674	71	20	26	13	6	15	2	13	3	15
% of Firm's Total		10.5%	28.2%	36.6%	18.3%	8.5%	21.1%	2.8%	18.3%	4.2%	21.1%
% of Category Total	17.8%	18.2%	16.8%	19.5%	12.7%	16.2%	53.6%	10.5%	28.9%	11.5%	21.4%
<b>Grant Thornton</b>	155	19	5	6	8	1	1	0	1	0	4
% of Firm's Total		12.3%	26.3%	31.6%	42.1%	5.3%	5.3%	0.0%	5%	0%	21.1%
% of Category Total	4.1%	4.9%	4.2%	4.5%	7.8%	2.7%	3.6%	0.0%	2%	0%	5.7%
<b>BDO Seidman</b>	118	28	9	4	7	2	0	4	0	0	2
% of Firm's Total		23.7%	32.1%	14.3%	25.0%	7.1%	0.0%	14.3%	0.0%	0.0%	7.1%
% of Category Total	3.1%	7.2%	7.6%	3.0%	6.9%	5.4%	0.0%	21.1%	0.0%	0.0%	2.9%
<b>Crowe Chizek &amp; Company LLC</b>	41	1	1	0	1	0	0	0	0	0	0
% of Firm's Total		2.4%	100.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
% of Category Total	1.1%	0.3%	0.8%	0.0%	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>McGladrey &amp; Pullen LLP</b>	26	3	0	0	1	1	0	0	0	0	0
% of Firm's Total		11.5%	0.0%	0.0%	33.3%	33.3%	0.0%	0.0%	0.0%	0.0%	0.0%
% of Category Total	0.7%	0.8%	0.0%	0.0%	1.0%	2.7%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Regional &amp; Local Firms (133 firms) <sup>3</sup></b>	318	45	11	11	13	4	2	4	3	3	11
% of Firm's Total		14.2%	24.4%	24.4%	28.9%	8.9%	4.4%	8.9%	6.7%	7%	24%
% of Category Total	8.4%	11.5%	9.2%	8.3%	12.7%	10.8%	7.1%	21.1%	6.7%	12%	16%
<b>Totals</b>	3791	390	119	133	102	37	28	19	45	26	70
<b>% Total of 404 Opinions</b>		10.3%	30.5%	34.1%	26.2%	9.5%	7.2%	4.9%	11.5%	6.7%	17.9%
<b>Year 1 Comparison <sup>4</sup></b>	3700	624	198	198	172	58	44	45	106	78	120
		16.9%	31.7%	31.7%	27.6%	9.3%	7.1%	7.2%	17.0%	12.5%	19.2%

\* Research as of February 12, 2007 and includes all filings as of February 9, 2007. Year 2 is defined as annual reports for fiscal years ending Nov. 15, 2005 to Nov. 14, 2006, inclusive, to be consistent with the SEC requirement that accelerated filers comply with Section 404 in annual reports for fiscal years ending on or after Nov. 15, 2004. The count of Opinions Filed excludes (1) non-tickered funds and trusts within a group if the group of funds is represented in the population by the presence of at least one remaining entity (tickered or non-tickered) and (2) non-tickered subsidiaries if the parent company submitted a comparable filing; thus, this analysis excludes duplicate material weakness filings by non-tickered subsidiaries.

<sup>1</sup> The "% of Firms Total" calculation for these columns equals ([Firm's Total of Column's Category]/[Firm's Overall Total of 404 Opinions with MWs]) x 100; e.g., (18/57) x 100 = 31.6%.

<sup>2</sup> The "% of Category Total" calculation for these columns equals ([Firm's Total of Column's Category]/[Column Total of Column's Category]) x 100; e.g., (18/119) x 100 = 15.1%

<sup>3</sup> In addition to the Big 4 and national firms, a total of 133 regional and local accounting firms signed section 404 internal control opinions in Year 2.

<sup>4</sup> The Year 1 Comparison values are obtained from the Year 1 Review of GAAP / Accounting Areas of Failure table attached to this report.

**Source: AuditAnalytics.com**

Editor's note: AuditAnalytics.com 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 or visit www.auditanalytics.com.

**Year 2 Internal Controls over Financial Reporting Weaknesses - (404) Opinions Analysis\***  
**Review of Exemptions**

	Second Year 404 Opinions Filed*	Second Year 404 Opinions with Exemptions as of 2-9-07	Exemptions (compared to the total number of firm's 404 opinions filed) <sup>1</sup> <sup>2</sup>	
			Acquisitions during the past year	Equity Method Investee (Fin 46R) Issues
<b>Ernst &amp; Young</b>	943	100	95	5
% of Firm's Total		10.6%	10.1%	0.5%
% of Category Total	24.9%	21.2%	21.5%	27.8%
<b>PricewaterhouseCoopers</b>	792	127	118	6
% of Firm's Total		16.0%	14.9%	0.8%
% of Category Total	20.9%	26.9%	26.8%	33.3%
<b>KPMG</b>	724	98	97	1
% of Firm's Total		13.5%	13.4%	0.1%
% of Category Total	19.1%	20.8%	22.0%	5.6%
<b>Deloitte &amp; Touche</b>	674	82	75	4
% of Firm's Total		12.2%	11.1%	0.6%
% of Category Total	17.8%	17.4%	17.0%	22.2%
<b>Grant Thornton</b>	155	14	13	0
% of Firm's Total		9.0%	8.4%	0%
% of Category Total	4.1%	3.0%	2.9%	0%
<b>BDO Seidman</b>	118	20	16	2
% of Firm's Total		16.9%	13.6%	2%
% of Category Total	3.1%	4.2%	3.6%	11%
<b>Crowe Chizek &amp; Company LLC</b>	41	3	3	0
% of Firm's Total		7.3%	7.3%	0%
% of Category Total	1.1%	0.6%	0.7%	0%
<b>McGladrey &amp; Pullen LLP</b>	26	8	8	0
% of Firm's Total		30.8%	30.8%	0%
% of Category Total	0.7%	1.7%	2%	0%
<b>Regional &amp; Local Firms (133 firms)<sup>3</sup></b>	318	20	16	0
% of Firm's Total		6.3%	5.0%	0%
% of Category Total	8.4%	4.2%	3.6%	0%
<b>Totals</b>	3791	472	441	18
<b>% Total of 404 Opinions</b>		12.5%	11.6%	0.5%
<b>Year 1 Comparison<sup>4</sup></b>	3700	416	384	15
		11.2%	10.4%	0.4%

\* Research as of February 12, 2007 and includes all filings as of February 9, 2007. Year 2 is defined as annual reports for fiscal years ending Nov. 15, 2005 to Nov. 14, 2006, inclusive, to be consistent with the SEC requirement that accelerated filers comply with Section 404 in annual reports for fiscal years ending on or after Nov. 15, 2004. The count of Opinions Filed excludes (1) non-tickered funds and trusts within a group if the group of funds is represented in the population by the presence of at least one remaining entity (tickered or non-tickered) and (2) non-tickered subsidiaries if the parent company submitted a comparable filing; thus, this analysis excludes duplicate material weakness filings by non-tickered subsidiaries.

<sup>1</sup> The "% of Firms Total" value in these columns equals ([Firm's Total of Column's Category]/[Firm's Overall Total of 404 Opinions]) x 100; e.g., (95/943) x 100 = 9.7%.

<sup>2</sup> The "% of Category Total" calculation equals ([Firm's Total of Column's Category]/[Column's Total of 404 Opinions]) x 100; e.g. (95/384) x 100 = 21.1%

<sup>3</sup> In addition to the Big 4 and national firms, a total of 119 regional and local accounting firms have signed section 404 internal control opinions to date.

<sup>4</sup> The Year 1 Comparison values are obtained from the Year 2 Review of Exemptions table attached to this report.

**Source: AuditAnalytics.com**

Editor's note: AuditAnalytics.com 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 or visit www.auditanalytics.com.



## Registrants with Overdue 404 Opinions for Year 2 (And Thus Expected To File An Adverse 404 In The Future)

Company	CIK Code	Ticker	Auditor Name	Accelerated Filer	Accelerated Filer Period Ending	Accelerated Filer Source	Accelerated Filer Source Date	Last Non-Timely Filing	Last Non-Timely Filing Date	Fiscal YE	Status Summary
HURCO COMPANIES INC	315374	HURC	Crowe Chizek & Company LLC	Yes	1/31/2007	10-Q	3/8/2007			1031	Acc. F. in Yr2 10K 1/16/07
BAKBONE SOFTWARE INC	735993		Deloitte & Touche LLP	Yes	6/30/2004	10-Q	8/16/2004	NT 10-Q	11/9/2004	331	No NT 10K for FYE 3/31/06; see below.
EPICEPT CORP	1208261	EPCT	Deloitte & Touche LLP	Yes	9/30/2006	10-Q	11/9/2006	NT 10-Q	5/10/2006	1231	Acc. F. in Yr2 10-K 3/16/06.
AMERICAN ITALIAN PASTA CO	849667	PLB	Ernst & Young LLP	Yes	4/1/2005	10-Q	5/11/2005	NT 10-Q	2/8/2007	930	NT 10K on 12/15/06 and on 12/15/05
SYNTAX-BRILLIAN CORP	1232229	BRLC	Ernst & Young LLP (recent engagement)	Yes	12/31/2006	10-Q	2/14/2007	NT 10-Q	2/14/2006	630	Acc. F. in Yr2 10K/A 10/20/06
KEY ENERGY SERVICES INC	318996		Grant Thornton LLP	Yes	9/30/2003	10-Q	11/14/2003	NT 10-Q	11/13/2006	630	Delisted, but still filing with SEC; see below.
CREDO PETROLEUM CORP	277924	CRED	Hein & Associates LLP	Yes	1/31/2007	10-Q	3/12/2007	NT 10-K	1/17/2007	1031	Acc. F. in Yr2 10K 1/16/07
NAVISTAR INTERNATIONAL CORP	808450	NAV	KPMG LLP	Yes	7/31/2005	10-Q	9/9/2005	NT 10-K	1/17/2007	1031	NT 10K on 1/17/07
MEDQUIST INC	884497		KPMG LLP	Yes	9/30/2003	10-Q	11/12/2003	NT 10-QK	11/0/2006	1231	Delisted, but still filing with SEC; see below.
NEW HORIZONS WORLDWIDE INC	850414		Squar Milner Reehl & Williamson LLP	Yes	9/30/2004	10-Q	11/15/2004	NT 10-Q	11/15/2006	1231	Delisted, but still filing with SEC; see below.

\* Research as of February 12, 2007 and includes all filings as of February 9, 2007. Year 2 is defined as annual reports for fiscal years ending Nov. 15, 2005 to Nov. 14, 2006, inclusive, to be consistent with the SEC requirement that accelerated filers comply with Section 404 in annual reports for fiscal years ending on or after Nov. 15, 2004. The count of Opinions Filed excludes (1) non-tickered funds and trusts within a group if the group of funds is represented in the population by the presence of at least one remaining entity (tickered or non-tickered) and (2) non-tickered subsidiaries if the parent company submitted a comparable filing; thus, this analysis excludes duplicate material weakness

- **BakBone Software**, Inc. (TSX: BKB; OTCBB: BKBOF) was delisted from OTCBB on Jan.14, 2005 and from TSX on 5.4.06, but still files with the SEC.
- **Key Energy Services** had a market cap of approx. 1.5 billion when delisted from the NYSE (ticker KEG) on April 8, 2006. Designated as Acc. Filer in 10-Q of Nov. 14, 2003 (more clearly in 8.6.03), but still files with the SEC.
- **Medquist** Inc. was delisted from Nasdaq on June 16, 2004, but still files with the SEC. It settled a securities class action claim for \$7.75 million on or about March 28, 2007. Royal Philips Electronics owns about 57% of Medquist Inc.
- **New Horizons Worldwide** Inc. delisted from NASDAQ on April 5, 2004 (8-K), but still an active SEC filer.

### Source: AuditAnalytics.com

Editor's note: AuditAnalytics.com 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 or visit www.auditanalytics.com.

**Internal Control Weaknesses (404) Opinions Analysis\***  
**Definitions for the GAAP/Accounting Areas of Failure**

**Revenue Recognition**

Consists of internal control deficiencies 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 rebates, returns, barter or resale arrangements. They can also occur because 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.

**Tax Accruals Deferrals etc.**

Consists of internal control deficiencies in approach, understanding or calculation associated with various forms of tax obligations or benefits. Many of these restatements relate to foreign tax, local taxes or tax planning issues. Some deal with failures associated with sales taxes, etc. 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.

**Inventory / Vendor Cost of Sales**

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.

**Consolidation Fin (46) Issues**

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 or 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.

**Cash Flow Statement (FAS 95) Error**

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.

**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.

**Leases or Contingencies**

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.

**Depreciation / Amortization**

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 or reserves or amortization of other fixed assets.

**Fixed / Intangible Assets**

Consists of internal control deficiencies in calculation, approach or theory that have taken place in the recording of PPE fixed, intangible 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.

\*AuditAnalytics.com tracks over 30 issues related to Section 404 Internal Control Disclosures. For additional information on the AuditAnalytics.com Section 404 Internal Control Disclosures Taxonomy, please e-mail us at [info@auditanalytics.com](mailto:info@auditanalytics.com) or call us at (508) 476-7007.

**Internal Control Weaknesses (404) Opinions Analysis\***  
**Definitions for the Internal Controls over Financial Reporting Issues**

**Personnel Issues**

Consists of problems with accounting personnel resources, competency, training, experience and/or adequacy in any way. To meet these criteria, such an indication would have to be contained in the filing or in the remediation plan.

**Segregation of Duties**

This category covers internal control deficiencies associated with the design and use of personnel within an organization. It primarily deals with segregation of duty issues, such as clerks having access to both the cash receipts and the bank reconciliation. It may also deal with more sophisticated design of control issues relating to executives having the ability to change customer records, etc.

**Restatements of Financials**

Consists of material weakness opinions deriving from problems that led to restatements. Restatements are often evidentiary of prima facie internal control deficiencies.

**Material YE Adjustments**

Represents circumstances where one of the explanations for a material weakness opinion was the number and/or size of year-end adjustments including those proposed by the auditor. These adjustments also consider footnote and related errors that need to be corrected by the auditor at year-end. A substantial number of, or auditor initiated, year-end adjustments are consider prima facie evidence of a potential material weakness in financial reporting.

**Internal Audit Issues**

Indicates circumstances where a company has stated that its internal audit function was insufficient in identifying and/or advising in the correction of internal control deficiencies. It cannot also identify circumstances where a registrant has identified a failure to have an internal audit department at all, as a ICFR failure.

**IT Processing, Access Issues**

Deficiencies in this category include deficient program controls, software programs/implementation, segregation of duties associated with personnel having access to computer accounting or financial reporting records and related problems with oversight/access to electronic data/programs.

\*AuditAnalytics.com tracks over 30 issues related to Section 404 Internal Control Disclosures. For additional information on the AuditAnalytics.com Section 404 Internal Control Disclosures Taxonomy, please e-mail us at [info@auditanalytics.com](mailto:info@auditanalytics.com) or call us at (508) 476-7007.

**Internal Control Weaknesses (404) Opinions Analysis\***  
**Definitions for Exemptions**

**Acquisitions during the past year**

One of the allowable exemptions for not issuing an opinion on internal controls is that a company has made a recent acquisition and they have not had sufficient time to review, update and/or integrate the new acquisition into their IC systems.

**Equity Method investee (Fin 46R) issues**

Because there have been significant rule changes in this area of FASB and issues exist with respect to control/influence over equity method investees, an exemption has been granted relative to certain circumstances associated with equity method investees.

\*AuditAnalytics.com tracks over 30 issues related to Section 404 Internal Control Disclosures. For additional information on the AuditAnalytics.com Section 404 Internal Control Disclosures Taxonomy, please e-mail us at [info@auditanalytics.com](mailto:info@auditanalytics.com) or call us at (508) 476-7007.

## Audit Analytics™ - Public Company Market Intelligence

---

**Audit Analytics™** is the premier public company market intelligence service providing independent research to the investment, accounting, insurance, legal, regulatory and academic communities.

**Audit Analytics™** provides detailed intelligence research on over 20,000 public companies and 1,500 accounting firms. Our data includes detailed categorizations of issues and is considered by many professionals to be the best primary data source for tracking and analysis of the following public company disclosures:

- ✚ **Sarbanes-Oxley Disclosures**
  - Track Section 404 internal control disclosures and Section 302 disclosure controls.
- ✚ **Auditor Information**
  - Know who is auditing whom, their fees, auditor changes, auditor opinions and more.
- ✚ **Restatements**
  - Identify company restatements by type, auditor and peer group. Analyze by date, period and specific issue.
- ✚ **Litigation & Legal Disclosures**
  - Search all federal litigation by auditor, company and litigation type. Know who is representing whom.
- ✚ **Corporate Governance**
  - Track director & officer changes, audit committee members, C-level executives and their biographies.

**Detailed reports** are easily created by issue, company, industry, auditor, fees and more and are downloadable into Excel. Daily notifications via email are available for auditor changes, restatements and director & officer changes.

**Access** to Audit Analytics™ is available via on-line subscription, enterprise data-feeds, daily email notifications and custom research reports.

### Contact

For more information on subscriptions, data feeds, XML APIs or to schedule an on-line demonstration, please contact:

Audit Analytics™ Sales  
(508) 476-7007  
Info@AuditAnalytics.com