

Going Concern Review



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Mark Cheffers, CPA, CEO
mcheffers@ivesinc.com
508.476.7007 x223

Don Whalen, Esq., Research Director
dwhalen@ivesinc.com
508.476.7007 x222

Maggie Thrun, Research Analyst
mthrun@ivesinc.com
508.476.7007 x236

Audit Analytics Report Index

	Page
Introduction	1
Executive Summary.....	2
Going Concern Totals by Year	4
Going Concerns (Breakdown by Year and Accelerated Filer Status)	5
Going Concerns as a Percentage of Total Opinions by Year.....	6
Going Concerns Market Breakdown.....	7
Going Concerns Ten Year Review (Calendar Year 2009 Estimated).....	8
Issues Undermining Going Concern Assumption	9
Overview: Audit Analytics.....	10

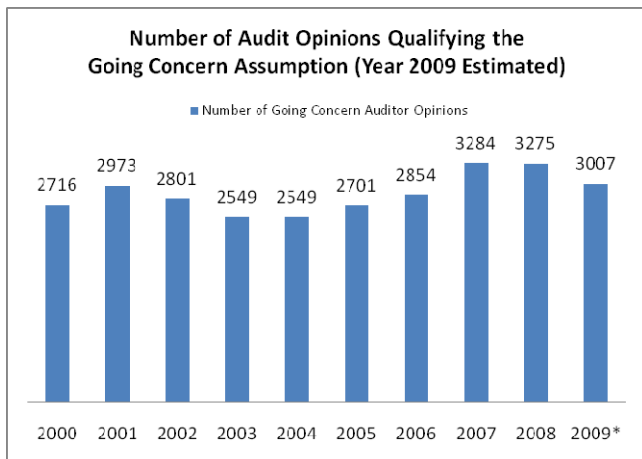
2009 Going Concerns: A Ten Year Review

Introduction

Audit Analytics reviewed the population of auditor opinions filed with the Securities Exchange Commission as of April 29, 2010 to determine the number of going concerns (opinions qualified by an uncertainty regarding the going concern assumption). This analysis found that the 2007 year end experienced 3,284 going concerns, the highest number during the decade. Year end 2008 came in a close second with 3,275. An Audit Analytics estimate for the 2009 year end predicts a total of 3,007 going concerns.

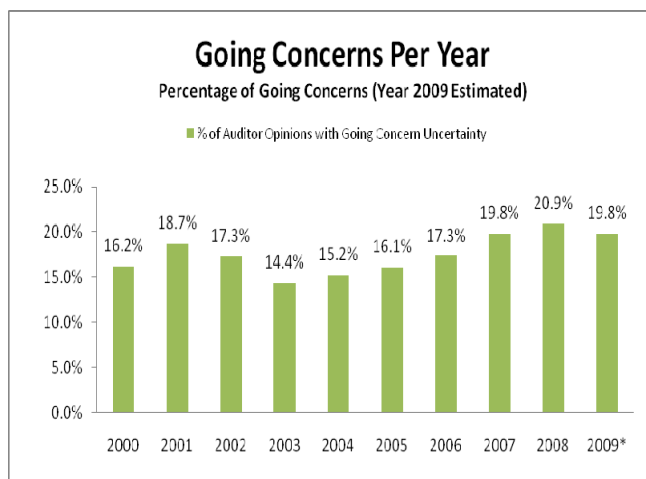
this drop, however, is not due to improved company performance, but company attrition from the prior year's going concern population. An analysis of the 3,275 companies that filed a going concern in 2008 found that 205 of these companies filed a termination of registration with the Securities Exchange Commission.

To better take into account company attrition, Audit Analytics also estimated the percentage of going concerns in 2009. A review of 2009 shows that it received 14,053 audit opinions on or before April 29th while 2008 received 14,516. In other words, the 2009 year end received 96.7% of the audit opinions filed in 2008 during the same duration. In 2008, a total of 15,686 audit opinions were filed, so if the 96.7% rate persists for the remainder of the 2009, a total of 15,168 audit opinions are expected. As noted above, a total of 3,007 going concerns are expected for 2009. A total of 3,007 going concerns out of 15,168 audit opinions represent 19.8% of the population. This percentage is better than 2008, but equal to 2007, the year with the greatest number of total going concerns.



Year end 2007 received the highest number of going concerns for the decade with 2008 coming in at a close second and 2009 estimated to experience a drop, mostly due to company attrition from the 2008 going concerns.

Audit Analytics arrived at the 2009 estimate by identifying how many going concerns were filed for year end 2008 on or before April 29, 2009. It was determined that 86.8% of the total 2008 going concerns were filed by that day. During the corresponding time period, year end 2009 received 2,611 going concerns. If the number received so far in 2009 represents 86.8% of the total for the year, the ultimate number of going concerns will be 3,007. Therefore, the number of going concerns for 2009 is expected to be 268 less than the amount received for 2008. Most of

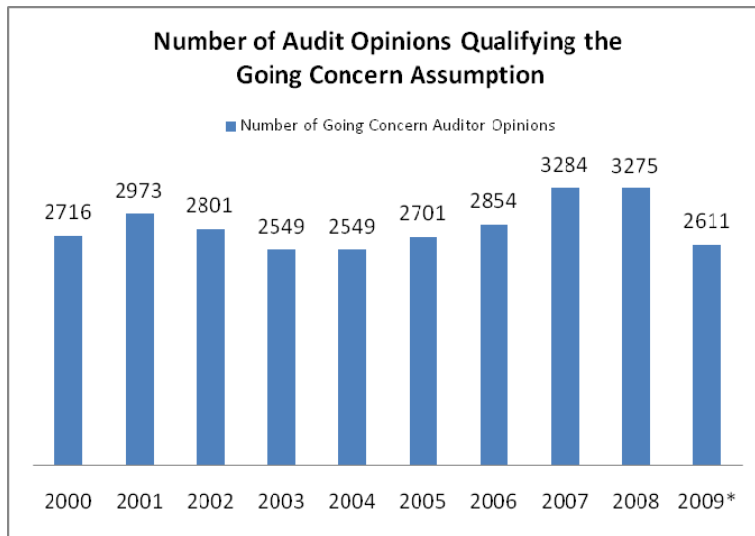


It is estimated that 19.8% of auditor opinions filed for year end 2009 will contain a qualification regarding the company's ability to continue as a going concern.

Executive Summary – Going Concerns 2000 to 2009

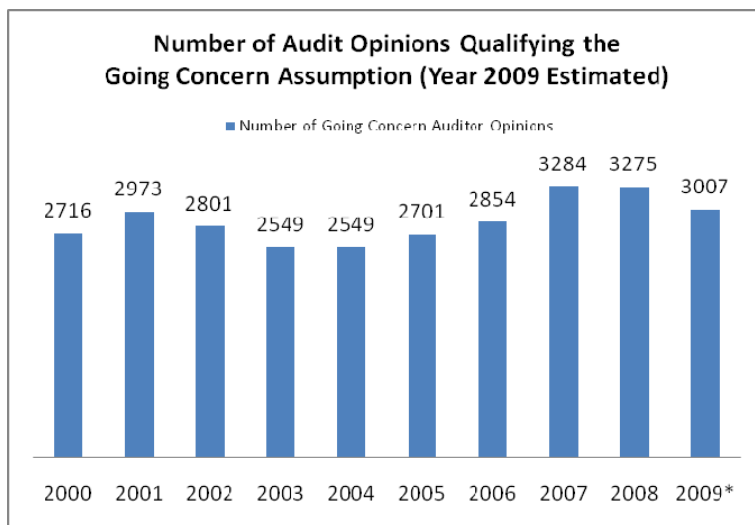
1. Calendar year 2007 experienced the highest number of going concerns so far this decade.

Audit Analytics reviewed the population of auditor opinions qualified by an uncertainty regarding the going concern assumption. Since calendar year 2000, the largest number of going concerns occurred in 2007. The number increased each year from 2004 to peak in 2007 with a total of 3,284 going concern opinions. (See graph on right and on page 4: *Going Concern Totals by Year.*) The graph on the right provides a calendar year 2009 total as of April 29, 2010, but this number is based on an incomplete year. Many foreign filers and non-accelerated U.S. filers with a fiscal year end occurring in the end of December have not yet filed an annual report with the SEC.¹ (For an estimated figure for 2009, see paragraph 3 below.)



2. The total number of going concerns in 2009 is expected to be less than the prior year's, but much of the decrease is due to company attrition from the prior year's going concern population.

Under the assumption that the 2008 audit opinion numbers provide a predictive gauge for the remaining performance of 2009, it is expected that 2009 will receive a total of 3,007 going concerns. (See graph on right and table on page 8: *Going Concerns Ten Year Review (Calendar Year 2009 Estimated)*) For 2009, a total of 2,611 going concerns were filed on or before April 29, 2010. During the same duration in 2008, a total of 2,844 going concerns were filed, while the entire year received 3,275. Therefore, in 2008, 86.8% of the total going concerns were filed on or before April 29, 2009.² If the same is true for 2009, the total number of auditor opinions in 2009 that note an uncertainty with the going concern assumption is expected to reach 3007.³ This number is less than the prior year, but a portion of the drop is due to the loss of some companies that filed a going concern during the prior year. An analysis of the 3,275 companies that filed a going concern in 2008 found that 205 of these companies filed a termination of registration with the SEC.



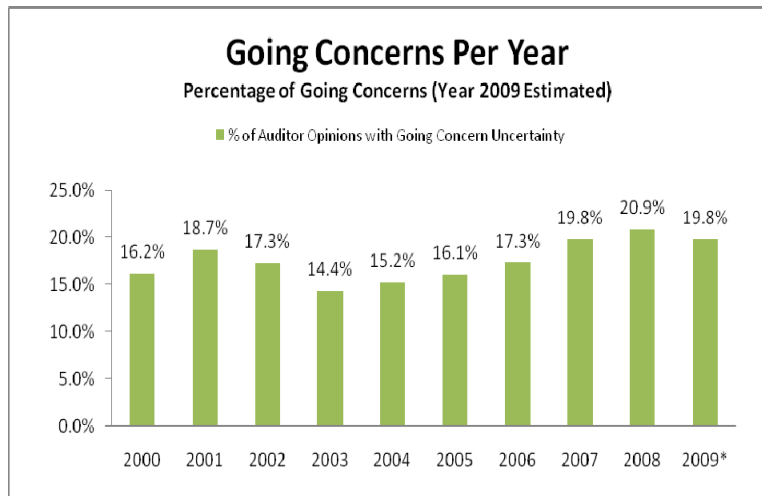
¹ By April 29, 2009, a total of 2,844 going concerns were filed for the 2008 year end, compared to 3,275 for the entire year.

² The 86.8% figure is based on the following ratio: $2,844 \div 3,275 = 0.8684$.

³ The total estimated number of going concerns expected for year end 2009 is obtained as follows: $2,611 \div 0.8684 = 3,007$.

3. The total percentage of going concerns in 2009 is expected to drop slightly, but equal the percentage experienced in 2007.

For the 2009 year end, estimates indicate that 19.8% of auditor opinions will express an uncertainty with respect to the auditor’s going concern assumption. (See graph on right and table on page 8: *Going Concerns Ten Year Review (Calendar Year 2009 Estimated)*). The total opinions received for 2009 on or before April 29, 2010 equaled 14,053 as compared to 14,516 in 2008 during the equivalent time period. Therefore, 2009 received 96.8% of the opinions received in 2008 over the corresponding time period.⁴ For the total year end, 2008 received 15,686 unique auditor opinions. Assuming that



96.8% continues to apply, the 2009 year end will receive a total 15,168 auditor opinions.⁵ As noted above, 2009 is expected to have 3,007 going concerns, which would represent 19.8% of all opinions for the year end.⁶ This percentage figure is a decrease from the prior year but nevertheless a historically high percentage. The graph on the right shows that estimated value of 19.8% is the third highest since 2000 and greater than the local maximum experienced in 2002.

4. A review of the going concerns for fiscal year end 2009 revealed that the most common reason given by auditors for their apprehension regarding a company’s ongoing viability is the operating losses experienced by the company, but a company’s young age or an increase in the threat from competition may also cause worry.

While examining going concerns, analysts review audit opinions for the issues that auditors indicate undermined the going concern assumption. The Audit Analytics database contains a taxonomy (issue classification) of 40 reasons commonly given by auditors for their apprehension and, during the reviews, the analysts select one or more reason listed. A ranking of

Going Concern Issue Type	Total
Net/Operating Loss (including recurring losses)	1476
Working capital/current ratio deficit/inadequacy	856
Accumulated/retained earnings deficit	625
Development stage	596
Net losses since inception	575

these issues for the 2009 fiscal year end is provided on page 9 of this report and the top five issues are listed above. As shown in the above table, a total of 1,467 out of 2,611 going concerns indicated that the auditor’s cause for apprehension was the operating loss(es) experienced by the company. Other common reasons expressed by auditors are attributable to a company’s young age or an increase in the threat from competition. (See page 9.)

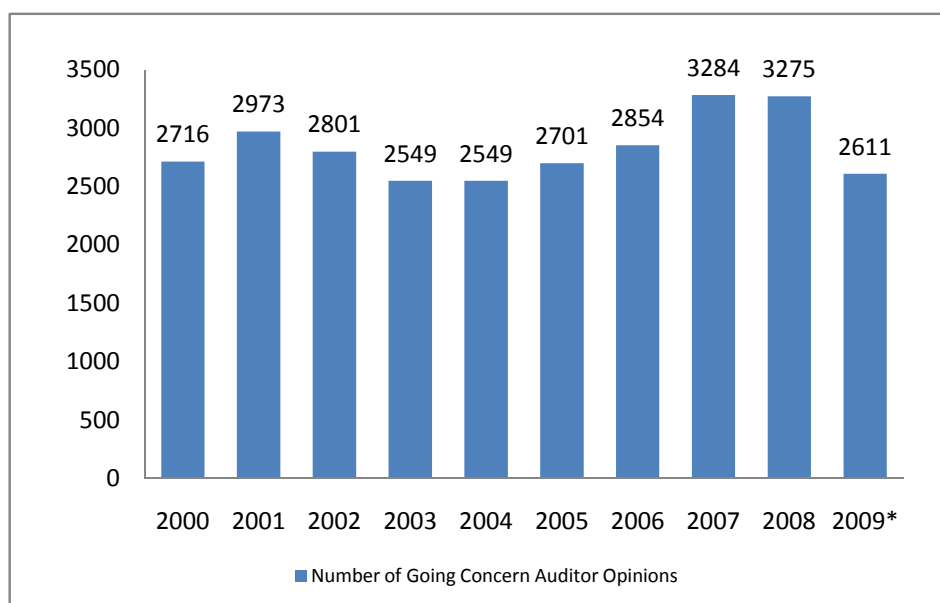
⁴ The 96.8% figure is based on the following ratio: 14,053 ÷ 14,516 = 0.968.

⁵ The total estimated number of opinions expected for year end 2009 is obtained as follows: 15,686 x 0.968 = 15184.

⁶ The 19.8% figure is based on the following ratio: 3,007 ÷ 15,184 = 0.198.

Going Concern Totals by Year

(Number of Auditor Opinions with a Qualified Going Concern Assumption)



Notes:

- 1) The research above is based on SEC filings as of 4/29/10 (an Audit Opinion database download of 4/30/10).
- 2) The counts of Going Concerns listed above exclude non-tickered subsidiaries if the parent company also filed an auditor opinion with a going concern qualification; thus, this analysis excludes duplicate going concern opinions filed by non-tickered subsidiaries.
- 3) Data for Year 2009 is based on an incomplete year. Many foreign filers and most smaller U.S. companies with a fiscal year end occurring in the end of December have not yet filed an annual report with the SEC. Based on the total amount of audit opinions filed in 2008, about 89.6% of expected opinions have been filed in 2009. (The data reflects 14,053 opinions for 2009 as compared to 15,686 opinions in 2008).

Going Concerns (Breakdown by Year and Accelerated Filer Status)

Audit Opinions with a Qualified Going Concern Assumption

	Large Acc. Filers	Accelerated Filers	Non-Accelerated Filers			Total
			All	Small Reporting Company (subset)	Other (subset)	
2009 (partial)	7	60	2544	2113	55	2611
2008	24	141	3110	1882	496	3275
2007	6	84	3194	327	1821	3284
2006	4	76	2774	15	1737	2854
2005	2	60	2639	11	935	2701
2004	1	56	2492	7	451	2549
2003	0	40	2509	6	1282	2549
2002	0	48	2753	1	1391	2801
2001	0	0	2973	2	65	2973
2000	0	0	2716	1	14	2716

Notes

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- 3) The accelerated filer status of a registrant is as declared by the registrant in its most recent filing requesting the status. If the registrant failed to provide the status as requested, the table above designates the registrant as a non-accelerated filer.
- 4) The term "Large Accelerated Filer" means a registrant that had a public equity float of \$700 million or more as of the last business day of the most recently completed second fiscal quarter. (See Securities Exchange Act of 1934. Rule 12b-2, entitled "Definitions.")
- 5) The term "Accelerated Filer" means a registrant that had a public equity float of \$75 million or more but less than \$700 million, as of the last business day of the most recently completed second fiscal quarter. (See Securities Exchange Act of 1934. Rule 12b-2, entitled "Definitions.")
- 6) The term "Smaller Reporting Company" means a registrant with a public equity float of less than \$75 million, or if the public equity float is not calculable, with annual revenues less than \$50 million in the previous year. (See SEC Release No. 33-8876, December 19, 2007)
- 7) The category "Other" is a designation given by Audit Analytics to identify companies have not yet filed a form with the SEC that requests an accelerated filer designation. Such companies tend to be those that have not filed a periodic report because they are an emerging company (filing an S-1, SB-2, F-1, 10-12 or other registration) or funds & trusts that file one of the following SEC forms: 485BPOS N-CSR N-30D.
- 8) Data for Year 2009 is based on an incomplete year. Many foreign filers and most smaller U.S. companies with a fiscal year end occurring in the end of December have not yet filed an annual report with the SEC. Based on the total amount of audit opinions filed in 2008, about 89.6% of expected opinions have been filed in 2009. (The data reflects 14,053 opinions for 2009 as compared to 15,686 opinions in 2008).

Source: AuditAnalytics.com

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Going Concerns Percentages (Breakdown by Year and Accelerated Filer Status)

Going Concerns as a Percentage of Total Opinions by Year

	Large Acc. Filers			Accelerated Filers			Non-Accelerated Filers									Total		
	Going Concerns	Total Auditor Opinions	Percentage	Going Concerns	Total Auditor Opinions	Percentage	All			Small Reporting Company (subset)			Other (subset)			Going Concerns	Total Auditor Opinions	Percentage
							Going Concerns	Total Auditor Opinions	Percentage	Going Concerns	Total Auditor Opinions	Percentage	Going Concerns	Total Auditor Opinions	Percentage			
2009 (partial)	7	1615	0.43%	60	1835	3.27%	2544	10603	23.99%	2113	4074	51.87%	55	175	31.43%	2611	14053	18.58%
2008	24	1943	1.24%	141	2158	6.53%	3110	11585	26.85%	1882	3640	51.70%	496	790	62.78%	3275	15686	20.88%
2007	6	2035	0.29%	84	2234	3.76%	3194	12325	25.91%	327	1029	31.78%	1821	2946	61.81%	3284	16594	19.79%
2006	4	1978	0.20%	76	2283	3.33%	2774	12194	22.75%	15	19	78.95%	1737	3071	56.56%	2854	16455	17.34%
2005	2	1326	0.15%	60	2758	2.18%	2639	12698	20.78%	11	13	84.62%	935	1947	48.02%	2701	16782	16.09%
2004	1	6	16.67%	56	3671	1.53%	2492	13124	18.99%	7	9	77.78%	451	1218	37.03%	2549	16801	15.17%
2003	0	1	0.00%	40	3499	1.14%	2509	14263	17.59%	6	8	75.00%	1282	2757	46.50%	2549	17763	14.35%
2002	0	1	0.00%	48	2472	1.94%	2753	13741	20.03%	1	4	25.00%	1391	3295	42.22%	2801	16214	17.28%

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Going Concerns Percentages (Breakdown by Year and Market Status)

Going Concerns Market Breakdown

	Total Going Concerns	NYSE		Nasdaq		Amex		OTCBB		Non-Tickered	
		Going Concerns	%	Going Concerns	%	Going Concerns	%	Going Concerns	%	Going Concerns	%
2009 (partial)	2611	17	0.65%	118	4.52%	33	1.26%	1615	61.85%	828	31.71%
2008	3275	27	0.82%	102	3.11%	47	1.44%	1724	52.64%	1375	41.98%
2007	3284	8	0.24%	59	1.80%	29	0.88%	1510	45.98%	1678	51.10%

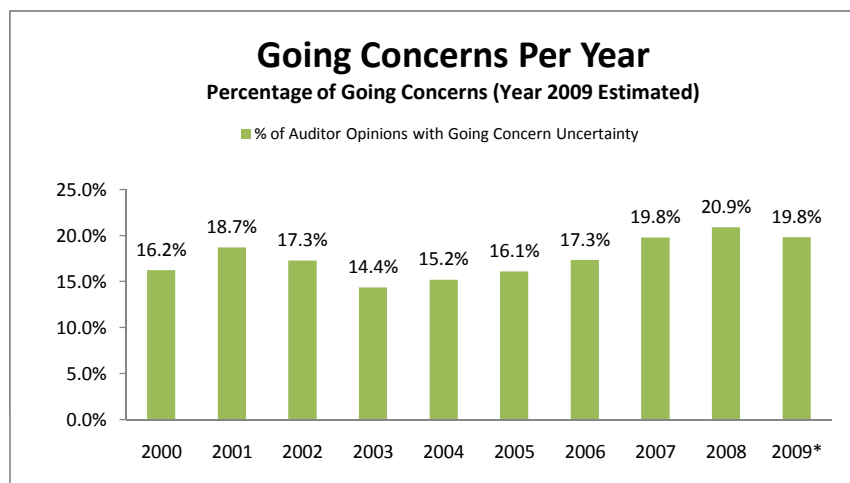
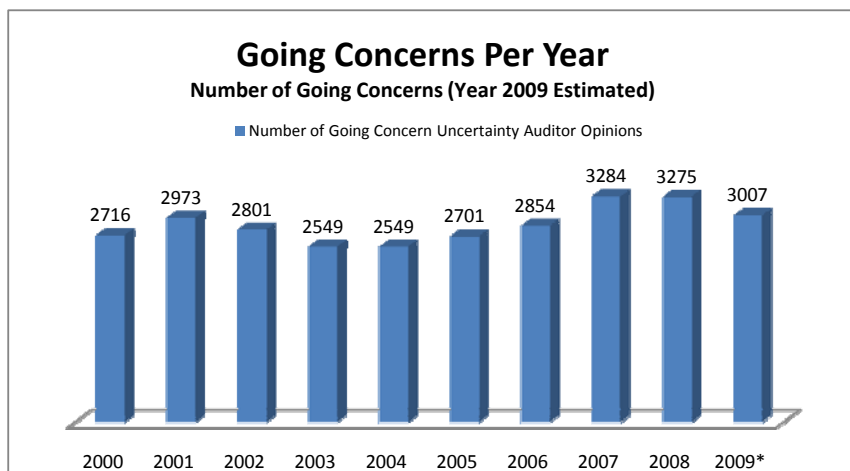
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Going Concerns Ten Year Review



Going Concern Ten Year Review (Calendar Year 2009 Estimated)										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Going Concerns	2716	2973	2801	2549	2549	2701	2854	3284	3275	3007
Total Auditor Opinions	16737	15901	16214	17763	16801	16782	16455	16594	15686	15168
% of All Opinions	16.23%	18.70%	17.28%	14.35%	15.17%	16.09%	17.34%	19.79%	20.88%	19.82%

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- 4) The figures for 2009 are estimated as follows: For the 2009 year end, a total of 2,611 going concerns were filed on or before April 29, 2010. During the same duration in 2008, a total of 2,844 going concerns were filed, while the entire year received 3,275. Therefore, in 2008, 86.8% of the total going concerns were filed on or before April 29, 2009. $[2,844 \div 3,275 = 0.868]$. If the same is true for 2009, the total number of auditor opinions in 2009 that notes an uncertainty with the going concern assumption is expected to reach 3,007. $[2,611 \div 0.868 = 3,007]$.
- 5) For 2009, the percentage of opinions with uncertainty regarding the going concern assumption are estimated as follows: The total opinions received for 2009 on or before April 29, 2010 equaled 14,053 as compared to 14,516 in 2008 during the equivalent time period. Therefore, 2009 received 96.7% of the opinions received in 2008 over the corresponding time period. $[14,053 \div 14,516 = 0.968]$. For the total year end, 2008 received 15,686 unique auditor opinions. Assuming that 96.8% continues to apply, the 2009 year end will receive a total 15,184 auditor opinions. $[15,686 \times 0.968 = 15,184]$. As noted above, 2009 is expected to have 3,007 going concerns, which would represent 19.8% of all opinions for the year end. $[3,007 \div 15,184 = 0.198]$.

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Issues Undermining Going Concern Assumption

Going Concern Issue Type	Total
Net/Operating Loss (including recurring losses)	1476
Working capital/current ratio deficit/inadequacy	856
Accumulated/retained earnings deficit	625
Development stage	596
Net losses since inception	575
Insufficient / limited cash, capital or liquidity concerns	558
Absence of significant revenues	525
Negative cash flow from operations	476
Stockholder equity or partner capital - deficiency or decrease	296
Need for additional financing for growth or to meet business objectives	275
Not commenced, limited or no operations	262
Need for additional financing to sustain operations	219
Need for additional financing for funding obligations and/or servicing debt	187
Pre-exploration/Exploration Stage	139
Profitability concerns	99
Assets – inadequate, limited, immaterial or impaired	73
Notes Payable/Debt - Default, Due, etc.	69
Seeking or needs to combine with existing company	48
Debt covenants/agreements uncertain or not in compliance	41
Regulatory capital - decline or deficiency	41
Regulatory settlements, obligations and contingencies	37
No explanation	33
Liabilities exceed assets	32
Bankruptcy	30
Discontinued/Disposal of Operations	29
Liquidation	22
Decline in revenue	19
Product demand or pricing - decline or limited	12
Debt is substantial	11
Refinancing contingencies	11
Restructuring contingencies	11
Competitor threat	10
Litigation contingencies	10
Initial loss	9
Credit line reduced or due	8
Changed industry or business	5
No dividends	4
Credit quality deterioration	3
Salary deferral	3
Subsidiary - spin off	1

Notes:

1) The research above is based on SEC filings as of 4/29/10 (an Audit Opinion database download of 4/30/10).

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