

404 Dashboard

Year 4 Update

Advanced AICPA Conference Copy

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EXECUTIVE SUMMARY – UPDATE ON YEAR 4 SECTION 404 RESULTS

Section 404 of the Sarbanes Oxley Act of 2002 (“SOX 404”) is presently in its fourth year of application.¹ The fourth year is notable because many SEC registrants that were previously outside the purview of SOX 404 were required, for the first time, to adhere to some of its provisions. Starting in the fourth year, the annual reports from non-accelerated filers were to contain a management’s assessment of the company’s internal controls over financial reporting (“ICFRs”). With this influx of new filers Audit Analytics identified the largest percentage of adverse disclosures since the implementation of SOX 404. The opposite is true, however, when an analysis focuses on only those accelerated filer firms that also filed an auditor attestation in addition to the management assessment. Companies that filed an auditor attestation disclosed the lowest percentage of adverse disclosures since the implementation of SOX 404.

United States accelerated filers² were first required to provide SOX 404 certifications in annual reports for fiscal years ending on or after November 15, 2004. During its third year of application, the scope of SOX 404 expanded to include a new category of public registrant: accelerated foreign filers. For year 3, a large accelerated foreign filer was required to provide a management opinion and an auditor attestation report in its annual report for the fiscal year ending on or after July 15, 2006. However, an accelerated foreign filer that is not a large accelerated foreign filer is only required, for its first year, to provide a management opinion for this period.³ The SEC has also used this two-step approach to the introduction of SOX 404 requirements in year 4 by requiring non-accelerated filers to begin providing management assessments in their annual reports. Non-accelerated filers are presently required to provide a management opinion (but not an auditor attestation) in their annual reports for the fiscal year ending on or after December 15, 2007. Therefore, except for asset backed securities and registered investment companies,⁴ all SEC registrants are required to provide at least a management report and accompanying certification⁵ in their annual reports unless the annual report is their very first (unless the registrant is a “newly public company”⁶).

¹ 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 4 (still ongoing) is defined to encompass annual reports for fiscal years ending November 15, 2007 to November 14, 2008, 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.

² An accelerated filer is a company whose public float (as opposed to Market Capitalization) exceeds \$75 million as of the last day of their second quarter. Once a registrant becomes an accelerated filer, it will not lose this status unless its float drops below \$50 million. A large accelerated filer is a company whose public float exceeds \$700 million. See Rule 12b-2 of the Securities Exchange Act of 1934.

³ In general, Section 404 requires that each annual report contain an “internal control report” that (1) acknowledges the management’s responsibility to maintain adequate internal controls, (2) identifies the “framework” used to evaluate the effectiveness of the internal controls over financial reporting, and (3) provides an assessment of the effectiveness of these internal controls as of the end of the fiscal year.

⁴ Registered investment companies are expressly exempt from Section 404 by Section 405 of SOX.

⁵ The SEC provides a form entitled “CERTIFICATIONS” to be attached to the annual report that contains the necessary language for a 404 certification. A separate copy of this form must be signed by both the CEO and CFO without any change in the language and attached as Exhibit 31.

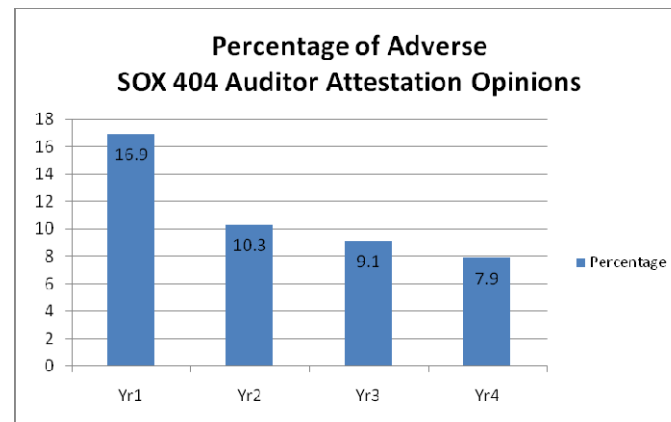
⁶ Pursuant to the SEC instructions to Item 308 under regulation S-K, a registrant need not comply with SOX 404 “until it either had been required to file an annual report . . . for the prior fiscal year or had filed an annual report with the Commission for the prior fiscal year.” See also, SEC Release No. 33-8731 (Aug. 9, 2006).

**Executive Summary
(cont'd)**

As of September 10, 2008, the SEC had received a total of 4,012 auditor attestation opinions and 3,435 management-only opinions (7,447 total). The adverse auditor attestation disclosures filed represented 7.0% of the attestation filings. This figure is expected to increase to about 7.9%, assuming that overdue filings disclose adverse conditions. The 7.9% figure could also increase as some companies ascertain, mostly through financial restatements, that they erred in the original clean assessment. Nevertheless, this adverse figure of 7.9% is the lowest disclosed to date, down from 9.1% in year 3, 10.3% in Year 2 and 16.9% in Year 1. In contrast, the management-only assessments did not fare nearly as well. The adverse disclosures in the management-only assessments represented 30.7% of those filed. This high percentage is due, in large part, to two factors: (1) nearly all management-only filers are first-time filers and (2) non-accelerated filers are comprised of many small companies with fewer employees and other resources.

1. As of September 10, 2008, the overall rate of adverse Year 4 auditor attestations has continued the steady decline.

In SOX 404 Year 1, when U.S. accelerated filers first provided auditor attestations (in their annual reports for fiscal years ending on or after November 15, 2004), the adverse disclosure rate came in at 16.9%. Thereafter, each year experienced a decline in the percentage of adverse auditor attestations. The Year 1 rate of 16.9% dropped to 10.3% in Year 2 and then to 9.1% in Year 3. (See graph on right.) Likewise, even if one assumes that overdue filings will come in as adverse disclosures in the near future, Year 4 is expected to end with an adverse rate of about 7.9%. (See table on page 9: *SOX 404 Auditor Attestations: Year 4 Update with Year 1, Year 2, and Year 3 Adverse Opinion Comparison.*) This incremental drop from year to year suggests that the ICFRs of companies improve over time when auditors are involved in the evaluation process.



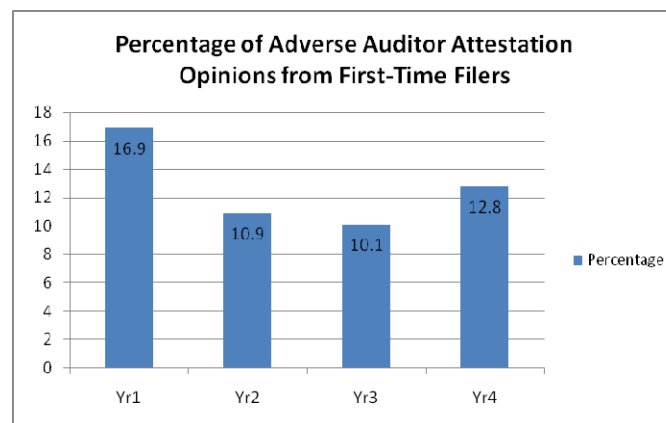
2. When management-only assessment are added to the population of SOX 404 filings, the adverse percentage rate for Year 4 increases to 17.9%.

So far in Year 4, the SEC has received 3,435 annual reports with management-only assessments. Of those disclosures, 1,053 provided an adverse assessment regarding ICFRs, an adverse opinion rate of 30.7%. The high percentage indicates that non-accelerated filers, which includes many 10KSB (small business) filers, fail to maintain ICFRs that are as reliable as accelerated filers. When this population is added to the 4,012 auditor attestations opinions, the adverse percentage of the total population of 7,447 disclosures becomes 17.9%. (See table on page 10: *SOX 404 Disclosures including Management Only Reports: Year 4 Update with Year 1, Year 2, and Year 3 Adverse Opinion Comparison.*) The percentage figures in this analysis do not assume that overdue opinions will come in as negative because many recent 10KSB/As have declared effective ICFRs. (And, the failure to provide a management assessment in the first instance is a SOX 302 failure, not a SOX 404 failure). Nevertheless, the adverse rate could rise as amended annual reports are filed.

Executive Summary
(cont'd)

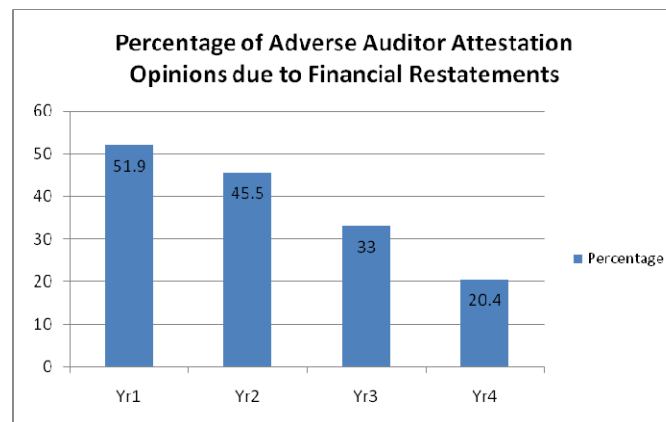
3. In Year 4, the adverse auditor attestations filed by first-time accelerated filers were up slightly as compared to the prior two years. The addition of management-only disclosures more than doubled this adverse rate.

Analysis of the performance of first-time filers during the first three years of SOX 404 showed that these filers became better prepared for the rigors of a SOX 404 assessment as time passed. In Year 1, adverse opinions were disclosed in 16.9% of the annual reports. In Year 2, the first-time filers were better prepared and only 10.9% of disclosures revealed adverse ICFRs. This percentage dropped yet again in Year 3 to 10.1%. However, even if a Year 4 analysis focuses on accelerated first-time filers (those that included an auditor attestation with their first assessment), an increase in the percentage of adverse opinions appears. In Year 4, adverse ICFR assessments were disclosed in 12.8% of the auditor attestations from first-time SOX 404 filers. (See table on page 11: *Review of First-Time Filers by Year (Auditor Reports Only)*.) If the Year 4 analysis includes management-only assessments, the adverse rate increases to 28.0%. (See table on page 12: *Review of First-Time Filers by Year (with Management-Only Assessments)*.) This increase in the adverse rate is not surprising since non-accelerated filers are smaller companies that would likely be less prepared for their first occurrence of a full ICFR assessment.



4. The percentage of adverse Section 404 filings associated with Financial Restatements continues to decline.

A financial restatement is no longer an inevitable precursor to an adverse SOX 404 report. Although PCAOB AS-2 identified a financial restatement as a strong indicator of a material weakness in ICFRs, the PCAOB and SEC instructed audit firms and registrants to employ a greater level of judgment in making SOX 404 decisions after a restatement. As a result, even if an auditor attests the opinion, adverse SOX 404 opinions associated with a financial restatement have declined each year: 51.9% in Year 1; 45.4% in Year 2; 33.0% in Year 3, and 20.4% in Year 4. (See table on page 13: *Year 4 SOX 404 Issue Prevalence by Firm and Issue Category—Internal Control Issues*.) This trend seems to indicate that companies have instituted financial reporting systems that are identifying potential restatements well in advance of their year ends thereby allowing for quick notification and the opportunity to remediate problems in time for auditor clearance. Because smaller companies are less apt to restate, if management-only issues are added to the analysis, the percentage drops dramatically, to 7.3%. (See table on page 14: *Year 4 SOX 404 Issue Prevalence by Firm and Issue Category (with Management-Only Reports)—Internal Control Issues*.)



**Executive Summary
(cont'd)**

5. As compared to accelerated filers, non-accelerated filers disclosed a much higher rate of issues relating to Segregation of Duties while finding a lower rate of issues relating to Accounting Personnel Competency.

When analyzing auditor assessments, issues relating to Segregation of Duties appeared between 3.4% (D&T) and 25.4% (Regional) of the time in adverse disclosures. In contrast, management-only adverse assessments disclosed this issue 46.0% of the time. (See table on page 15: *SOX 404 Disclosures: Year 4 Issue Update—Internal Control Issues in Adverse Disclosures.*) Since many management-only assessments were filed by smaller companies, which tend to have fewer employees, it is not surprising that these companies would experience difficulties segregating financial duties among their limited number of employees. In comparison, adverse management-only assessments with respect to competency and training of their financial personnel were on par with the population as a whole. While the entire population, including management-only filers, cited a shortcoming regarding Accounting Personnel Competency in 62.7% of their adverse attestations, a focus on management-only assessments arrives at virtually the same percentage value: 62.8%. Therefore, the adverse assessments from smaller companies tend to maintain an equivalent concern with respect to the competency of their financial personnel, but an increased concern with their ability to divide the financial tasks over enough individuals to minimize the opportunity for one person to perpetrate a financial fraud within the company.

6. An analysis of auditor attestations show that GAAP Issues and other accounting failures have continued to decline in prevalence during SOX 404 Year 4.

Our Year 4 analysis to date utilized a population of 4,012 auditor attestations (partial year amount) compared to a total of 4216 in Year 3. Even after considering that the Year 4 population (partial) is about 5% lower than the Year 3 population, the issue totals for the major GAAP categories revealed lower occurrences in Year 4 than the prior year. (See table on page 16: *Year 4 SOX 404 Issue Prevalence by Firm and Issue Category—GAAP / Accounting Areas of Failure.*) As shown in the summary table on the right, all categories presented displayed totals lower than Year 3. This drop in GAAP issues also, to some extent, manifested in a drop in overall adverse auditor attestations. While the SEC received 382 adverse attestations in Year 3, it has only received 280 such disclosures so far in Year 4. The reduction in the number of adverse GAAP issues and the overall reduction in adverse attestations suggest that ICFRs are likely to improve over time when auditors are involved in the assessment process.

GAAP Issues	Year 3	Year 4
Cash Flow Statement Error	16	9
Debt, Warrants & Equity	22	11
Depreciation/Amortization	25	14
Inventory/Vendor Sales Cost	72	58
Leases or Contingencies	30	24
Fixed/Intangible Assets	79	42
Revenue Recognition	106	64
Tax Accruals, Deferrals	124	84
Consolidation Fin (46)	31	28

Executive Summary (cont'd)

7. Crowe Horwath, which audits mostly banks, has yet to file an adverse auditor attestation in Year 4.

As of September 10, 2008, Crowe Horwath LLP (previously Crowe Chizek & Company)⁷ filed 53 auditor attestations, 6 of which were first-time filers. Every attestation filed disclosed effective ICFRs. (See table on page 9: *SOX 404 Auditor Attestations: Year 4 Update with Year 1, Year 2, and Year 3 Adverse Opinion Comparison*.) Crowe Horwath has historically disclosed a low percentage of adverse disclosures: 2.4% in Year 2 and 3.8% in Year 3. This unusually high success rate on the part of Crowe Horwath registrants may be attributable to the fact that 49 of the 53 companies that filed a Crowe Horwath attestation are banks.

8. Adverse opinions provided by Grant Thornton tended to identify two issues, Revenue Recognition and Information Technology, more often than other auditors.

Grant Thornton's Year 4 adverse attestation rate of 8.2% is in line with other auditors. (See table on page 9: *SOX 404 Auditor Attestations: Year 4 Update with Year 1, Year 2, and Year 3 Adverse Opinion Comparison*.) In those adverse opinions, two issues were identified more often than they were by other auditors. Grant Thornton identified the issue of Revenue Recognition in 40.0% of its adverse attestations, compared to the next highest rate of 28.3% disclosed by Pricewaterhouse Coopers. (See table on page 18: *SOX 404 Disclosures: Year 4 Issue Update—GAAP Financial Issues in Adverse Disclosures*.) Likewise, Grant Thornton found issues regarding Information Technology, Software, Security & Access in 46.7% of its adverse assessments while the next highest, Regional Auditors, disclosed it at a rate of 30.5%. (See table on page 15: *SOX 404 Disclosures: Year 4 Issue Update—Internal Control Issues in Adverse Disclosures*.)

⁷ On September 1, 2008, Crowe Crowe Chizek and Company LLC began practicing under the new name of Crowe Horwath LLP.

SUMMARY: INTERNAL CONTROLS OVER FINANCIAL REPORTING TABLES

The following 12 tables present research data from a September 15, 2008 download of the Audit Analytics database concerning Section 404 disclosures (data as of September 10th). 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, Regional & Local Firms, and Management-Only Opinions (since they are not attributable to an auditor):

1. Ernst & Young;
2. PricewaterhouseCoopers;
3. KPMG;
4. Deloitte & Touche;
5. Grant Thornton;
6. BDO Seidman;
7. Crowe Horwath LLP;
8. McGladrey & Pullen LLP;
9. Regional & Local Firms; and
10. Management-Only Opinions.

- The **SOX 404 Auditor Attestation: Year 4 Update with Year 1, Year 2 and Year 3 Adverse Opinion Comparison** table presents a summary of the number of adverse Year 4 auditor attestation disclosures filed as of September 10, 2008. These numbers and percentages are arranged by auditor with a Year 1, Year 2 and Year 3 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 September 10, 2008. (An additional table inserted at the end of this report presents more information regarding the accelerated filers that are presently tardy.)
- The **SOX 404 Disclosures including Management Only Reports** table presents a summary of the number of adverse Year 4 Section 404 disclosures filed as of September 10, 2008. These numbers and percentages are arranged by auditor with a Year 1, Year 2 and Year 3 comparison. The table also provides data for the management-only assessments filed by non-accelerated filers.
- The **Review of First-Time Filers by Year (Auditor Reports Only)** table presents the number of first-time filers submitted Section 404 disclosures in Year 1, Year 2 and Year 3 (partial) as of September 10, 2008. The yearly presentation also provides the percentage of adverse opinions submitted by first-time filers. The table focuses on only those first-time filers that submitted an auditor report (as opposed to only a management opinion) in order to compare prior year auditor reports with Year 3 auditor reports.

- The **Review of First-Time Filers by Year (with Management-Only Assessments)** table presents all the data in the table described immediately above and adds management-only assessment numbers to the data. Since non-accelerated filers were allowed to file only management opinions in Year 4, this table presents how the management-only assessments influence the first-time filer's adverse opinion rate.
- The **Year 4 SOX 404 Issue Prevalence by Firm and Issue Category—Internal Control Issues** table identifies the following subset of internal control issues categorized within the database and provides a Year 3, Year 2 and Year 1 comparison of totals. The 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 **Year 4 SOX 404 Issue Prevalence by Firm and Issue Category (with Management-Only Reports)—Internal Control Issues** table presents all the data in the table described immediately above and adds management-only assessment numbers to the data. Since non-accelerated filers were allowed to file only management opinions in Year 4, this table presents how the management-only assessments influence the first-time filer's adverse opinion rate.
- The **SOX 404 Disclosures: Year 4 Issue Update—Internal Control Issues in Adverse Disclosures** table identifies all the internal control SOX 404 issues categorized within the database and presents the data by top 8 Auditors, Regional & Local Firms, and Management-Only Opinions.
- The **Year 4 SOX 404 Issue Prevalence by Firm and Issue Category—GAAP / Accounting Areas of Failure** table identifies the following subset of accounting failures and GAAP issues categorized within the database and provides a Year 2 and Year 1 comparison of totals. The 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 currency 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 **Year 4 SOX 404 Issue Prevalence by Firm and Issue Category (with Management-Only Reports)—GAAP / Accounting Areas of Failure** table presents all the data in the table described immediately above and adds management-only assessment numbers to the data. Since non-accelerated filers were allowed to file only management opinions in Year 4, this table presents how the management-only assessments influence the first-time filer's adverse opinion rate.
- The **SOX 404 Disclosures: Year 4 Issue Update—GAAP Financial Issues in Adverse Disclosures** table identifies all the SOX 404 accounting failures and GAAP issues categorized within the database and presents the data by top 8 Auditors, Regional & Local Firms, and Management-Only Opinions.
- The **Review Year 4 Exemptions to SOX 404** identifies the following subset of reasons for an exemption categorized within the database and provides a Year 3, Year 2 and Year 1 comparison of totals. 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 4** table provides a list of registrants that were required to file a Section 404 disclosure in Year 4, but have not yet done so.

SOX 404 Auditor Attestations: Year 4 Update with Year 1, Year 2, and Year 3 Adverse Opinion Comparison¹

	4th-Year 404 Opinions Filed	4th-Year 404s that were from 1st Time Filers (newly required)	4th-Year 404 Adverse Opinions (filed as of 9-10-08)	Overdue 404 Opinions (likely Adverse) ²	Total Overdue and Filed 404 Opinions	Total Overdue and Adverse 404 Opinions	Percentage of Overdue and Adverse 404 opinions	Yr. 1 Comparison: Percentage of Adverse 404 Opinions Filed First Year ³	Yr. 2 Comparison: Percentage of Adverse 404 Opinions Filed Second Year	Yr. 3 Comparison: Percentage of Adverse 404 Opinions Filed Third Year
Ernst & Young	978	125	37	8	986	45	4.6%	12.7%	6.0%	5.6%
% of Firm's Total ⁴		12.8%	3.8%	0.8%						
% of Category Total ⁵	24.4%	21.1%	13.2%	20.0%						
PricewaterhouseCoopers	778	96	46	6	784	52	6.6%	16.0%	11.0%	7.0%
% of Firm's Total		12.3%	5.9%	0.8%						
% of Category Total	19.4%	16.2%	16.4%	15.0%						
KPMG	691	90	51	5	696	56	8.0%	16.5%	10.9%	7.3%
% of Firm's Total		13.0%	7.4%	0.7%						
% of Category Total	17.2%	15.2%	18.2%	12.5%						
Deloitte & Touche	711	104	59	10	721	69	9.6%	17.3%	10.5%	11.3%
% of Firm's Total		14.6%	8.3%	1.4%						
% of Category Total	17.7%	17.6%	21.1%	25.0%						
Grant Thornton	182	28	15	0	182	15	8.2%	30.5%	12.3%	12.1%
% of Firm's Total		15.4%	8.2%	0.0%						
% of Category Total	4.5%	4.7%	5.4%	0.0%						
BDO Seidman	129	15	11	4	133	15	11.3%	35.3%	23.7%	12.3%
% of Firm's Total		11.6%	8.5%	3.1%						
% of Category Total	3.2%	2.5%	3.9%	10.0%						
Crowe Horwath LLP	53	6	0	0	53	0	0.0%	18.2%	2.4%	3.8%
% of Firm's Total		11.3%	0.0%	0.0%						
% of Category Total	1.3%	1.0%	0.0%	0.0%						
McGladrey & Pullen LLP	37	6	2	0	37	2	5.4%	15.0%	11.5%	5.6%
% of Firm's Total		16.2%	5.4%	0.0%						
% of Category Total	0.9%	1.0%	0.7%	0.0%						
Regional & Local Firms (153)⁶	453	122	59	7	460	66	14.3%	23.5%	14.2%	19.0%
% of Firm's Total		26.9%	48.4%	1.5%						
% of Category Total	11.3%	20.6%	21.1%	17.5%						
Totals	4012	592	280	40	4052	320	7.9%	16.9%	10.3%	9.1%
% Total Pending & Filed 404 Opinions		14.8%	7.0%	1.0%		7.9%				

¹ Year 4 research includes all filings as of September 10, 2008. Year 4 is defined as annual reports for fiscal years ending Nov. 15, 2007 to Nov. 14, 2008, 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, closely-affiliated companies, such as funds and trusts, within a group if the group 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.

² See attached table name "Registrants With Overdue 404 Opinions for Year 4," which provides a list of registrants that are expected to file adverse opinions because they are accelerated filers that have not filed a 404 disclosure for Year 3 although such assessment is due. The 7 overdue opinions identified in the Regional & Local Firms row includes 2 companies that have not disclosed a new auditor subsequent to an auditor dismissal or resignation.

³ Year 1 and Year 2 Comparison values are obtained from prior research performed and published by Audit Analytics. (See **Second Year 404 Dashboard, April 2007 Review**, containing research as of February 12, 2007 and includes all filings as of February 9.)

⁴ 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., (125/978) x 100 = 12.8%.

⁵ 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. (125/592) x 100 = 21.1%.

⁶ In addition to the Big 4 and national firms, a total of 153 regional and local accounting firms signed section 404 internal control opinions in Year 4.

Source: AuditAnalytics.com

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.

SOX 404 Disclosures including Management Only Reports Year 4 Update with Year 1, Year 2, and Year 3 Adverse Opinion Comparison¹

	4th-Year 404 Opinions Filed	4th-Year 404s that were from 1st Time Filers (newly required)	4th-Year 404 Adverse Opinions (filed as of 9-10-08)	Yr. 1 Comparison: Percentage of Adverse 404 Opinions Filed First Year ³	Yr. 2 Comparison: Percentage of Adverse 404 Opinions Filed Second Year	Yr. 3 Comparison: Percentage of Adverse 404 Opinions Filed Third Year
Ernst & Young	978	125	37	12.7%	6.0%	5.6%
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% of Category Total ⁵	13.1%	3.2%	2.8%			
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% of Firm's Total		12.3%	5.9%			
% of Category Total	10.4%	2.5%	3.5%			
KPMG	691	90	51	16.5%	10.9%	7.3%
% of Firm's Total		13.0%	7.4%			
% of Category Total	9.3%	2.3%	3.8%			
Deloitte & Touche	711	104	59	17.3%	10.5%	11.3%
% of Firm's Total		14.6%	8.3%			
% of Category Total	9.5%	2.7%	4.4%			
Grant Thornton	182	28	15	30.5%	12.3%	12.1%
% of Firm's Total		15.4%	8.2%			
% of Category Total	2.4%	0.7%	1.1%			
BDO Seidman	129	15	11	35.3%	23.7%	12.3%
% of Firm's Total		11.6%	8.5%			
% of Category Total	1.7%	0.4%	0.8%			
Crowe Horwath LLP	53	6	0	18.2%	2.4%	3.8%
% of Firm's Total		11.3%	0.0%			
% of Category Total	0.7%	0.2%	0.0%			
McGladrey & Pullen LLP	37	6	2	15.0%	11.5%	5.6%
% of Firm's Total		16.2%	5.4%			
% of Category Total	0.5%	0.2%	0.2%			
Regional & Local Firms (153)⁶	453	122	59	23.5%	14.2%	19.0%
% of Firm's Total		26.9%	13.0%			
% of Category Total	6.1%	3.2%	4.4%			
Management Only Opinions⁷	3435	3279	1053	N/A	N/A	32.8%
% of Firm's Total		95.5%	30.7%			
% of Category Total	46.1%	84.7%	79.0%			
Totals	7447	3871	1333	16.9%	10.3%	10.7%
% Total Pending & Filed 404 Opinions		52.0%	17.9%			

¹ Year 4 research includes all filings as of September 10, 2008. Year 4 is defined as annual reports for fiscal years ending Nov. 15, 2007 to Nov. 14, 2008, 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, closely-affiliated companies, such as funds and trusts, within a group if the group 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.

² Year 1 and Year 2 Comparison values are obtained from prior research performed and published by Audit Analytics. (See **Second Year 404 Dashboard, April 2007 Review**, containing research as of February 12, 2007 and includes all filings as of February 9.)

³ The "% of Firms Total" calculation for these columns equals $(\text{Firm's Total of Column's Category}) / (\text{Firm's Overall Total of 404 Opinions}) \times 100$; e.g., $(125/978) \times 100 = 12.8\%$.

⁴ 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., $(125/3871) \times 100 = 3.2\%$.

⁵ In addition to the Big 4 and national firms, a total of 153 regional and local accounting firms signed section 404 internal control opinions in Year 4.

⁷ The rows designated as "Management-Only Reports" provide data for those registrants that only filed a Management's Report without a corresponding Auditor's Report. In Year 3 of SOX 404, a Large Accelerated Foreign filer was required to provide a management opinion and an auditor attestation report in its annual report for the fiscal year ending on or after July 15, 2006. However, an Accelerated Foreign filer that was not a Large Accelerated Foreign filer was only required, for its first year, to provide a management opinion for this period. In Year 4, non-accelerated filers began submitting management-only reports in their annual reports for the fiscal year ending on or after December 15, 2006. Since the management-only reports provided information that is not directly attributable to an auditor, this information is presented in the rows designated as "Management-Only Reports."

Source: AuditAnalytics.com

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Review of First-Time Filers by Year (Auditor Reports Only)^{1, 2, 3}

	Year 1		Year 2		Year 3		Year 4 (Partial) ⁴	
	Number of 1st-Time Filers (newly required)	Number of 404 Adverse Opinions From 1st-Time Filers	Number of 1st-Time Filers (newly required)	Number of 404 Adverse Opinions From 1st-Time Filers	Number of 1st-Time Filers (newly required)	Number of 404 Adverse Opinions From 1st-Time Filers	Number of 1st-Time Filers (newly required)	Number of 404 Adverse Opinions From 1st-Time Filers
Ernst & Young LLP	937	119	103	4	145	7	125	8
% of Firm's Total ⁵		12.7%		3.9%		4.8%		6.4%
% of Category Total ⁶	25.3%	19.1%	23.8%	8.5%	21.9%	10.4%	21.1%	10.5%
PricewaterhouseCoopers LLP	860	138	66	7	139	8	96	10
% of Firm's Total		16.0%		10.6%		5.8%		10.4%
% of Category Total	23.2%	22.1%	15.2%	14.9%	21.0%	11.9%	16.2%	13.2%
KPMG LLP	763	126	68	8	92	2	90	11
% of Firm's Total		16.5%		11.8%		2.2%		12.2%
% of Category Total	20.6%	20.2%	15.7%	17.0%	13.9%	3.0%	15.2%	14.5%
Deloitte & Touche LLP	671	116	76	11	134	12	104	12
% of Firm's Total		17.3%		14.5%		9.0%		11.5%
% of Category Total	18.1%	18.6%	17.6%	23.4%	20.2%	17.9%	17.6%	15.8%
Grant Thornton LLP	118	36	18	3	20	4	28	4
% of Firm's Total		30.5%		16.7%		20.0%		14.3%
% of Category Total	3.2%	5.8%	4.2%	6.4%	3.0%	6.0%	4.7%	5.3%
BDO Seidman LLP	85	30	21	4	16	2	15	0
% of Firm's Total		35.3%		19.0%		12.5%		0.0%
% of Category Total	2.3%	4.8%	4.8%	8.5%	2.4%	3.0%	2.5%	0.0%
Crowe Horwath LLP	33	6	3	0	3	0	6	0
% of Firm's Total		18.2%		0.0%		0.0%		0.0%
% of Category Total	0.9%	1.0%	0.7%	0.0%	0.5%	0.0%	1.0%	0.0%
McGladrey & Pullen LLP	20	3	4	0	7	0	6	1
% of Firm's Total		15.0%		0.0%		0.0%		16.7%
% of Category Total	0.5%	0.5%	0.9%	0.0%	1.1%	0.0%	1.0%	1.3%
Regional & Local Firms⁷	213	50	74	10	106	32	122	30
% of Firm's Total		23.5%		13.5%		30.2%		24.6%
% of Category Total	5.8%	8.0%	17.1%	21.3%	16.0%	47.8%	20.6%	39.5%
Totals	3700	624	433	47	662	67	592	76
% Total Filed 404 Opinions		16.9%		10.9%		10.1%		12.8%

¹ Year 4 research includes all filings as of September 10, 2008. Year 4 is defined as annual reports for fiscal years ending Nov. 15, 2007 to Nov. 14, 2008, 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, closely-affiliated companies, such as funds and trusts, within a group if the group 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.

² Year 1 and Year 2 Comparison values are obtained from prior research performed and published by Audit Analytics. (See **Second Year 404 Dashboard, April 2007 Review**, containing research as of February 12, 2007 and includes all filings as of February 9.)

³ The table above does not list the data regarding Management-Only opinions. To view this data incorporated into the table, see table on next page: **Review of First-Time Filers by Year (with Management-Only Opinions)**.

⁴ The data for Year 4 is based on a partial year and on disclosures filed. This table does not include any registrants identified in the attached table named **Registrants With Overdue 404 Opinions For Year 4**, some of which would be first time filers and expected to file adverse opinions since the opinion is late.

⁵ 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]) (119/937) x 100 = 12.7%.

⁶ 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. (119/624) x 100 = 19.1%

⁷ Regional & Local Firms includes all firms, other than the Big 4 and National 4 firms, that signed one or more section 404 internal control opinions (whether for first-time filers or not): 105 in Year1; 133 in Year 2; 168 in Year 3; and 153 in Year 4.

Source: AuditAnalytics.com

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Review of First-Time Filers by Year (with Management-Only Assessments)^{1, 2}

	Year 1		Year 2		Year 3		Year 4 (Partial) ³	
	Number of 1st-Time Filers (newly required)	Number of 404 Adverse Opinions From 1st-Time Filers	Number of 1st-Time Filers (newly required)	Number of 404 Adverse Opinions From 1st-Time Filers	Number of 1st-Time Filers (newly required)	Number of 404 Adverse Opinions From 1st-Time Filers	Number of 1st-Time Filers (newly required)	Number of 404 Adverse Opinions From 1st-Time Filers
Ernst & Young LLP	937	119	103	4	145	7	125	8
% of Firm's Total ⁴		12.7%		3.9%		4.8%		6.4%
% of Category Total ⁵	25.3%	19.1%	23.8%	8.5%	15.2%	4.4%	3.8%	0.8%
PricewaterhouseCoopers LLP	860	138	66	7	139	8	96	10
% of Firm's Total		16.0%		10.6%		5.8%		10.4%
% of Category Total	23.2%	22.1%	15.2%	14.9%	14.6%	5.0%	2.9%	1.0%
KPMG LLP	763	126	68	8	92	2	90	11
% of Firm's Total		16.5%		11.8%		2.2%		12.2%
% of Category Total	20.6%	20.2%	15.7%	17.0%	9.7%	1.3%	2.7%	1.1%
Deloitte & Touche LLP	671	116	76	11	134	12	104	12
% of Firm's Total		17.3%		14.5%		9.0%		11.5%
% of Category Total	18.1%	18.6%	17.6%	23.4%	14.1%	7.5%	3.2%	1.2%
Grant Thornton LLP	118	36	18	3	20	4	28	4
% of Firm's Total		30.5%		16.7%		20.0%		14.3%
% of Category Total	3.2%	5.8%	4.2%	6.4%	2.1%	2.5%	0.9%	0.4%
BDO Seidman LLP	85	30	21	4	16	2	15	0
% of Firm's Total		35.3%		19.0%		12.5%		0.0%
% of Category Total	2.3%	4.8%	4.8%	8.5%	1.7%	1.3%	0.5%	0.0%
Crowe Horwath LLP	33	6	3	0	3	0	6	0
% of Firm's Total		18.2%		0.0%		0.0%		0.0%
% of Category Total	0.9%	1.0%	0.7%	0.0%	0.3%	0.0%	0.2%	0.0%
McGladrey & Pullen LLP	20	3	4	0	7	0	6	1
% of Firm's Total		15.0%		0.0%		0.0%		16.7%
% of Category Total	0.5%	0.5%	0.9%	0.0%	0.7%	0.0%	0.2%	0.1%
Regional & Local Firms⁶	213	50	74	10	106	32	122	30
% of Firm's Total		23.5%		13.5%		30.2%		24.6%
% of Category Total	5.8%	8.0%	17.1%	21.3%	11.1%	20.0%	3.2%	2.8%
Management-Only Reports⁷	N/A	N/A	N/A	N/A	289	93	3279	1008
% of Firm's Total						32.2%		30.7%
% of Category Total					30.4%	58.1%	84.7%	93.0%
Totals	3700	624	433	47	951	160	3871	1084
% Total Filed 404 Opinions		16.9%		10.9%		16.8%		28.0%

¹ Year 4 research includes all filings as of September 10, 2008. Year 4 is defined as annual reports for fiscal years ending Nov. 15, 2007 to Nov. 14, 2008, 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, closely-affiliated companies, such as funds and trusts, within a group if the group 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.

² Year 1 and Year 2 Comparison values are obtained from prior research performed and published by Audit Analytics. (See **Second Year 404 Dashboard, April 2007 Review**, containing research as of February 12, 2007 and includes all filings as of February 9.)

³ The data for Year 4 is based on a partial year and on disclosures filed. This table does not include any registrants identified in the attached table named **Registrants With Overdue 404 Opinions For Year 4**, some of which would be first time filers and expected to file adverse opinions since the opinion is late.

⁴ The "% of Firms Total" calculation for these columns equals $(\text{Firm's Total of Column's Category}) / (\text{Firm's Overall Total of 404 Opinions with MWs}) \times 100 = 12.7\%$.

⁵ 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. $(119/624) \times 100 = 19.1\%$

⁶ Regional & Local Firms includes all firms, other than the Big 4 and National 4 firms, that signed one or more section 404 internal control opinions (whether for first-time filers or not): 105 in Year 1; 133 in Year 2; 168 in Year 3; and 153 in Year 4.

⁷ The rows designated as "Management-Only Reports" provide data for those registrants that only filed a Management's Report without a corresponding Auditor's Report. In Year 3 of SOX 404, a Large Accelerated Foreign filer was required to provide a management opinion and an auditor attestation report in its annual report for the fiscal year ending on or after July 15, 2006. However, an Accelerated Foreign filer that was not a Large Accelerated Foreign filer was only required, for its first year, to provide a management opinion for this period. In Year 4, non-accelerated filers began submitting management-only reports in their annual reports for the fiscal year ending on or after December 15, 2006. Since the management-only reports provided information that is not directly attributable to an auditor, this information is presented in the rows designated as "Management-Only Reports."

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Year 4 SOX 404 Issue Prevalence by Firm and Issue Category

	4th-Year 404 Opinions Filed	4th-Year 404 Opinions with Material Weaknesses (MW) as of 9-10-08	Internal Control Issues (compared to the firm's total amount of MWs) ¹					
			Personnel Issues	Segregation of Duties	Restatements of Financials	Material YE Adjustments	Internal Audit Issues	IT Processing, Access Issues
Ernst & Young	978	37	24	3	7	28	1	8
% of Firm's Total ²		3.8%	64.9%	8.1%	18.9%	75.7%	2.7%	21.6%
% of Category Total ³	24.4%	13.2%	13.7%	8.8%	12.3%	14.4%	16.7%	11.4%
PricewaterhouseCoopers	778	46	32	4	17	36	1	12
% of Firm's Total		5.9%	69.6%	8.7%	37.0%	78.3%	2.2%	26.1%
% of Category Total	19.4%	16.4%	18.3%	11.8%	29.8%	18.6%	16.7%	17.1%
KPMG	691	51	35	6	9	32	0	12
% of Firm's Total		7.4%	68.6%	11.8%	17.6%	62.7%	0.0%	23.5%
% of Category Total	17.2%	18.2%	20.0%	17.6%	15.8%	16.5%	0.0%	17.1%
Deloitte & Touche	711	59	29	2	15	43	3	10
% of Firm's Total		8.3%	49.2%	3.4%	25.4%	72.9%	5.1%	16.9%
% of Category Total	17.7%	21.1%	16.6%	5.9%	26.3%	22.2%	50.0%	14.3%
Grant Thornton	182	15	12	3	1	12	1	7
% of Firm's Total		8.2%	80.0%	20.0%	6.7%	80.0%	7%	46.7%
% of Category Total	4.5%	5.4%	6.9%	8.8%	1.8%	6.2%	17%	10.0%
BDO Seidman	129	11	6	1	2	9	0	3
% of Firm's Total		8.5%	54.5%	9.1%	18.2%	81.8%	0.0%	27.3%
% of Category Total	3.2%	3.9%	3.4%	2.9%	3.5%	4.6%	0.0%	4.3%
Crowe Horwath LLP	53	0	0	0	0	0	0	0
% of Firm's Total		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
% of Category Total	1.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
McGladrey & Pullen LLP	37	2	1	0	2	1	0	0
% of Firm's Total		5.4%	50.0%	0.0%	100.0%	50.0%	0.0%	0.0%
% of Category Total	0.9%	0.7%	0.6%	0.0%	3.5%	0.5%	0.0%	0.0%
Regional & Local Firms (153 firms)⁴	453	59	36	15	4	33	0	18
% of Firm's Total		13.0%	61.0%	25.4%	6.8%	55.9%	0.0%	30.5%
% of Category Total	11.3%	21.1%	20.6%	44.1%	7.0%	17.0%	0.0%	25.7%
Totals	4012	280	175	34	57	194	6	70
% Total of 404 Opinions		7.0%	62.5%	12.1%	20.4%	69.3%	2.1%	25.0%
Year 3 Comparison⁶	4216	382	179	50	126	260	14	74
		9.1%	46.9%	13.1%	33.0%	68.1%	3.7%	19.4%
Year 2 Comparison⁶	3791	390	207	57	177	250	4	79
		10.3%	53.1%	14.6%	45.4%	64.1%	1.0%	20.3%
Year 1 Comparison⁶	3700	624	304	149	324	335	17	135
		16.9%	48.7%	23.9%	51.9%	53.7%	2.7%	21.6%

¹ Research includes all filings as of September 10, 2008. Year 4 is defined as annual reports for fiscal years ending Nov. 15, 2007 to Nov. 14, 2008, 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, closely-affiliated companies, such as funds and trusts, within a group if the group 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.

² 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., (24/37) x 100 = 64.9%. Unlike the issue columns, the MW column's percentage is based on the auditor's total 404 opinions; e.g., 37/978 x 100 = 3.8%.

³ 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., (24/175) x 100 = 13.7%.

⁴ In addition to the Big 4 and national firms, a total of 153 regional and local accounting firms signed section 404 internal control opinions in Year 4.

⁵ To allow for comparison from year to year this table and prior year results do not include Management-Only Reports (SOX 404 reports from registrant managers without a corresponding Auditor's Attestation).

⁶ The Year 2 and Year 1 Comparison values are obtained from prior research performed and published by Audit Analytics. (See Second Year 404 Dashboard, April 2007 Review, containing research including filings as of February 9, 2007.)

Source: AuditAnalytics.com

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Year 4 SOX 404 Issue Prevalence by Firm and Issue Category (with Management-Only Reports)

	4th-Year 404 Opinions Filed	4th-Year 404 Opinions with Material Weaknesses (MW) as of 9-10-08	Internal Control Issues (compared to the firm's total amount of MWs) ¹					
			Personnel Issues	Segregation of Duties	Restatements of Financials	Material YE Adjustments	Internal Audit Issues	IT Processing, Access Issues
Ernst & Young	978	37	24	3	7	28	1	8
% of Firm's Total ²		3.8%	64.9%	8.1%	18.9%	75.7%	2.7%	21.6%
% of Category Total ³	13.1%	2.8%	2.9%	0.6%	7.2%	6.0%	2.9%	3.1%
PricewaterhouseCoopers	778	46	32	4	17	36	1	12
% of Firm's Total		5.9%	69.6%	8.7%	37.0%	78.3%	2.2%	26.1%
% of Category Total	10.4%	3.5%	3.8%	0.8%	17.5%	7.7%	2.9%	4.6%
KPMG	691	51	35	6	9	32	0	12
% of Firm's Total		7.4%	68.6%	11.8%	17.6%	62.7%	0.0%	23.5%
% of Category Total	9.3%	3.8%	4.2%	1.2%	9.3%	6.8%	0.0%	4.6%
Deloitte & Touche	711	59	29	2	15	43	3	10
% of Firm's Total		8.3%	49.2%	3.4%	25.4%	72.9%	5.1%	16.9%
% of Category Total	9.5%	4.4%	3.5%	0.4%	15.5%	9.2%	8.8%	3.8%
Grant Thornton	182	15	12	3	1	12	1	7
% of Firm's Total		8.2%	80.0%	20.0%	6.7%	80.0%	7%	46.7%
% of Category Total	2.4%	1.1%	1.4%	0.6%	1.0%	2.6%	3%	2.7%
BDO Seidman	129	11	6	1	2	9	0	3
% of Firm's Total		8.5%	54.5%	9.1%	18.2%	81.8%	0.0%	27.3%
% of Category Total	1.7%	0.8%	0.7%	0.2%	2.1%	1.9%	0.0%	1.1%
Crowe Horwath LLP	53	0	0	0	0	0	0	0
% of Firm's Total		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
% of Category Total	0.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
McGladrey & Pullen LLP	37	2	1	0	2	1	0	0
% of Firm's Total		5.4%	50.0%	0.0%	100.0%	50.0%	0.0%	0.0%
% of Category Total	0.5%	0.2%	0.1%	0.0%	2.1%	0.2%	0.0%	0.0%
Regional & Local Firms (153 firms) ⁴	453	59	36	15	4	33	0	18
% of Firm's Total		13.0%	61.0%	25.4%	6.8%	55.9%	0.0%	30.5%
% of Category Total	6.1%	4.4%	4.3%	2.9%	4.1%	7.0%	0.0%	6.9%
Management Only Reports⁵	3435	1053	661	484	40	275	28	191
% of Mgmt. Only Total		30.7%	62.8%	46.0%	3.8%	26.1%	2.7%	18%
% of Category Total	46.1%	79.0%	79.1%	93.4%	41.2%	58.6%	82.4%	73%
Totals	7447	1333	836	518	97	469	34	261
% Total of 404 Opinions		17.9%	62.7%	38.9%	7.3%	35.2%	2.6%	19.6%
Year 3 Comparison⁶	4533	486	246	78	136	290	18	92
		10.7%	50.6%	16.0%	28.0%	59.7%	3.7%	18.9%
Year 2 Comparison⁶	3791	390	207	57	177	250	4	79
		10.3%	53.1%	14.6%	45.4%	64.1%	1.0%	20.3%
Year 1 Comparison⁶	3700	624	304	149	324	335	17	135
		16.9%	48.7%	23.9%	51.9%	53.7%	2.7%	21.6%

¹ Research includes all filings as of September 10, 2008. Year 4 is defined as annual reports for fiscal years ending Nov. 15, 2007 to Nov. 14, 2008, 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, closely-affiliated companies, such as funds and trusts, within a group if the group 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.

² 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., (24/37) x 100 = 64.9%. Unlike the issue columns, the MW column's percentage is based on the auditor's total 404 opinions; e.g., 37/978 x 100 = 3.8%.

³ 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., (24/836) x 100 = 2.9%.

⁴ In addition to the Big 4 and national firms, a total of 153 regional and local accounting firms signed section 404 internal control opinions in Year 4.

⁵ The row designated as "Management-Only Reports" provide data for those registrants that only filed a Management's Report without a corresponding Auditor's Report. In Year 3 of SOX 404, a Large Accelerated Foreign filer was required to provide a management opinion and an auditor attestation report in its annual report for the fiscal year ending on or after July 15, 2006. However, an Accelerated Foreign filer that was not a Large Accelerated Foreign filer was only required, for its first year, to provide a management opinion for this period. In Year 4, non-accelerated filers began submitting management-only reports in their annual reports for the fiscal year ending on or after December 15, 2006. Since the management-only reports provided information that is not directly attributable to an auditor, this information is presented in the rows designated as "Management-Only Reports." The issue counts for these reports are somewhat hindered by the fact that such assessments frequently to disclose the existence of shortcomings without specifying the exact issues.

⁶ The Year 2 and Year 1 Comparison values are obtained from prior research performed and published by Audit Analytics. (See Second Year 404 Dashboard, April 2007 Review, containing research including filings as of February 9, 2007.)

Source: AuditAnalytics.com

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SOX 404 Disclosures: Year 4 Issue Update^{1,2}

Material Weakness Internal Control Issue	Internal Control Issues in Adverse Disclosures																						
	Year 4 Totals ³ (1333)		Mgmt Only ⁶ (1053)		Audit Firm Breakdown																		
					E&Y (37)		PwC (46)		KPMG (51)		D&T (59)		GT (15)		BDO (11)		CH (0)		M&P (2)		Regional (59)		
	# ⁴	% ⁵	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	
Accounting Documentation, Policy and/or Procedures	1126	84.5%	849	80.6%	37	100.0%	46	100.0%	51	100.0%	58	98.3%	15	100.0%	11	100.0%	0	0.0%	2	100.0%	57	96.6%	
Accounting Personnel Resources, Competency/Training	836	62.7%	661	62.8%	24	64.9%	32	69.6%	35	68.6%	29	49.2%	12	80.0%	6	54.5%	0	0.0%	1	50.0%	36	61.0%	
Segregations of Duties/ Design of Controls (Personnel)	518	38.9%	484	46.0%	3	8.1%	4	8.7%	6	11.8%	2	3.4%	3	20.0%	1	9.1%	0	0.0%	0	0.0%	15	25.4%	
Material and/or Numerous Auditor /YE Adjustments	469	35.2%	275	26.1%	28	75.7%	36	78.3%	32	62.7%	43	72.9%	12	80.0%	9	81.8%	0	0.0%	1	50.0%	33	55.9%	
Information Technology, Software, Security & Access Issue	261	19.6%	191	18.1%	8	21.6%	12	26.1%	12	23.5%	10	16.9%	7	46.7%	3	27.3%	0	0.0%	0	0.0%	18	30.5%	
Untimely or Inadequate Account Reconciliations	167	12.5%	105	10.0%	11	29.7%	15	32.6%	9	17.6%	9	15.3%	4	26.7%	1	9.1%	0	0.0%	0	0.0%	13	22.0%	
Non-Routine Transactions Control Issues	123	9.2%	80	7.6%	8	21.6%	6	13.0%	6	11.8%	11	18.6%	1	6.7%	1	9.1%	0	0.0%	0	0.0%	10	16.9%	
Restatement or Nonreliance of Company Filings	97	7.3%	40	3.8%	7	18.9%	17	37.0%	9	17.6%	15	25.4%	1	6.7%	2	18.2%	0	0.0%	2	100.0%	4	6.8%	
Journal Entry Control Issues	95	7.1%	70	6.6%	3	8.1%	2	4.3%	3	5.9%	5	8.5%	1	6.7%	0	0.0%	0	0.0%	0	0.0%	11	18.6%	
Insufficient or Non-Existent Internal Audit Function	34	2.6%	28	2.7%	1	2.7%	1	2.2%	0	0.0%	3	5.1%	1	6.7%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
Senior Management Competency, Tone, Reliability Issues	31	2.3%	18	1.7%	3	8.1%	2	4.3%	4	7.8%	1	1.7%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	3	5.1%	
Inadequate Disclosure Controls (Timely, Accuracy, Complete)	25	1.9%	23	2.2%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	2	3.4%	
Ethical or Compliance Issues with Personnel	24	1.8%	11	1.0%	0	0.0%	2	4.3%	3	5.9%	2	3.4%	1	6.7%	0	0.0%	0	0.0%	0	0.0%	5	8.5%	
Ineffective Regulatory Compliance Issues	18	1.4%	15	1.4%	0	0.0%	1	2.2%	1	2.0%	0	0.0%	0	0.0%	1	9.1%	0	0.0%	0	0.0%	0	0.0%	
Restatement of Previous 404 Disclosures	14	1.1%	4	0.4%	2	5.4%	1	2.2%	2	3.9%	3	5.1%	0	0.0%	1	9.1%	0	0.0%	0	0.0%	1	1.7%	
Remediation of Material Weakness Identified	6	0.5%	2	0.2%	1	2.7%	1	2.2%	0	0.0%	2	3.4%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
Scope (Disclaimer of Opinion) or Other Limitations	4	0.3%	4	0.4%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
Management/Board/Audit Committee Investigation(s)	2	0.2%	0	0.0%	1	2.7%	0	0.0%	1	2.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
Ineffective or Understaffed Audit Committee	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
SAB 108 Adjustments Noted	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
SEC or Other Regulatory Investigations and/or Inquiries	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	

¹ The research is based on SEC filings as of September 10, 2008 and thus provides data for a partial Year 4.

² Year 3 is defined as Nov. 15, 2006 to Nov. 14, 2007, 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. Since Year 3 begins on Nov. 14, 2006, the data in the Year 3 row is for a partial year.

³ As of September 10, 2008, a total of 1333 adverse SOX 404 opinions were filed with the SEC. A breakdown of the 1333 adverse opinions, each shown in the parenthesis in the table's column titles, are as follows: 1053 for management only opinions, 37 for Ernst & Young, 46 for PricewaterhouseCoopers, 51 for KPMG, 59 for Deloitte & Touche, 15 for Grant Thornton, 11 for BDO Seidman, 0 for Crowe Horwath, 2 for McGladrey & Pullen, 59 for the remaining Regional & Local Firms. (See table SOX 404 Disclosures: **Year 4 Status Update with Year 1, Year 2, and Year 3 Adverse Opinion Comparison.**)

⁴ The # columns indicate the number of unique adverse 404 disclosures that identified the issue as causing or contributing to the determination that a material weakness exists. If a registrants filed more than one disclosure the amended disclosure is counted.

⁵ The % column figures are calculated by dividing the figure in the # column by the amount shown the parenthesis in the column title, the total number of unique adverse 404 disclosure filings for the category. (See Footnote 3.)

⁶ The **Mgmt Only** column provides data for those registrants that only filed a Management's Report without a corresponding Auditor's Report. For SOX 404 Year 3, a Large Accelerated Foreign filer is required to provide a management opinion and an auditor attestation report in its annual report for the fiscal year ending on or after July 15, 2006. However, an Accelerated Foreign filer that is not a Large Accelerated Foreign filer is only required, for its first year, to provide a management opinion for this period. Since the management-only reports provided information that is not directly attributable to an auditor, this information is presented in the column designated as Mgmt-Only. A total of 38 Management Only opinions were adverse.

Source: AuditAnalytics.com

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Year 4 SOX 404 Issue Prevalence by Firm and Issue Category

	4th-Year 404 Opinions Filed	4th Year 404 Opinions with Material Weaknesses (MW) as of 9-10-08	GAAP / Accounting Areas of Failure (compared to the firm's total amount of MWs) ¹								
			Cash Flow Statement (FAS 95) Error	Debt, Warrants & Equity (BCF) Security Issues	Depreciation / Amortization	Inventory / Vendor Cost of Sales	Leases or Contingencies	Fixed / Intangible Assets	Revenue Recognition	Tax Accruals Deferrals etc.	Consolidation Fin (46) Issues
Ernst & Young	978	37	0	3	3	7	7	8	10	13	5
% of Firm's Total ²		3.8%	0.0%	8.1%	8.1%	18.9%	18.9%	21.6%	27.0%	35.1%	13.5%
% of Category Total ³	24.4%	13.2%	0.0%	27.3%	21.4%	12.1%	29.2%	19.0%	15.6%	15.5%	17.9%
PricewaterhouseCoopers	778	46	1	0	4	16	5	9	13	16	3
% of Firm's Total		5.9%	2.2%	0.0%	8.7%	34.8%	10.9%	19.6%	28.3%	34.8%	6.5%
% of Category Total	19.4%	16.4%	11.1%	0.0%	28.6%	27.6%	20.8%	21.4%	20.3%	19.0%	10.7%
KPMG	691	51	1	2	2	5	6	7	12	13	3
% of Firm's Total		7.4%	2.0%	3.9%	3.9%	9.8%	11.8%	13.7%	23.5%	25.5%	5.9%
% of Category Total	17.2%	18.2%	11.1%	18.2%	14.3%	8.6%	25.0%	16.7%	18.8%	15.5%	10.7%
Deloitte & Touche	711	59	6	1	2	11	4	7	10	24	8
% of Firm's Total		8.3%	10.2%	1.7%	3.4%	18.6%	6.8%	11.9%	16.9%	40.7%	13.6%
% of Category Total	17.7%	21.1%	66.7%	9.1%	14.3%	19.0%	16.7%	16.7%	15.6%	28.6%	28.6%
Grant Thornton	182	15	0	0	0	4	0	1	6	5	1
% of Firm's Total		8.2%	0.0%	0.0%	0.0%	26.7%	0.0%	6.7%	40%	33%	6.7%
% of Category Total	4.5%	5.4%	0.0%	0.0%	0.0%	6.9%	0.0%	2.4%	9%	6%	3.6%
BDO Seidman	129	11	1	1	0	5	0	0	3	2	2
% of Firm's Total		8.5%	9.1%	9.1%	0.0%	45.5%	0.0%	0.0%	27.3%	18.2%	18.2%
% of Category Total	3.2%	3.9%	11.1%	9.1%	0.0%	8.6%	0.0%	0.0%	4.7%	2.4%	7.1%
Crowe Horwath LLP	53	0	0	0	0	0	0	0	0	0	0
% of Firm's Total		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
% of Category Total	1.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
McGladrey & Pullen LLP	37	2	0	2	0	0	0	0	0	0	0
% of Firm's Total		5.4%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
% of Category Total	0.9%	0.0%	0.0%	18.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Regional & Local Firms (153 firms) ⁴	453	59	0	2	3	10	2	10	10	11	6
% of Firm's Total		13.0%	0.0%	3.4%	5.1%	16.9%	3.4%	16.9%	16.9%	18.6%	10.2%
% of Category Total	11.3%	21.1%	0.0%	18.2%	21.4%	17.2%	8.3%	23.8%	15.6%	13.1%	21.4%
Totals	4012	280	9	11	14	58	24	42	64	84	28
% Total of 404 Opinions		7.0%	3.2%	3.9%	5.0%	20.7%	8.6%	15.0%	22.9%	30.0%	10.0%
Year 3 Comparison⁵	4216	382	16	22	25	72	30	79	106	124	31
		9.1%	4.2%	5.8%	6.5%	18.8%	7.9%	20.7%	27.7%	32.5%	8.1%
Year 2 Comparison⁶	3791	390	28	19	26	102	45	70	119	133	37
		10.3%	7.2%	4.9%	6.7%	26.2%	11.5%	17.9%	30.5%	34.1%	9.5%
Year 1 Comparison⁶	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%

¹ Research includes all filings as of September 10, 2008. Year 4 is defined as annual reports for fiscal years ending Nov. 15, 2007 to Nov. 14, 2008, 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, closely-affiliated companies, such as funds and trusts, within a group if the group 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.

² The "% of Firms Total" calculation for the issues columns equals ((Firm's Total of Column's Category)/(Firm's Overall Total of 404 Opinions with MWs)) x 100; e.g., (3/37) x 100 = 8.1%. Unlike the issue columns, the MW column's percentage is based on the auditor's total 404 opinions; e.g., 37/978 x 100 = 3.8%.

³ 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., (3/11) x 100 = 27.3%

⁴ In addition to the Big 4 and national firms, a total of 153 regional and local accounting firms signed section 404 internal control opinions in Year 4.

⁵ To allow for comparison from year to year this table and prior year results do not include Management-Only Reports (SOX 404 reports from registrant managers without a corresponding Auditor's Attestation).

⁶ The Year 2 and Year 1 Comparison values are obtained from prior research performed and published by Audit Analytics. (See Second Year 404 Dashboard, April 2007 Review, containing research including filings as of February 9, 2007.)

Source: AuditAnalytics.com

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Year 4 SOX 404 Issue Prevalence by Firm and Issue Category (with Management-Only Reports)

	GAAP / Accounting Areas of Failure (compared to the firm's total amount of MWs) ¹										
	4th-Year 404 Opinions Filed	4th Year 404 Opinions with Material Weaknesses (MW) as of 9-10-08	Cash Flow Statement (FAS 95) Error	Debt, Warrants & Equity (BCF) Security Issues	Depreciation / Amortization	Inventory / Vendor Cost of Sales	Leases or Contingencies	Fixed / Intangible Assets	Revenue Recognition	Tax Accruals Deferrals etc.	Consolidation Fin (46) Issues
Ernst & Young	978	37	0	3	3	7	7	8	10	13	5
% of Firm's Total ²		3.8%	0.0%	8.1%	8.1%	18.9%	18.9%	21.6%	27.0%	35.1%	13.5%
% of Category Total ³	13.1%	2.8%	0.0%	4.4%	12.0%	5.4%	18.4%	9.4%	6.8%	9.1%	10.2%
PricewaterhouseCoopers	778	46	1	0	4	16	5	9	13	16	3
% of Firm's Total		5.9%	2.2%	0.0%	8.7%	34.8%	10.9%	19.6%	28.3%	34.8%	6.5%
% of Category Total	10.4%	3.5%	5.9%	0.0%	16.0%	12.3%	13.2%	10.6%	8.8%	11.2%	6.1%
KPMG	691	51	1	2	2	5	6	7	12	13	3
% of Firm's Total		7.4%	2.0%	3.9%	3.9%	9.8%	11.8%	13.7%	23.5%	25.5%	5.9%
% of Category Total	9.3%	3.8%	5.9%	2.9%	8.0%	3.8%	15.8%	8.2%	8.2%	9.1%	6.1%
Deloitte & Touche	711	59	6	1	2	11	4	7	10	24	8
% of Firm's Total		8.3%	10.2%	1.7%	3.4%	18.6%	6.8%	11.9%	16.9%	40.7%	13.6%
% of Category Total	9.5%	4.4%	35.3%	1.5%	8.0%	8.5%	10.5%	8.2%	6.8%	16.8%	16.3%
Grant Thornton	182	15	0	0	0	4	0	1	6	5	1
% of Firm's Total		8.2%	0.0%	0.0%	0.0%	26.7%	0.0%	6.7%	40%	33%	6.7%
% of Category Total	2.4%	1.1%	0.0%	0.0%	0.0%	3.1%	0.0%	1.2%	4%	3%	2.0%
BDO Seidman	129	11	1	1	0	5	0	0	3	2	2
% of Firm's Total		8.5%	9.1%	9.1%	0.0%	45.5%	0.0%	0.0%	27.3%	18.2%	18.2%
% of Category Total	1.7%	0.8%	5.9%	1.5%	0.0%	3.8%	0.0%	0.0%	2.0%	1.4%	4.1%
Crowe Horwath LLP	53	0	0	0	0	0	0	0	0	0	0
% of Firm's Total		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
% of Category Total	0.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
McGladrey & Pullen LLP	37	2	0	2	0	0	0	0	0	0	0
% of Firm's Total		5.4%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
% of Category Total	0.5%	0.2%	0.0%	2.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Regional & Local Firms (153 firms)⁴	453	59	0	2	3	10	2	10	10	11	6
% of Firm's Total		13.0%	0.0%	3.4%	5.1%	16.9%	3.4%	16.9%	16.9%	18.6%	10.2%
% of Category Total	6.1%	4.4%	0.0%	2.9%	12.0%	7.7%	5.3%	11.8%	6.8%	7.7%	12.2%
Management-Only Reports⁵	3435	1053	8	57	11	72	14	43	83	59	21
% of Mgmt. Only Total		30.7%	0.8%	5.4%	1.0%	6.8%	1.3%	4.1%	7.9%	6%	2%
% of Category Total	46.1%	79.0%	47.1%	83.8%	44.0%	55.4%	36.8%	50.6%	56.5%	41%	43%
Totals	7447	1333	17	68	25	130	38	85	147	143	49
% Total of 404 Opinions		17.9%	1.3%	5.1%	1.9%	9.8%	2.9%	6.4%	11.0%	10.7%	3.7%
Year 3 Comparison	4533	486	16	29	28	83	33	85	117	132	40
		10.7%	3.3%	6.0%	5.8%	17.1%	6.8%	17.5%	24.1%	27.2%	8.2%
Year 2 Comparison⁶	3791	390	28	19	26	102	45	70	119	133	37
		10.3%	7.2%	4.9%	6.7%	26.2%	11.5%	17.9%	30.5%	34.1%	9.5%
Year 1 Comparison⁶	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%

¹ Research includes all filings as of September 10, 2008. Year 4 is defined as annual reports for fiscal years ending Nov. 15, 2007 to Nov. 14, 2008, 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, closely-affiliated companies, such as funds and trusts, within a group if the group 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.

² The "% of Firms Total" calculation for the issues columns equals ((Firm's Total of Column's Category)/(Firm's Overall Total of 404 Opinions with MWs)) x 100; e.g., (3/37) x 100 = 8.1%. Unlike the issue columns, the MW column's percentage is based on the auditor's total 404 opinions; e.g., 37/978 x 100 = 3.8%

³ 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., (3/68) x 100 = 4.4%

⁴ In addition to the Big 4 and national firms, a total of 153 regional and local accounting firms signed section 404 internal control opinions in Year 4.

⁵ The row designated as "Management-Only Reports" provide data for those registrants that only filed a Management's Report without a corresponding Auditor's Report. In Year 3 of SOX 404, a Large Accelerated Foreign filer was required to provide a management opinion and an auditor attestation report in its annual report for the fiscal year ending on or after July 15, 2006. However, an Accelerated Foreign filer that was not a Large Accelerated Foreign filer was only required, for its first year, to provide a management opinion for this period. In Year 4, non-accelerated filers began submitting management-only reports in their annual reports for the fiscal year ending on or after December 15, 2006. Since the management-only reports provided information that is not directly attributable to an auditor, this information is presented in the rows designated as "Management-Only Reports." The issue counts for these reports are somewhat hindered by the fact that such assessments frequently to disclose the existence of shortcomings without specifying the exact issues.

⁶ The Year 2 and Year 1 Comparison values are obtained from prior research performed and published by Audit Analytics. (See Second Year 404 Dashboard, April 2007 Review, containing research including filings as of February 9, 2007)

Source: AuditAnalytics.com

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SOX 404 Disclosures: Year 4 Issue Update^{1,2}

GAAP Financial Issues in Adverse Disclosures

Material Weakness GAAP Financial Issue	Audit Firm Breakdown																							
	Year 4 Totals ³ (1333)		Mgmt Only ⁶ (1053)		E&Y (37)		PwC (46)		KPMG (51)		D&T (59)		GT (15)		BDO (11)		CH (0)		M&P (2)		Regional (59)			
	# ⁴	% ⁵	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%		
Unspecified/Unidentified/Inapplicable FASB/GAAP Issues	491	36.8%	468	44.4%	3	8.1%	2	4.3%	5	9.8%	3	5.1%	3	20.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	7	11.9%
Accounts/Loans Receivable, Investments & Cash Issues	170	12.8%	103	9.8%	10	27.0%	12	26.1%	13	25.5%	9	15.3%	4	26.7%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	19	32.2%
Revenue Recognition Issues	147	11.0%	83	7.9%	10	27.0%	13	28.3%	12	23.5%	10	16.9%	6	40.0%	3	27.3%	0	0.0%	0	0.0%	0	0.0%	10	16.9%
Tax Expense/Benefit/Deferral/Other (FAS 109) Issues	143	10.7%	59	5.6%	13	35.1%	16	34.8%	13	25.5%	24	40.7%	5	33.3%	2	18.2%	0	0.0%	0	0.0%	0	0.0%	11	18.6%
Inventory, Vendor and Cost of Sales Issues	130	9.8%	72	6.8%	7	18.9%	16	34.8%	5	9.8%	11	18.6%	4	26.7%	5	45.5%	0	0.0%	0	0.0%	0	0.0%	10	16.9%
Liabilities, Payables, Reserves and Accrual Estimate Failures	130	9.8%	79	7.5%	10	27.0%	13	28.3%	8	15.7%	9	15.3%	4	26.7%	2	18.2%	0	0.0%	1	50.0%	4	6.8%	4	6.8%
Foreign, Related Party, Affiliated and/or Subsidiary Entity Issues	102	7.7%	65	6.2%	5	13.5%	6	13.0%	7	13.7%	8	13.6%	3	20.0%	2	18.2%	0	0.0%	0	0.0%	0	0.0%	6	10.2%
Deferred, Stock-Based or Executive Compensation Issues	91	6.8%	58	5.5%	5	13.5%	3	6.5%	10	19.6%	6	10.2%	1	6.7%	2	18.2%	0	0.0%	0	0.0%	0	0.0%	6	10.2%
PPE, Intangible or Fixed Asset (Value/Diminution) Issues	85	6.4%	43	4.1%	8	21.6%	9	19.6%	7	13.7%	7	11.9%	1	6.7%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	10	16.9%
Expense Recording (Payroll, SG&A) Issues	78	5.9%	46	4.4%	3	8.1%	8	17.4%	6	11.8%	4	6.8%	3	20.0%	1	9.1%	0	0.0%	0	0.0%	0	0.0%	7	11.9%
Debt, Quasi-Debt, Warrants & Equity (BCF) Security Issues	68	5.1%	57	5.4%	3	8.1%	0	0.0%	2	3.9%	1	1.7%	0	0.0%	1	9.1%	0	0.0%	2	100.0%	2	3.4%	2	3.4%
Consolidation, (Fin46r/Off BS) & Foreign Currency Translation	49	3.7%	21	2.0%	5	13.5%	3	6.5%	3	5.9%	8	13.6%	1	6.7%	2	18.2%	0	0.0%	0	0.0%	0	0.0%	6	10.2%
Acquisition, Merger, Disposal or Reorganization Issues	49	3.7%	27	2.6%	3	8.1%	6	13.0%	3	5.9%	6	10.2%	0	0.0%	0	0.0%	0	0.0%	1	50.0%	3	5.1%	3	5.1%
Lease, FAS 5, Legal, Contingency & Commitments Issues	38	2.9%	14	1.3%	7	18.9%	5	10.9%	6	11.8%	4	6.8%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	2	3.4%	2	3.4%
Intercompany/Investment with Subsidiary/Affiliate Entity Issues	34	2.6%	17	1.6%	2	5.4%	3	6.5%	1	2.0%	7	11.9%	0	0.0%	2	18.2%	0	0.0%	0	0.0%	2	3.4%	2	3.4%
Capitalization of Expenditures Issues	30	2.3%	17	1.6%	3	8.1%	4	8.7%	2	3.9%	2	3.4%	1	6.7%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	1	1.7%
Depreciation, Depletion or Amortization Issues	25	1.9%	11	1.0%	3	8.1%	4	8.7%	2	3.9%	2	3.4%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	3	5.1%
Cash Flow Statement (FAS 95) Classification Errors	17	1.3%	8	0.8%	0	0.0%	1	2.2%	1	2.0%	6	10.2%	0	0.0%	1	9.1%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Financial Derivatives/Hedging (FAS 133) Accounting Issues	15	1.1%	5	0.5%	2	5.4%	4	8.7%	2	3.9%	2	3.4%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Gain or Loss Recognition Issues	8	0.6%	0	0.0%	0	0.0%	1	2.2%	2	3.9%	1	1.7%	1	6.7%	1	9.1%	0	0.0%	0	0.0%	0	0.0%	2	3.4%
Debt and/or Equity Classification Issues	8	0.6%	7	0.7%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	1	1.7%
Income Statement Classification, Margin and EPS Issues	4	0.3%	2	0.2%	1	2.7%	0	0.0%	1	2.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Balance Sheet Classification of Asset Issues	3	0.2%	1	0.1%	1	2.7%	0	0.0%	0	0.0%	1	1.7%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Other - Defective or Unreliable Accounting/Reporting Records	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Financial Statement, Footnote, US GAAP, Segment Disclosure	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%

¹ The research is based on SEC filings as of September 10, 2008 and thus provides data for a partial Year 4.

² Year 4 is defined as Nov. 15, 2007 to Nov. 14, 2008, 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. Since Year 4 begins on Nov. 15, 2006, the data in the Year 4 row is for a partial year.

³ As of September 10, 2008, a total of 1333 adverse SOX 404 opinions were filed with the SEC. A breakdown of the 1333 adverse opinions, each shown in the parenthesis in the table's column titles, are as follows: 1053 for management only opinions, 37 for Ernst & Young, 46 for PricewaterhouseCoopers, 51 for KPMG, 59 for Deloitte & Touche, 15 for Grant Thornton, 11 for BDO Seidman, 0 for Crowe Horwath, 2 for McGladrey & Pullen, 59 for the remaining Regional & Local Firms. (See table **SOX 404 Disclosures: Year 4 Status Update with Year 1, Year 2, and Year 3 Adverse Opinion Comparison**.)

⁴ The # columns indicate the number of unique adverse 404 disclosures that identified the issue as causing or contributing to the determination that a material weakness exists. If a registrants filed more than one disclosure the amended disclosure is counted.

⁵ The % column figures are calculated by dividing the figure in the # column by the amount shown the parenthesis in the column title, the total number of unique adverse 404 disclosure filings for the category. (See Footnote 3.)

⁶ The **Mgmt Only** column provides data for those registrants that only filed a Management's Report without a corresponding Auditor's Report. In Year 3 of SOX 404, a Large Accelerated Foreign filer was required to provide a management opinion and an auditor attestation report in its annual report for the fiscal year ending on or after July 15, 2006. However, an Accelerated Foreign filer that was not a Large Accelerated Foreign filer was only required, for its first year, to provide a management opinion for this period. In Year 4, non-accelerated filers began submitting management-only reports in their annual reports for the fiscal year ending on or after December 15, 2006. Since the management-only reports provided information that is not directly attributable to an auditor, this information is presented in the column designated as **Mgmt-Only**. A total of 38 Management Only opinions were adverse.

Source: AuditAnalytics.com

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Year 4 Exemptions to SOX 404

	Third Year 404 Opinions Filed ³	Third Year 404 Opinions with Exemptions as of 9-10-08	Exemptions (compared to the total number of firm's 404 opinions filed) ¹	
			Acquisitions during the past year	Equity Method Investee (Fin 46R) Issues
Ernst & Young	978	37	112	2
% of Firm's Total ²		3.8%	11.5%	0.2%
% of Category Total ³	13.1%	2.8%	23.6%	11.1%
PricewaterhouseCoopers	778	46	95	7
% of Firm's Total		5.9%	12.2%	0.9%
% of Category Total	10.4%	3.5%	20.0%	38.9%
KPMG	691	51	67	2
% of Firm's Total		7.4%	9.7%	0.3%
% of Category Total	9.3%	3.8%	14.1%	11.1%
Deloitte & Touche	711	59	97	2
% of Firm's Total		8.3%	13.6%	0.3%
% of Category Total	9.5%	4.4%	20.5%	11.1%
Grant Thornton	182	15	21	0
% of Firm's Total		8.2%	11.5%	0%
% of Category Total	2.4%	1.1%	4.4%	0%
BDO Seidman	129	11	12	1
% of Firm's Total		8.5%	9.3%	1%
% of Category Total	1.7%	0.8%	2.5%	6%
Crowe Horwath LLP	53	0	2	0
% of Firm's Total		0.0%	3.8%	0%
% of Category Total	0.7%	0.0%	0.4%	0%
McGladrey & Pullen LLP	37	2	6	0
% of Firm's Total		5.4%	16.2%	0%
% of Category Total	0.5%	0.2%	1%	0%
Regional & Local Firms (153 firms) ^{4 5}	453	59	21	1
% of Firm's Total		13.0%	4.6%	0%
% of Category Total	6.1%	4.4%	4.4%	6%
Management Only Reports	3435	1053	41	3
% of Firm's Total		30.7%	1.2%	0%
% of Category Total	46.1%	79.0%	8.6%	17%
Totals	7447	1333	474	18
% Total of 404 Opinions		17.9%	6.4%	0.2%
Year 3 Comparison	4533	552	502	18
		12.2%	11.1%	0.4%
Year 2 Comparison⁶	3791	472	441	18
		12.5%	11.6%	0.5%

¹ Research includes all filings as of September 10, 2008. Year 4 is defined as annual reports for fiscal years ending Nov. 15, 2007 to Nov. 14, 2008, 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, closely-affiliated companies, such as funds and trusts, within a group if the group 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

² The "% of Firm's 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., (112/978) x 100 = 11.5%. Unlike the issue columns, the MW column's percentage is based on the auditor's total 404 opinions; e.g., 37/978 x 100 = 3.8%

³ 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., (112/474) x 100 = 23.6%.

⁴ In addition to the Big 4 and national firms, a total of 153 regional and local accounting firms signed section 404 internal control opinions in Year 4.

⁵ The row designated as "Management-Only Reports" provide data for those registrants that only filed a Management's Report without a corresponding Auditor's Report. In Year 3 of SOX 404, a Large Accelerated Foreign filer was required to provide a management opinion and an auditor attestation report in its annual report for the fiscal year ending on or after July 15, 2006. However, an Accelerated Foreign filer that was not a Large Accelerated Foreign filer was only required, for its first year, to provide a management opinion for this period. In Year 4, non-accelerated filers began submitting management-only reports in their annual reports for the fiscal year ending on or after December 15, 2006. Since the management-only reports provided information that is not directly attributable to an auditor, this information is presented in the rows designated as "Management-Only Reports."

⁶ The Year 2 Comparison values are obtained from prior research performed and published by Audit Analytics. (See Second Year 404 Dashboard, April 2007 Review, containing research including filings as of February 9, 2007.)

Source: AuditAnalytics.com

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Registrants with Overdue 404 Auditor Attestations for Year 4 (and thus Expected to File an Adverse 404 in the Future)¹

Company	CIK Code	Ticker	Auditor Name	Accelerated Filer	Acc. Filer Period Ending	Acc. Filer Source	Acc. Filer Source Date	Last Non-Timely Filing	Last Non-Timely Filing Date	Fiscal YE ²	Status Summary
Penn Treaty American Corp	814181	PTA	BDO Seidman LLP	Yes	12/31/2006	10-K	4/2/2008	NT 10-Q	8/12/2008	1231	10-K filed 4/2/08 for FYE 12/31/06; NYSE delisting (see 25-NSE of 11/7/08)
Price Communications Corp	355787		BDO Seidman LLP	Yes	12/31/2006	10-K	12/17/2007	NT 10-K	3/1/2007	1231	10K filed 12/17/07 for FYE 12/31/06
Delta Financial Corp	1021848		BDO Seidman LLP	Yes	9/30/2007	10-Q	11/8/2007	NT 10-Q	8/8/2008	1231	NT10K filed 3/6/08 for FYE 12/31/07; (Ch. 11 bankruptcy & NASDAQ delisting)
Paincare Holdings Inc	1003472		Brimmer Burek &	Yes	9/30/2007	10-Q	11/13/2007	NT 10-K	4/1/2008	1231	NT-10K filed 4/1/08 for FYE 12/31/07; AMEX delisting (form 25 of 5/20/08)
Integrity Bancshares Inc	1103764		Carr Riggs & Ingram	Yes	9/30/2007	10-Q	11/13/2007	NT 10-Q	5/13/2008	1231	NT-10K filed 3/18/08 for FYE 12/31/07
Home Solutions Of America Inc	855424		Corbin & Company	Yes	6/30/2007	10-Q	8/15/2007	NT 10-K	3/21/2008	1231	NT-10K filed 3/21/08 for FYE 12/31/07; NASDAQ delisting (25-NSE 2/21/08)
Natures Sunshine Products Inc	275053		Deloitte & Touche LLP	Yes	9/30/2005	10-Q	11/22/2005	NT 11-K	7/1/2008	1231	NT-10K filed 3/19/07 for FYE 12/31/06
Mittal Steel Co N.V.	1041989		Deloitte & Touche LLP	Yes	12/31/2006	20-F	4/17/2007			1231	20-F filed 4/17/07 for FYE 12/31/06; merged into ArcelorMittal (6-K of 9/4/07)
Comverse Technology Inc/Ny/	803014		Deloitte & Touche LLP	Yes	10/31/2005	10-Q	12/12/2005	NT 10-Q	9/10/2008	131	NT-10K filed 3/28/08 for FYE 1/31/08
Ulticom Inc	1103184		Deloitte & Touche LLP	Yes	10/31/2005	10-Q	12/12/2005	NT 10-Q	9/9/2008	131	NT-10K filed 4/15/08 for FYE 1/31/08
Endesa Sa	1046649		Deloitte & Touche LLP	Yes	12/31/2006	20-F	6/1/2007			1231	20F filed 6/1/07 for FYE 12/31/06
TSIC, Inc.	811696		Deloitte & Touche LLP	Yes	10/31/2007	10-Q	12/10/2007	NT 11-K	6/30/2008	131	NT-10K filed 4/15/08 for FYE 1/31/08; Ch. 11 bankruptcy: 8-K of 2/21/08
W Holding Co Inc	1084887	WHI	Deloitte & Touche LLP	Yes	3/31/2007	10-Q	5/8/2007	NT 10-Q	8/11/2008	1231	NT10K filed 3/17/08 for FYE 12/31/07
Franklin Bank Corp	1207070	FBTX	Deloitte & Touche LLP	Yes	9/30/2007	10-Q	11/9/2007	NT 10-Q	8/12/2008	1231	NT-10K filed 3/17/08 for FYE 12/31/07
Wellcare Health Plans, Inc.	1279363	WCG	Deloitte & Touche LLP	Yes	6/30/2007	10-Q	8/3/2007	NT 10-Q	8/12/2008	1231	NT-10K filed 3/3/08 for FYE 12/31/07
Verint Systems Inc	1166388		Deloitte & Touche LLP	Yes	10/31/2005	10-Q	12/12/2005	NT 10-Q	9/9/2008	131	NT-10k filed 4/15/08 for FYE 1/31/08
Infusystem Holdings, Inc	1337013	INHIU	Deloitte & Touche LLP	Yes	6/30/2008	10-Q	8/5/2008	NT 10-K	3/18/2008	1231	Item 9A in 10K of 3/24/08 notes a merger; see footnote 3
Intralase Corp	1163848		Deloitte & Touche LLP	Yes	12/31/2006	10-K	3/7/2007			1231	10-K on 3/3/07; NASDAQ delisting (25-NSE 4/2/07)
Smart Balance, Inc.	1331301	SMBL	Ehrhardt Keefe Steiner	Yes	6/30/2008	10-Q	8/8/2008			1231	Item 9A in 10K of 3/14/08 notes a merger; see footnote 3
Taro Pharmaceutical Industries Ltd	906338		Ernst & Young LLP	Yes	12/31/2005	20-F	3/20/2007	NT 20-F	7/1/2008	1231	NT-20F filed 7/1/08 for FYE 12/31/07
Agilysys Inc	78749	AGYS	Ernst & Young LLP	Yes	12/31/2007	10-Q	2/7/2008	NT 10-Q	8/8/2008	331	NT 10K filed 6/16/08 for FYE 3/31/08
Homebanc Corp	1283683		Ernst & Young LLP	Yes	3/31/2007	10-Q	5/10/2007			1231	10-K on 3/15/07; Ch. 11 bankruptcy 8/9/07; NYSE delisted (25-NSE on 9/6/07)
Movie Gallery Inc	925178		Ernst & Young LLP	Yes	9/30/2007	10-Q	6/27/2008	NT 10-Q	8/21/2008	1231	NT-10K filed on 4/8/08 for FYE 1/6/08; Ch. 11 bankruptcy: 8-K of 4/16/08
Star Maritime Acquisition Corp.	1328307		Goldstein Golub	Yes	9/30/2007	10-Q	11/8/2007	NT 10-Q	8/15/2006	1231	10-K on 3/14/07; AMEX delisted (25-NSE on 12/3/07)
Impax Laboratories Inc	1003642		Grant Thornton LLP	Yes	9/30/2004	10-Q	11/16/2004	NT 10-K	3/16/2007	1231	NT-10K filed 3/16/07 for FYE 12/31/06
United Financial Bancorp Inc	1319572		Grant Thornton LLP	Yes	9/30/2007	10-Q	11/8/2007			1231	Filed 10-K on 3/16/07 for FYE 12/31/06
Diebold Inc	28823	DBD	KPMG LLP	Yes	3/31/2007	10-Q	5/10/2007	NT 10-Q	8/12/2008	1231	NT-10K filed 3/3/08 for FYE 12/31/07
China Yuchai International Ltd	932695	CYD	KPMG LLP	Yes	12/31/2006	20-F	7/17/2008	NT 20-F	6/30/2008	1231	NT-20F filed 6/30/08 for FYE 12/31/07
Pope & Talbot Inc /De/	311871		KPMG LLP	Yes	6/30/2007	10-Q	8/9/2007	NT 10-Q	11/9/2007	1231	NT-10K filed 3/16/07 for FYE 12/31/06; Ch. 11 bankruptcy: 8-K of 11/26/07
Municipal Mortgage & Equity Llc	1003201		KPMG LLP	Yes	3/31/2006	10-Q	8/1/2006	NTN 10K	5/4/2007	1231	NTN-10K 5/4/07 for FYE 12/31/06
Mesa Royalty Trust/Tx	313364	MTR	KPMG LLP	Yes	9/30/2007	10-Q	11/9/2007	NT 10-K	3/17/2008	1231	NT-10K 3/17/08 for FYE 12/31/07
Netsmart Technologies Inc	1011028		Marcum & Kliegman	Yes	12/31/2006	10-K	3/19/2007	NT 10-K	3/16/2007	1231	NT-10K on 3/16/07; NASDAQ delisting (25 of 4/10/07); merger target (8-K of
Bakbone Software Inc	735993		Mayer Hoffman	Yes	3/31/2006	10-K	8/6/2008	NT 10-Q	11/9/2004	331	10-K filed 8/6/08 for FYE 3/31/06
Netbank Inc	1035826		Porter Keadle Moore	Yes	9/30/2006	10-Q	11/9/2006	NT 10-Q	8/10/2007	1231	NT-10K filed 3/16/07 for FYE 12/31/06; Ch. 11 bankruptcy: 8-K of 9/28/07
Bell Microproducts Inc	900708		PwC LLP	Yes	6/30/2006	10-Q	8/9/2006	NT 10-Q	8/11/2008	1231	NT-10K filed 3/17/08 for FYE 12/31/07
Bombay Co Inc	96287		PwC LLP	Yes	5/5/2007	10-Q	6/14/2007	NT 10-Q	9/14/2007	23	NT-10K filed 4/20/07 for FYE 2/3/07; Ch. 11 bankruptcy: 8-K of 9/29/07
R&G Financial Corp	1016933		PwC LLP	Yes	12/31/2004	10-K	3/16/2005	NT 10-Q	8/8/2008	1231	NT10K filed 2/29/08 for FYE 12/31/07
Interdigital Inc.	354913		PwC LLP	Yes	3/31/2007	10-Q	5/10/2007	NT 10-K	3/16/2005	1231	10-K filed 3/1/07 for FYE 12/31/06
Fremont General Corp	38984		Squar Milner Peterson	Yes	9/30/2007	10-Q	11/9/2007	NT 10-Q	8/12/2008	1231	NT-10K filed 2/29/08 for FYE 12/31/07; Ch. 11 bankruptcy: 8-K of 6/18/08
Sis International Inc	1121785		Weaver & Martin LLC	Yes	9/30/2006	10-Q	11/9/2006	NT 10-Q	5/16/2007	1231	NT10K filed 4/2/07 for FYE 12/31/06
Voyager Learning CO	215219		Whitley Penn PC	Yes	12/30/2006	10-K	9/17/2008	NT 10-Q	8/15/2008	1230	NT-10K filed 3/17/08 for FYE 3/14/08
Inphonic Inc	1133324			Yes	6/30/2007	10-Q	8/9/2007	NT 10-Q	11/13/2007	1231	NT-10K filed 3/16/07 for FYE 12/31/06; Ch. 11 bankruptcy: 8-K of 11/8/07
New Century Financial	1287286			Yes	9/30/2006	10-Q	11/9/2006	NT 10-Q	11/13/2007	1231	NT-10K filed 3/2/07 for FYE 12/31/06; Ch. 11 bankruptcy: 8-K of 4/6/07

¹ Research includes all filings as of September 10, 2008. Year 4 is defined as annual reports for fiscal years ending Nov. 15, 2007 to Nov. 14, 2008, 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.

² U.S. accelerated filers have 75 days to file an annual report and therefore the table above identifies U.S. registrants with a fiscal year end before June 27. Foreign filers have 6 months to file an annual report and therefore the table above identifies foreign registrants with a fiscal year end before March 10.

³ Due to a reverse merger, this registrant presents facts that would likely support a grant from the SEC of a one-year waiver from the SOX 404 requirements. The annual report, however, did not state that a waiver was obtained and thus it is not known if the SEC granted such a waiver.

Source: AuditAnalytics.com

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 Internal Controls over Financial Reporting Issues

Accounting documentation, policy and/or procedures

Represents material weaknesses deriving from internal control systems that do not contain adequate documentation, policies or other means of justifying account balances. These issues may also include failures to ensure that accounts are recorded based on GAAP, SAB, FASB and/or the appropriate accounting methodology are followed. They may also include failures in policies or procedures designed to gather the correct information on a timely basis or problems with the y/e close process. It also includes failures to employ proper procedures over journal entries, non-routine transactions and other common procedural failures.

Accounting personnel resources, competency/training

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.

Ethical or compliance issues with personnel

Consists of problems with personnel in the areas of compliance with policies, maintenance of ethical standards, fraud and intentional acts that lead to (or could lead to) misstated account balances or financial reports.

Inadequate disclosure controls (timely, accuracy, complete)

Represents material weaknesses related to the adequacy of information flow that should result in a required disclosure.

Ineffective or understaffed audit committee

Represents circumstances where an audit committee may not have the personnel, expert, experience and/or resources to perform their duties to the extent required by Sarbanes Oxley or their charter.

Ineffective regulatory compliance issues

Consists of internal control deficiencies associated with failures to meet regulatory requirements other than taxes.

Information technology, software, security & access issue

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.

Insufficient or non-existent internal audit function

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.

Journal entry control issues

This category is checked whenever the description given by the audit firm or company refers to deficiencies or issues associated with the journal entry process. This category is not checked when there is a journal entry error that originates from control deficiencies in other areas.

Management/Board/Audit Committee investigation(s)

Consists of internal control reports indicating that an internal investigation is underway relative to accounting and/or financial reporting matters. This item is demographic in nature.

Material and/or numerous auditor /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. Too many, or auditor initiated year-end adjustments are considered prima facie evidence of a potential material weakness in financial reporting.

Non-routine transaction control issues

This category is checked whenever a registrant specifically describes one of their control deficiencies as emanating from non-routine types of transactions. These could include acquisitions, asset sales, establishment of new systems and other.

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

Remediation of material weakness identified

Refers to disclosures that indicate that material weakness or internal control weaknesses have been remediated.

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.

Restatement of previous 404 disclosures

Represents circumstances where a company has had to restate its 404 opinion because of some event (most likely a restatement of financials) that has occurred subsequently to filing.

SAB 108 adjustments noted

This item is checked when the ICFR disclosure identifies that a SAB 108, as opposed to a financial restatement, process is used to correct the beginning retained earnings balances associated with previous period accounting errors.

Scope (resource, time, inclination) limitations

A material weakness opinion may derive from assertions from the company or auditor that the company had not completed its own review of internal controls and therefore these controls could not be audited. These limitations could come about for any number of reasons.

SEC or other regulatory investigations and/or inquiries

An SEC or related investigation into the company affairs is often evidentiary of accounting or financial reporting issues that point to internal control deficiencies. This category seeks to identify circumstances where registrants have indicated in their 404 assertion that an SEC investigation or inquiry is underway.

Segregations of duties/ design of controls (personnel)

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.

Senior management competency, tone, reliability issues

This category has been established to identify circumstances where internal control weaknesses are attributed directly to potentially improper or negligent conduct of the current or former senior management of the company. This does not necessarily mean that the assertion is correct, just that such language exists in the filing.

Untimely or inadequate account reconciliations

In reviewing internal control assertions or opinions it is often the case that inadequate account reconciliations are identified as the reason for material or numerous adjustments. This category seeks to specifically identify such circumstances.

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

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 uncollectables, notes receivables and/or related reserves.

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.

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.

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.

Cash flow statement classification errors

Consists of internal control deficiencies in approach, theory or calculation that manifested themselves in cash flow statements that are not consistent with GAAP. These misclassifications can affect cash flow from operations, financing, 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.

Consolidation, (Fin46r/Off BS) & foreign currency translation 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, 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.

Debt and/or equity classification issues

Consists mainly of internal control deficiencies in approach, theory or calculation associated with the proper classification of debt instruments as short term or long term. This area can also refer to reclassifications between equity and debt accounts or within equity accounts.

Debt, quasi-debt securities or equity acting 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.

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.

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.

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

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.

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/FASB Standards. It also includes internal control deficiencies associated with segment recording and related annual report disclosures.

Financial derivatives/hedging (FAS 133) accounting 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.

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.

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.

Income statement classification, margin and EPS issues

Consists primarily of internal control deficiencies associated with a registrants 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.

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.

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.

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.

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.

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

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.

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.

Revenue recognition issues

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 expense/benefit/deferral/other (FAS 109) issues

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.

Unspecified/unidentified/inapplicable FASB/GAAP issues

This flag is identified when the 404 or 302 disclosures are lacking in sufficient information to identify what accounts or areas of financial reporting are being impacted by disclosure controls or internal control deficiencies. It may also indicate that a GAAP/FASB effect is not applicable. This flag may not be checked in circumstances where a recent section 404 report or restatement can provide the missing information.

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.

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.

Audit, Regulatory, and Disclosure Intelligence

Audit Analytics is an independent research provider of audit, regulatory and disclosure intelligence. Through easy-to-use online research tools, Audit Analytics enables the accounting, investment, insurance, legal, regulatory and academic communities to track, analyze, and confidently understand public company disclosure issues and trends.

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.

[SEC Comment Letters](#) – A comprehensive non-binding authoritative body of SEC rule interpretations. Search by company, audit and disclosure issues, people, and key text.

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