United States Government Accountability Office

GAO

Report to the Ranking Minority Member, Committee on Banking, Housing, and Urban Affairs, U.S. Senate

July 2006

FINANCIAL RESTATEMENTS

Update of Public Company Trends, Market Impacts, and Regulatory Enforcement Activities

GAO

Accountability ★ Integrity ★ Reliability

GAO-06-678

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GAO Accountability·Integrity·Reliability

Highlights

Highlights of GAO-06-678, a report to the Ranking Minority Member, Committee on Banking, Housing, and Urban Affairs, U.S. Senate

Why GAO Did This Study

In 2002, GAO reported that the number of restatement announcements due to financial reporting fraud and/or accounting errors grew significantly between January 1997 and June 2002, negatively impacting the restating companies' market capitalization by billions of dollars. GAO was asked to update key aspects of its 2002 report (GAO-03-138). This report discusses (1) the number of, reasons for, and other trends in restatements; (2) the impact of restatement announcements on the restating companies' stock prices and what is known about investors' confidence in U.S. capital markets; and (3) regulatory enforcement actions involving accounting- and audit-related issues. To address these issues, GAO collected restatement announcements meeting GAO's criteria, calculated and analyzed the impact on company stock prices, obtained input from researchers, and analyzed selected regulatory enforcement actions.

What GAO Recommends

GAO recommends that SEC investigate potential noncompliance with current Form 8-K filing requirements and make consistent the guidance to registrants concerning required disclosures regarding certain restatements. SEC stated that it would examine the instances of potential non-compliance and carefully consider harmonizing guidance concerning Form 8-Ks.

www.gao.gov/cgi-bin/getrpt?GAO-06-678.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Orice M. Williams at (202) 512-5837 or williamso@gao.gov.

What GAO Found

While the number of public companies announcing financial restatements from 2002 through September 2005 rose from 3.7 percent to 6.8 percent, restatement announcements identified grew about 67 percent over this period. Industry observers noted that increased restatements were an expected byproduct of the greater focus on the quality of financial reporting by company management, audit committees, external auditors, and regulators. GAO also observed the following trends: (1) cost- or expense-related reasons accounted for 35 percent of the restatements, including lease accounting issues, followed in frequency by revenue recognition issues; and (2) most restatements (58 percent) were prompted by an internal party such as management or internal auditors. In the wake of increased restatements, SEC standardized disclosure requirements by requiring companies to file a specific item on the Form 8-K when a company's previously reported financials should no longer be relied upon. However, between August 2004-September 2005, about 17 percent of the companies GAO identified as restating did not appear to file the proper disclosure when they announced their intention to restate. These companies continued to announce intentions to restate previous financial statements results in a variety of other formats.

Although representing about 0.4 percent of the market capitalization of the major exchanges, which was $17 trillion in 2005, the market capitalization of companies announcing restatements between July 2002 and September 2005 decreased $63 billion when adjusted for market movements ($43 billion unadjusted) in the days around the initial restatement announcement. Researchers generally agree that restatements can negatively affect overall investor confidence, but it is unclear what effects restatements had on confidence in 2002–2005. Some researchers noted that investors might have grown less sensitive to the announcements. Others postulated that investors had more difficulty discerning whether restatements represented a response to aggressive or abusive accounting practices, complex accounting standards, remediation of past accounting deficiencies, or technical adjustments. Although researchers generally agree that restatements can have a negative effect on investor confidence, the surveys, indexes, and other proxies for investor confidence that GAO reviewed did not indicate definitively whether investor confidence increased or decrease since 2002.

As was the case in the 2002 report, a significant portion of SEC's enforcement activities involved accounting- and auditing-related issues. Enforcement cases involving financial fraud- and issuer-reporting issues ranged from about 23 percent of total actions taken to almost 30 percent in 2005. Of the actions resolved between March 1, 2002, and September 30, 2005, about 90 percent were brought against public companies or their directors, officers, and employees, or related parties; the other 10 percent involved accounting firms and individuals involved in the external audits of these companies.

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Abbreviations

AAER	Accounting and Auditing Enforcement Release
AIG	American International Group, Inc.
AIGFP	American International Group Financial Product
Amex	American Stock Exchange
AOL	AOL Time Warner Inc.
CAO	chief accounting officer
CEO	chief executive officer
CFO	chief financial officer
CPA	certified public accountant
DOJ	Department of Justice
E&Y	Ernst & Young, LLP
EDGAR	Electronic Data Gathering, Analysis, and Retrieval system
EITF	Emerging Issues Task Force
ERISA	Employment Retirement Income Security Act of 1974
FAF	Financial Accounting Foundation
FASB	Financial Accounting Standards Board
GAAP	generally accepted accounting principles
HCG	Huron Consulting Group
IPR&D	in-process research and development
NYSE	New York Stock Exchange
NYSOAG	Office of the Attorney General for the State of New York
OFHEO	Office of Federal Housing Enterprise Oversight
OTC	over-the-counter
PCAOB	Public Company Accounting Oversight Board
SAS	Statement on Auditing Standards
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SIA	Securities Industry Association
TAQ	Trade and Quote

GAO

Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, D.C. 20548

July 24, 2006

The Honorable Paul S. Sarbanes
Ranking Minority Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

Dear Senator Sarbanes:

Public confidence in financial reporting is critical to the effective functioning of the securities markets. However, restatements have resulted in billions of dollars of lost market capitalization, as markets react to news that companies plan to restate their prior financial statements or earnings reports. For example, in a 2002 report, we estimated that restatements of financial statements or other financial information resulted in approximately $100 billion decline in market capitalization in the days surrounding the restatement announcement.[1] Moreover, we found that from January 1997 through June 2002, 845 public companies announced the need to restate their financial information because of financial reporting fraud and/or accounting errors.[2]

Responding to corporate failures and the financial reporting fraud that resulted in substantial losses to institutional and individual investors, Congress passed the Sarbanes-Oxley Act in 2002 (Sarbanes-Oxley Act).[3] The act contains provisions affecting the financial reporting of public companies, including management assessment and auditor attestation

[1]GAO, *Financial Statement Restatements: Trends, Market Impacts, Regulatory Responses, and Remaining Challenges*, GAO-03-138 (Washington, D.C.: Oct. 4, 2002). For the purposes of our 2002 report and this report (1) a restatement occurs when a company, either voluntarily or prompted by auditors or regulators, revises public financial information that was previously reported; and (2) the restatement announcement is considered the market event whose effect is to be measured. Market capitalization is the value of a company as determined by the market price of its issued and outstanding common stock (the number of shares outstanding multiplied by the current market price of a share).

[2]Financial reporting fraud generally is defined as an instance in which a company intentionally misstates its financial statements or intentionally misapplies an accounting pronouncement. Accounting errors generally are unintentional mistakes in a transaction or application of an accounting principle that results in the financial statements not being fairly presented in conformity with generally accepted accounting principles. Our analysis includes both financial reporting fraud and accounting errors. In our 2002 report, we referred to financial reporting fraud and accounting errors as accounting irregularities.

[3]Pub. L. No. 107-204, 116 Stat. 745 (July 30, 2002).

about the effectiveness of internal controls. Industry observers expected that the number of public companies restating their financial statements would increase for some period of time because of increased scrutiny of internal controls over financial reporting, and then eventually level off as companies improved their controls.

You asked that we update our 2002 report on restatements. In this report, we (1) determine the number of, reasons for, and other trends in restatements of previously reported financial information; (2) analyze the impact of restatement announcements on the restating companies' stock market capitalization; (3) research available data to determine the impact of restatements on investors' confidence in the existing U.S. system of financial reporting and capital markets; and (4) analyze Securities and Exchange Commission (SEC) enforcement actions involving accounting- and audit-related issues.

To identify restatements, we used Lexis-Nexis, an online information service, to systematically search for restatement announcements using variations of "restate" and other relevant words. We then identified and collected information on 1,390 restatements announced by 1,121 public companies—984 of which were listed companies on the New York Stock Exchange (NYSE), Nasdaq, and American Stock Exchange (Amex)—from July 1, 2002, to September 30, 2005, that involved corrections of previously reported financial results.[4] Throughout the report, we refer to the subset of companies with stock listed on NYSE, Nasdaq, and Amex as "listed." Our database generally excludes announcements involving stock splits, changes in accounting principles, and other announced restatements that were not made to correct errors in the application of accounting principles.[5] We classified each of the 1,390 announced restatements we identified into one of nine categories: revenue recognition; cost- or expense; acquisitions and mergers; in-process research and development (IPR&D); reclassification; related-party transactions; restructuring, assets, or inventory; securities related; and "other" restatements. This classification process involved some degree of judgment and other

[4]The number of announcements exceeds the number of public companies because some companies announced restatements more than once.

[5]Because numerous revisions to the Financial Accounting Standards Board's Financial Interpretation No. 46, *Consolidation of Variable Interest Entities*, were issued over a short span, we generally excluded restatements made to comply with such guidance, unless the compliance was not timely.

researchers could interpret certain restatements differently. While several other studies have used a similar methodology, we know of no publicly available restatement list against which to compare the completeness of our list. However, we did review companies' SEC filings and Web sites to verify the accuracy of particular restatement announcement dates and reasons. We also compared some qualitative features of our database with proprietary information provided by financial consulting firms. We also compared companies in our database with a list of companies that had filed Form 8-K, Item 4.02, disclosures with SEC between August 2004 and September 2005 to identify companies that warranted further review concerning how they disclosed their restatement announcements.

To determine the immediate impact on stock prices, as in our prior report, we used the standard event study methodology, which is widely accepted in the academic literature. We were able to analyze 1,061 of the 1,390 restatements that were announced from July 1, 2002, through September 30, 2005; we also collected information on other characteristics of restatement trends. We were unable to include 329 in our primary analysis because (1) they involved stocks not listed on NYSE, Nasdaq, or Amex; or (2) they were missing data for the relevant period for causes including trading suspensions, bankruptcies, and mergers. For the 1,061 cases, we analyzed the company's stock price from the trading day before through the trading day after the announcement date to assess the immediate impact and calculate the change in market capitalization. We analyzed the intermediate impact (20 trading days before and after the restatement announcement date) for 965 of the 1,390 restatements to capture any potential information leakage concerning potential restatements.[6] We also analyzed the longer-term impact (60 trading days before and after the restatement announcement date) for 930 of the 1,390 restatements to gauge whether the company's stock prices rebounded over time.[7] In the immediate-, intermediate-, and longer-term calculations, we adjusted for overall market movements. Additionally, we performed a separate immediate impact analysis of the 329 announcements that we were unable to analyze in the primary event study, which was limited to a simple assessment of any changes in unadjusted market capitalization. To analyze

[6]There were fewer restatements analyzed over the intermediate period than restatements analyzed in the immediate impact analysis because of missing longer-term data.

[7]There were even fewer restatements analyzed over the longer-term period than restatements analyzed in the intermediate and immediate impact analysis due to missing longer-term data.

the impact of restatements on investor confidence, we identified a number of indexes, reviewed quantitative research on the issue, conducted structured interviews with (and collected information) from experts in accounting and financial markets, and collected data on a variety of proxy measures.

To obtain information about the recent enforcement actions SEC has taken involving accounting- and auditing-related issues, which may or may not involve a restatement, we collected information on SEC's enforcement process, reviewed available SEC information, and collected enforcement case data from over 800 Accounting- and Auditing-Related Enforcement Releases (AAER) issued from March 1, 2002, through September 30, 2005 posted on SEC's Web site as of July 1, 2006. We also interviewed officials from SEC and the Public Company Accounting Oversight Board (PCAOB), which was established by the Sarbanes-Oxley Act to oversee the audits of public companies subject to the securities laws.

We conducted our work between June 2005 and July 2006 in accordance with generally accepted government auditing standards. For additional information on our scope and methodology, see appendix I.

Results in Brief

While the number of companies announcing financial restatements from 2002 through September 2005 rose from 3.7 percent to 6.8 percent, restatement announcements identified grew about 67 percent over this period. Of the restatements identified, cost- or expense-related issues were the primary reason for restatements during this period and most were prompted by internal parties, such as management or internal auditors. Some industry observers commented that increased restatements were the expected byproduct of the greater focus—by company management, audit committees, external auditors, and regulators—on the quality of financial reporting. The cumulative totals were 919 restatements over a 66-month period that ended June 30, 2002, and 1,390 restatements over the 39-month period that ended September 30, 2005. Over the period of January 1, 2002, through September 30, 2005, the total number of restating companies (1,084) represents 16 percent of the average number of listed companies from 2002 to 2005, as compared to almost 8 percent during the 1997-2001 period. The median size (by market capitalization) of restating companies increased from $282 million in 2002 to $672 million in 2005. For the July 2002 through September 2005 period, the 1,121 restating companies we identified (accounting for 1,390 restatement announcements) announced that they would restate their financial information for many reasons—for example, to adjust revenue, costs or expense, or address securities-related issues. Cost- or expense-related issues were the primary reason for restatements, which included numerous lease accounting issues in early 2005; overall cost- or expense related issues accounted for 35 percent of the 1,390 announced restatements during this period. Internal parties (e.g., management or internal auditors) prompted a majority (58 percent) of the announced restatements, while external parties (e.g., external auditors or regulators) prompted nearly one-quarter (24 percent) of them; we were unable to identify the prompter in the remaining 18 percent.

The market capitalization of the companies—those we were able to analyze from among the listed companies that we identified as announcing restatements of previously reported information between July 2002 and September 2005—decreased an estimated $63 billion when adjusted for overall market movements ($43 billion unadjusted) in the days around the initial restatement announcement.[8] For the restating companies we analyzed, stock prices fell almost 2 percent on average (market adjusted) from the trading day before through the trading day after an initial restatement announcement. This short-term impact ($63 billion), if realized, may have been significant for the companies and shareholders involved, but represents about 0.4 percent of the combined total market capitalization of NYSE, Nasdaq, and Amex, which was $17 trillion in 2005. Although capturing the impact of a restatement announcement over intermediate and longer periods (20 and 60 trading days before and after the event, respectively) is more difficult, our analyses suggest that restatement announcements have had a somewhat negative effect on stock prices beyond their immediate impact. The announced reasons for restatements also were a factor in how great an impact a restatement announcement had on stock prices. In a change from our previous report, cost- or expense-related issues were the most frequently cited reasons for restating and had the greatest impact on market capitalization in dollar terms, but as was the case in our previous report, restatements involving revenue issues and financial reporting fraud and/or accounting errors generally led to greater market losses than restatements for other reasons.

[8]These results are based on our event study and include only those stocks listed on NYSE, Nasdaq, and Amex at the time the companies announced restatements. Adjusting for market movements is important in general because the impact of negative (or positive) company-specific news can be dampened (or bolstered) on a day when the overall market is moving higher, and vice versa. Failing to control for market movements can result in attributing a greater or smaller impact to an event than is warranted.

Although researchers generally agree that restatements can have a negative effect on investor confidence, the surveys, indexes, and other proxies for investor confidence that we reviewed did not indicate definitively whether investor confidence increased or decreased since 2002. To illustrate, some researchers noted that, since 2002, investors may have had more difficulty discerning whether a restatement represented a response to: aggressive or abusive accounting practices, the complexity of accounting standards, the remediation of past accounting deficiencies, or technical adjustments. However, several survey-based indexes and other proxies for investor sentiment did not indicate a consensus on the direction of investor confidence since 2002. For example, a periodic UBS/Gallup survey, aimed at measuring investor confidence indicated that while concerns over corporate accounting practices still existed, overall investor confidence remained low primarily because of concerns such as high energy prices and the federal budget deficit. In contrast, the Yale confidence indexes, which found investor confidence levels were largely unaffected by the accounting scandals prior to 2003, more recently showed that institutional investors have slightly more confidence in the stock market—but results for individual investors were unclear.[9] Finally, other measures and proxies for investor confidence indicated that increased financial restatements may not have had a negative impact on overall confidence or, if they had, any negative impact had been counterbalanced by other, more positive forces.

The number of SEC enforcement cases involving financial fraud and issuer reporting issues increased from 79 in fiscal year 1998 to 185 in fiscal year 2005—a more than a 130 percent increase. Moreover, in fiscal year 2005, cases involving financial fraud and issuer reporting issues constituted the largest category of enforcement actions. The resources SEC devoted to enforcement grew as well. The financial debacles of the late 1990s and early 2000s spurred Congress to increase SEC's resources to help SEC better manage its increased workload. This resulted in a 22 percent increase in SEC's enforcement resources between fiscal years 2002 and 2003. Of the enforcement actions SEC resolved between March 1, 2002, and September 30, 2005, SEC brought about 90 percent against public companies or their directors, officers, and employees; the other 10 percent of the cases involved accounting firms and individuals affiliated with accounting firms. To address such violations, SEC sought a variety of penalties against these companies and individuals, including monetary

[9]The four Yale indexes are (1) the One-Year Confidence Index, (2) the Buy on Dip Confidence Index, (3) the Crash Confidence Index, and (4) the Valuation Confidence Index.

sanctions, cease-and-desist orders, and bars on individuals appearing before SEC or serving as officers or directors in public companies. In addition, the newly created PCAOB also has broad investigative and disciplinary authority over public accounting firms that have registered with it and persons associated with such firms; PCAOB has initiated several enforcement actions since its inception.

This report includes recommendations to SEC to help ensure compliance with its Form 8-K reporting requirements and make consistent existing SEC guidance on public company disclosures of restatements that result in non-reliance on previously issued financial statements. This would include investigating the instances of potential noncompliance that we identified and take any necessary actions to correct them. Moreover, to improve the consistency and transparency of information provided to markets about restatements, we recommend that SEC harmonize existing instructions and guidance concerning Item 4.02 by amending the instructions to Form 8-K and other relevant periodic filings to clearly state that an Item 4.02 disclosure on Form 8-K is required for all determinations of non-reliance on previously issued financial statements (Item 4.02), irrespective of whether such information has been disclosed on a periodic report or elsewhere.

We requested comments on a draft of this report from the Chairmen of SEC and PCAOB. SEC and PCAOB provided written comments. In response to our recommendations, SEC noted that it would (1) continue its practice of examining instances of potential noncompliance and take appropriate actions, and (2) carefully consider our recommendation that it harmonize certain instructions and guidance related to restatements. PCAOB noted that as the overseer of the audit of public companies, it is very interested in the trends in financial restatements identified in the report and the impact on public companies and investors and thinks that the report will advance an understanding of this important issue. We reprinted SEC's and PCAOB's written comments in appendixes II and III, respectively, and discuss them in greater detail near the end of this report. Both SEC and PCAOB provided technical comments that were incorporated into the report as appropriate. We also obtained comments from officials at several of the companies selected as case studies in this report and have incorporated their comments as appropriate.

Background

Public confidence in the reliability of financial reporting is critical to the effective functioning of the securities markets, and various federal laws and entities help ensure that the information provided meets such standards. Federal securities laws help to protect the investing public by requiring public companies to disclose financial and other information. SEC was established by the Securities Exchange Act of 1934 (the Exchange Act) to operationalize and enforce securities laws and oversee the integrity and stability of the market for publicly traded securities. SEC is the primary federal agency involved in accounting requirements for publicly traded companies. Under Section 108 of the Sarbanes-Oxley Act, SEC has recognized the accounting standards set by the Financial Accounting Standards Board (FASB)—generally accepted accounting principles (GAAP)—as "generally accepted" for the purposes of the federal securities laws. SEC reviews and comments on registrant filings and issues interpretive guidance and staff accounting bulletins on accounting matters.

To issue securities for trading on an exchange, a public company must register the securities offering with SEC, and to register, the company must meet requirements set by the Exchange Act, as amended, including the periodic disclosure of financial and other information important to investors. The regulatory structure of U.S. markets is premised on a concept of corporate governance that makes officers and directors of a public company responsible for ensuring that the company's financial statements fully and accurately describe its financial condition and the results of its activities. Company financial information is publicly disclosed in financial statements that are to be prepared in accordance with standards set by FASB and guidance issued by SEC. The integrity of these financial statements is essential if they are to be useful to investors and other stakeholders.

In addition to the requirements and standards previously discussed, the securities acts and subsequent law set requirements for annual audits of the financial statements by registered public accounting firms to help ensure the integrity of financial statements. The applicable standards under these laws require that auditors plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements; an assessment of the accounting principles used and significant estimates made by management; and an evaluation of the overall financial statement presentation. The purpose of the auditor's report is to provide reasonable assurance about whether the financial statements present fairly, in all material respects, the financial position of the company, the results of its operations, and its cash flows, in conformity with U.S. GAAP.

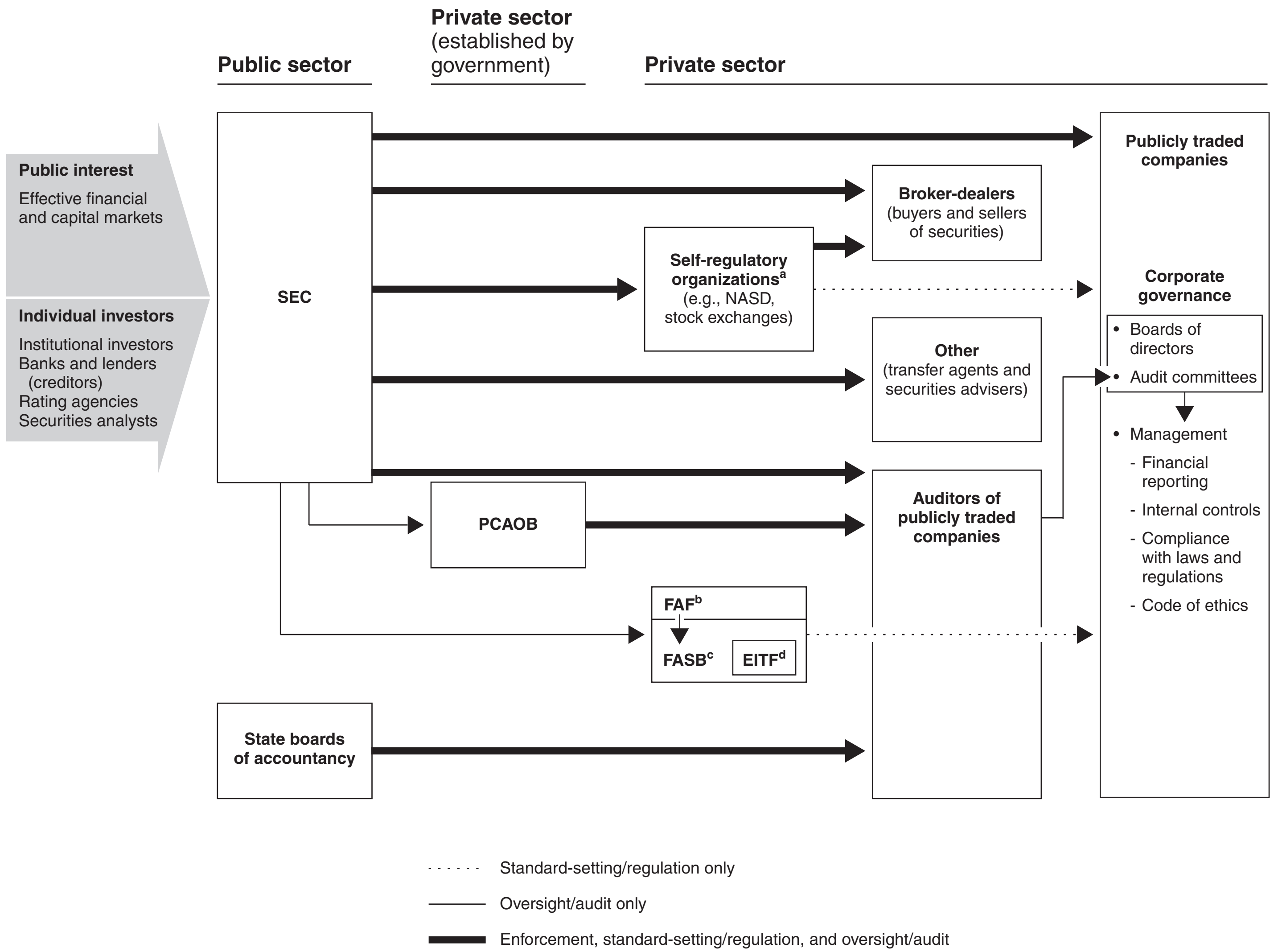
The Sarbanes-Oxley Act reinforces principles and strengthens requirements (established in previous law), including measures for improving the accuracy, reliability, and transparency of corporate financial reporting. Specifically, Section 302 requires that the chief executive officer (CEO) and chief financial officer (CFO) must certify for each annual and quarterly report filed with SEC that they have reviewed the report; the report does not contain untrue statements or omissions of a material fact; and the financial information in the report is fairly presented. In addition, Section 404 requires company management to annually (1) assess its internal control over financial reporting and report the results to SEC and (2) have a registered public accounting firm attest to and report on management's assessment of effectiveness of internal control over financial reporting. While larger public companies have implemented Section 404, most companies with less than $75 million in public float—about 60 percent of all public companies—have yet to complete this process.[10] (See app. IV for further discussion of the act.)

To oversee the auditing of publicly traded companies, the Sarbanes-Oxley Act established PCAOB, a private-sector nonprofit organization. Subject to SEC oversight, PCAOB sets standards for, registers, and inspects the independent public accounting firms that audit public companies and has the authority to conduct investigations and disciplinary proceedings and impose sanctions for violations of law or PCAOB rules and standards. Specifically, Section 105 of the Sarbanes-Oxley Act granted PCAOB broad investigative and disciplinary authority over registered public accounting firms and persons associated with such firms. In May 2004, SEC approved PCAOB's rules implementing this authority. According to the rules, PCAOB staff may conduct investigations concerning any acts or practices, or omissions to act, by registered public accounting firms and persons associated with such firms, or both, that may violate any provision of the act, PCAOB rules, the provisions of the securities laws relating to the preparation and issuance of audit reports and the obligations and liabilities of accountants with respect thereto, including SEC rules issued under the act, or professional standards. Furthermore, PCAOB's rules require registered public accounting firms and their associated persons to cooperate with PCAOB investigations, including producing documents and providing testimony. The rules also permit PCAOB to seek information from other persons, including clients of registered firms. See figure 1 for

[10]SEC defines public float as the aggregate market value of voting and non-voting common equity held by non-affiliates of the issuer.

the existing system of corporate governance and accounting oversight structures.

Figure 1: Existing System of Corporate Governance and Accounting Oversight Structures



Source: GAO.

[a]SEC has delegated front-line regulation of broker-dealers to the self-regulatory organizations. NASD was previously known as the National Association of Securities Dealers.

[b]FAF refers to the Financial Accounting Foundation.

[c]SEC has recognized the accounting standards set by the Financial Accounting Standards Board (FASB) to be "generally accepted" for the purposes of the securities laws.

[d]EITF refers to FASB's Emerging Issues Task Force.

[e]The Number of Restatements Has Continued to Grow and New Trends Have Emerged

Although the number of public companies restating their publicly reported financial information due to financial reporting fraud and/or accounting errors remained a relatively small percentage of all publicly listed companies, the number of restatements has grown since 2002. For example, 314 companies announced restatements in 2002 and 523 announced restatements in 2005 (through September). In addition, of the 1,390 announced restatements we identified, the percentage of large companies announcing restatements has continued to grow since 2002.[11] While large and small companies restate their financial results for varying reasons, change in cost- or expense-related items, which includes lease accounting issues, was the most frequently cited reason for restating. While both internal and external parties could prompt restatements, internal parties such as company management or internal auditors prompted the majority of restatement announcements. Finally, we found that, despite SEC's efforts to create a more transparent mechanism for disclosing restatements through revisions to Form 8-K, some companies had not properly filed such disclosures and continued to announce intentions to restate previous financial statements results in a variety of other formats.

The Number of Restatement Announcements Grew since 2002, as Did the Number of Listed Companies Restating

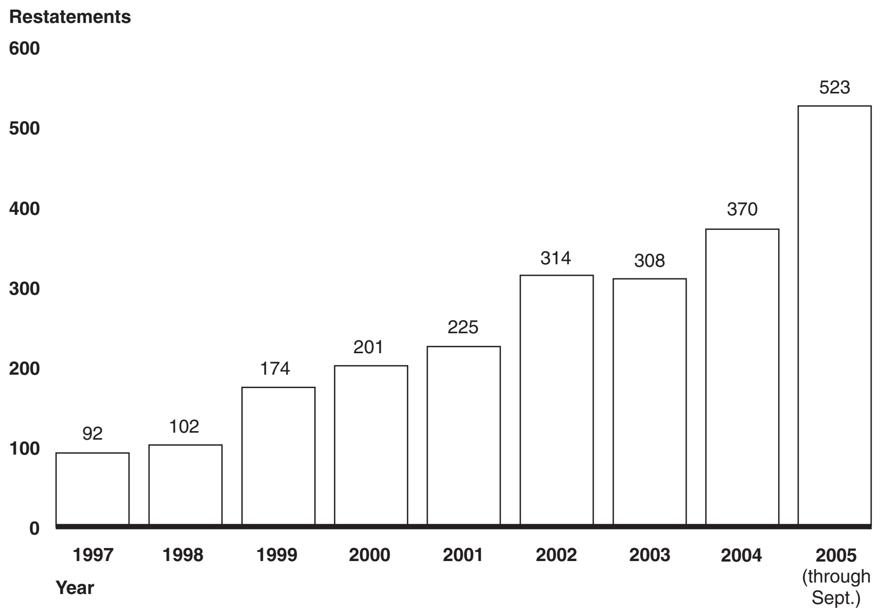
The number of annual announcements of financial restatements generally increased, from 314 in 2002 to 523 in 2005 (through September)—an increase of approximately 67 percent (see fig. 2). This constituted a nearly five-fold increase from 92 in 1997 to 523 in 2005. Furthermore, from July 2002 through September 2005, a total of 1,121 public companies made 1,390 restatement announcements.[12] Some industry observers noted that several factors may have prompted more U.S. publicly traded companies to restate previously reported financial results, including (1) the financial reporting

[11]See appendix V for a detailed listing of restatement announcements we identified, and additional information. In a follow up report to be issued in August 2006, we will provide an updated restatement announcements listing for the period October 1, 2005, through June 30, 2006. For the purpose of this report, we define a large company as having over $1 billion in total assets.

[12]The number of announcements exceeds the number of public companies because some companies announced more than one restatement.

requirements of the Sarbanes-Oxley Act, especially the certification of financial reports required by Section 302 and the internal controls provisions of Section 404; (2) increased scrutiny from the newly formed PCAOB through its inspections of registered public accounting firms; and (3) increased staffing and review by SEC.

Figure 2: Total Number of Restatement Announcements Identified, January 1997–September 2005



Source: GAO analysis of relevant press releases and SEC filings.

Notes: Includes restatement announcements by larger public companies traded on the Over-the-Counter (OTC) Bulletin Board and on the National Quotation Service Bureau's Pink Sheets (Pink Sheets).

As the number of restatement announcements rose, the numbers of listed companies making the announcements increased as well. While the average number of companies listed on NYSE, Nasdaq, and Amex decreased about 10 percent from 7,144 in 2002 to 6,473 in 2005, the number of listed companies restating their financial results increased from 265 in 2002 to 439 in 2005 (through September), representing about a 67 percent increase (see table 1). On a yearly basis, the proportion of listed companies restating grew from 3.7 percent in 2002 to 6.8 percent in 2005. Over the period of January 1, 2002, through September 30, 2005, the total number of restating companies (1,084) represents 16 percent of the average number of listed companies from 2002 to 2005, as compared to almost 8 percent during the 1997-2001 period.

Table 1: Number of Listed Restating Companies as a Percentage of Average Listed Companies, 2002–September 2005

Year	Number of companies listed[a]	Number of listed companies restating[b]	Percent of listed companies restating
2002	7,144	265	3.7
2003	6,780	237	3.5
2004	6,729	294	4.4
2005	6,473	439	6.8

Sources: GAO analysis of restatement announcements; NYSE, Nasdaq and SEC.

[a]The numbers of listed companies (NYSE-, Nasdaq-, and Amex-listed companies) for each year from 2002 to 2004 are based on year-end totals. The number of NYSE- and Amex-listed companies for 2005 is through March. The number of Nasdaq- listed companies for 2005 is through June.

[b]Companies that restated more than one time are counted only once in the yearly total. Also, note that the number of listed companies restating differs from the total number of restatements because not all companies that restated were listed on NYSE, Nasdaq, or Amex, and some companies restated multiple times. For example, in 2004, there were 370 restatements; however, 46 were attributed to companies not listed on a major exchange. There were 294 listed companies that were responsible for 324 of the restatement announcements in 2004, with some companies announcing more than once.

A number of other researchers also found that restatements had increased since calendar year 2002. The researchers used somewhat different search methodologies to identify companies that restate previously reported financial information and included slightly different criteria for inclusion but arrived at similar conclusions. The Huron Consulting Group (HCG) identified 1,067 financial statement restatements from 2002 to 2004 and noted that the increase was significant from 2003 to 2004.[13] Also, Glass, Lewis & Co. LLC (Glass Lewis) identified 2,319 restatements of previously issued financial information by U.S. public companies from 2003 to 2005 and also found an increase in the number of restatements over that period.[14] Unlike our work, which included a limited number of companies traded OTC Bulletin Board or on Pink Sheets, the Glass Lewis study also

[13]Huron Consulting Group, “A Study of Restatement Matters,” (Chicago: Huron Consulting Group, 2005).

[14]Glass, Lewis & Co. LLC, “Getting It Wrong the First Time,” (Denver: Glass, Lewis & Co. LLC, 2006).

included hundreds of smaller companies quoted on the OTC Bulletin Board or on Pink Sheets that generally lacked analyst coverage. See appendix VI for a comparison of various restatements studies.

The Percentage of Large Companies Restating Has Continued to Grow

For the restatements we identified, the number of large companies announcing restatements of their previously reported financial information due to financial reporting fraud and/or accounting errors has increased. More specifically, large companies (i.e., companies having over $1 billion in total assets), as a percentage of the total restating companies have increased from about 30 percent in 2001 to over 37 percent in 2005. Likewise, the average market capitalization of a company announcing a restatement (for which we had data) has grown from about $4 billion (with a median of $282 million) in the latter half of 2002 to almost $6 billion (with a median of $672 million) through September 2005. While the average size of listed companies increased about 68 percent from 2002 to 2005, the average size of companies restating their financials grew about 60 percent.

Another indication that large public companies announcing restatements has continued to increase, is the number of companies identified as announcing restatements that are listed on the NYSE, which has more large companies than the other U.S. stock exchanges.[15] For example, between 2002 and September 2005, the number of NYSE-listed companies announcing restatements had increased 64 percent from 114 to 187.[16] During the same time, the number of Nasdaq-listed companies announcing restatements increased 55 percent from 137 to 212, and the number of Amex-listed restating companies increased more than 175 percent from 14 to 40.[17]

[15]The average market capitalization of companies restating their financial statements for which we had data was $964 million for those listed on Nasdaq, and $9.7 billion for those listed on NYSE. The Nasdaq totals include National Market System and Small Cap Venue-listed companies.

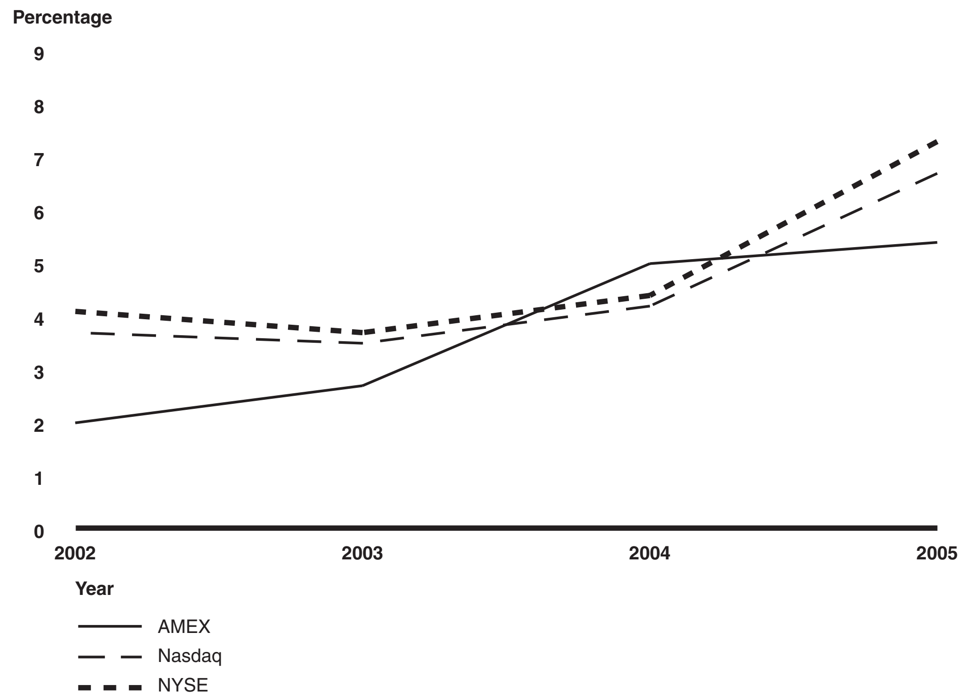
[16]Companies restating multiple times in one year are counted only once in this analysis. For example, in 2003 there were 110 restatements attributable to NYSE-listed companies; however there were only 103 companies restating—some more than once.

[17]Because our methodology reflects a focus on the impact of restatement announcements on market capitalization, we do not capture a large number of small public companies, many of which are not traded on the listed markets. See appendix I.

While more Nasdaq-listed companies announced restatements than NYSE-listed companies, the proportion of NYSE-listed companies restating (relative to the total number of companies listed on the NYSE) surpassed Nasdaq-listed companies over the period 2002–2005.[18] As figure 3 illustrates, for the announced restatements we identified, in 2002, about 4 percent of NYSE-listed companies announced restatements for financial reporting fraud and/or accounting errors, whereas this percentage rose to more than 7 percent by September 2005. During the same period, the percentage of Nasdaq-listed restating companies rose from less than 4 percent to almost 7 percent. From 2002 to 2005, the percentage of NYSE- and Nasdaq-listed companies restating essentially mirrored each other in movement throughout the period by declining and then increasing. However, the percentage of Amex-listed restating companies rose each year during the 2002 to September 2005 period from about 2.0 percent to almost 5.5 percent.

[18]In 2005, Nasdaq had almost 900 more companies listed than NYSE.

Figure 3: Percentage of Listed Companies Restating, 2002–September 2005



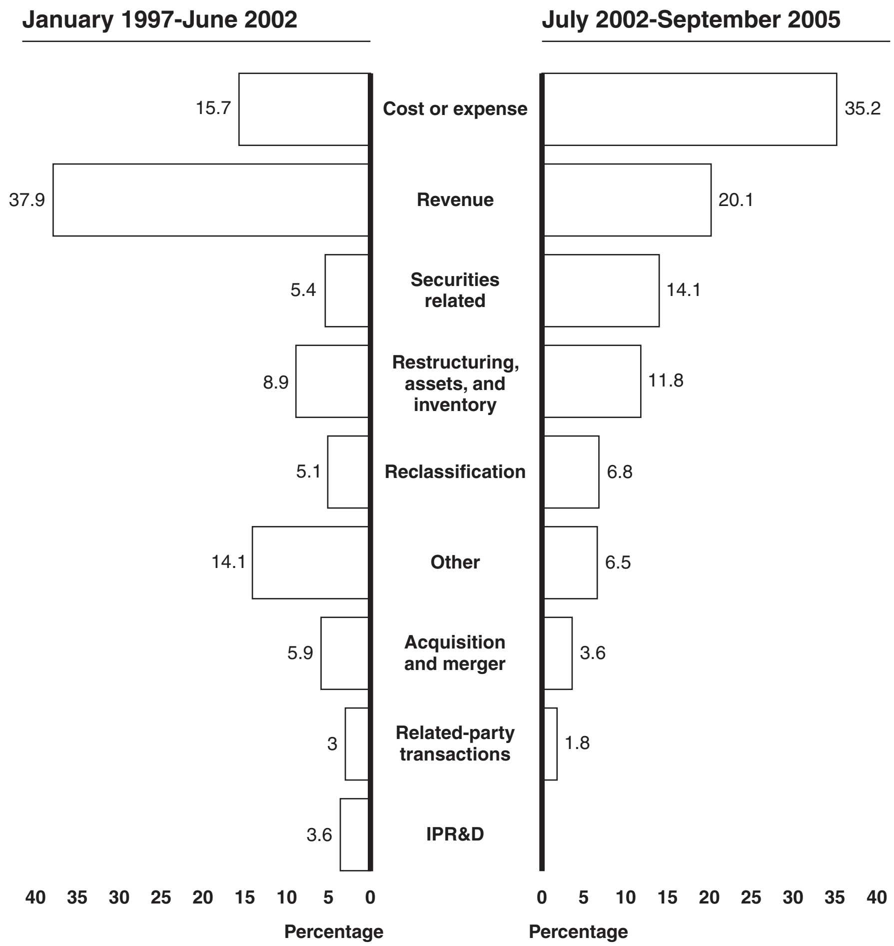
Source: GAO analysis of NASDAQ and SEC data on listed companies.

Note: The 2005 figures are based on restatement announcements collected through September 2005.

Restatement Announcements Most Frequently Were Made for Cost- or Expense-Related Reasons

Although public companies restate their financial results for a variety of reasons, cost- or expense-related issues accounted for more than one-third of the 1,390 restatement announcements identified from July 2002 through September 2005 (see fig. 4). We classified cost- or expense-related restatements generally to include a company understating or overstating costs or expenses, improperly classifying expenses, or any other mistakes or improprieties that led to misreported costs. Lease accounting issues that surfaced in early 2005 were also included in this category.

Figure 4: Restatements by Reason, January 1997–June 2002 and July 2002–September 2005



Source: GAO analysis of initial restatement announcements.

Note: Our database includes announced restatements that were being made to correct material misstatements of previously reported financial information. Therefore, our database excludes announcements involving stock splits, changes in accounting principles, and other restatements that were not made to correct mistakes in the application of accounting standards. For this report, we found only one restatement announcement resulting from IPR&D.

Our analysis also shows a significant drop in restatements announced for revenue recognition reasons, which had accounted for almost 38 percent of the restatements in our 2002 report. Cost- or expense-related issues surpassed revenue recognition issues as the most frequently identified cause of restatements primarily because of a large number of announcements made in early 2005 to correct accounting for leases by the retail/restaurant industry and tax-related issues. For example, 135 public companies announced restatements involving issues solely related to accounting for leases in 2005 after SEC chief accountant's February 7, 2005, letter regarding the treatment of certain leases and leasehold improvements.[19] However, revenue recognition remained the second most frequently identified reason for restatements from July 2002 through September 2005, accounting for 20 percent of all the restatements. Actions that we classified under "revenue recognition" included a company recognizing revenue sooner or later than would have been allowed under GAAP, or recognizing questionable or invalid revenue. (See table 2 for a description of each reason.)

[19]A lease is a document granting possession of a property for a given period without conferring ownership. The lease document specifies the terms and conditions of occupancy by the tenant, including a period of occupancy, rent payable, etc. A leasehold improvement is an expense incurred for the permanent improvements to rented facilities. Leasehold improvements are considered fixed assets and depreciate over the leased period.

Table 2: Financial Restatement Category Descriptions

Category	Description
Cost or expense	Restatements due to improper accounting for costs or expenses. This category generally includes a company understating or overstating costs or expenses, improperly classifying expenses, or any other number of mistakes or improprieties that led to misreported costs. It also includes improper treatment of expenses related to tax liabilities and tax reserves. In addition, it includes improper treatment of financing arrangements, such as leases, when a related asset was improperly capitalized or expensed as part of the financing arrangement. Improperly reserved litigation restatements are also included in this category.
Revenue recognition	Restatements due to improper revenue accounting. This category includes instances in which: revenue was improperly recognized, questionable revenues were recognized, or any number of other mistakes or improprieties that led to misreported revenue. Also included in this category are transactions with non-related parties that artificially inflate volume and revenues, through the simultaneous purchase and sale of products between colluding companies. These are known as round-trip transactions.
Securities-related	Restatements due to improper accounting for derivatives, warrants, stock options and other convertible securities.
Restructuring, assets, or inventory	Restatements due to asset impairment, errors relating to accounting treatment of investments, timing and amount of asset write-downs, goodwill and other intangibles, restructuring activity and inventory valuation, and inventory quantity issues.
Reclassification	Restatements due to improperly classified financial statement items, i.e., current liabilities classified as long-term debt on the balance sheet, or cash flows from operating activities classified as cash flows from financing activities on the statement of cash flows.
Other	Any restatement not covered by the listed categories. Includes restatements due to inadequate loan-loss reserves, delinquent loans, loan write-offs, or other allowances for doubtful accounts or accounting estimates; and restatements due to fraud or accounting errors that were left unspecified.
Acquisition and merger	Restatements due to improper accounting for—or a complete lack of accounting for—acquisitions or mergers. These include instances in which the wrong accounting method was used, or losses or gains related to the acquisition were understated or overstated.
Related-party transaction	Restatements due to inadequate disclosure or improper accounting of revenues, expenses, debts, or assets involving transactions or relationships with related parties.
In-process research and development	Restatements resulting from instances in which improper accounting methodologies were used to value in-process research and development at the time of an acquisition.

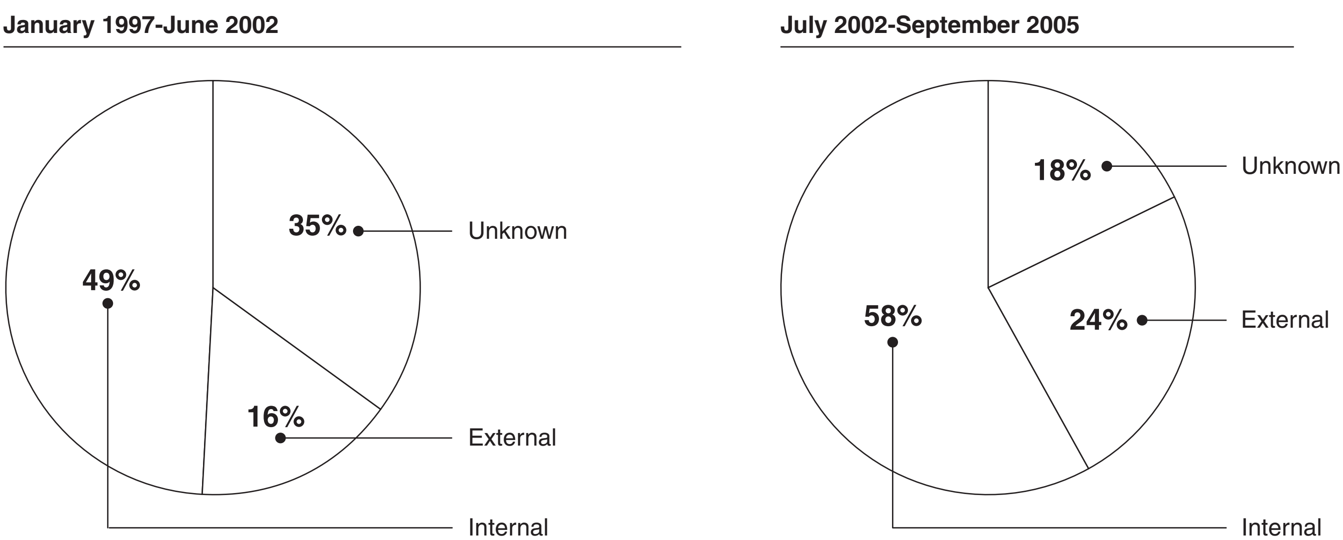
Source: GAO.

Note: We excluded announcements involving stock splits, changes in accounting principles, and other financial statement restatements that were made for reasons other than correcting for financial reporting fraud and/or accounting errors.

Internal Parties Prompted the Majority of Restatements Announced from 2002 through 2005

While both internal and external parties—such as the restating company's management or internal auditor, an external auditor, SEC, or others—can prompt restatements, about 58 percent of the 1,390 announced restatements were prompted by internal parties. This was an increase from about 49 percent in our 2002 report. However, in both our prior report and this report, external parties may have been involved in discovering some of these misstatements, even if the companies may not have made that information clear in their restatement announcements or SEC filings. The external auditor, SEC, or some other external party such as the media (as in the case of an August 2002 restatement announcement by AOL Time Warner Inc. (AOL)), was identified as prompting the restatement in 24 percent of the announcements (compared to 16 percent in our 2002 report). In the remaining 18 percent of the announcements (compared with 35 percent in our 2002 report), we were not able to determine who prompted the restatement because the announcement or SEC filing did not clearly state who discovered the misstatement of the company's prior financial results.

Figure 5: Who Prompted Restatements, January 1997–June 2002 versus July 2002–September 2005



Source: GAO analysis of GAO-identified initial restatement announcements.

While SEC Revised Its Forms to Make Disclosures of Certain Restatements More Uniform, Many Companies Continue to File in Other Formats

SEC has revised Form 8-K, in part, to make information on financial restatements more uniform and apparent to investors, but many companies appeared to have filed potentially deficient filings. In addition, conflicting instructions and guidance resulted in some companies disclosing similar financial information in varying degrees and formats. In a 2003 report required by the Sarbanes-Oxley Act, SEC proposed to address the lack of uniformity by amending several of its periodic disclosure forms—essentially to make issuers' public notification of financial information uniform.[20] Specifically, in its report, SEC proposed to amend Form 8-K to add a specific line item for public companies to disclose what was restated and why.

In March 2004, consistent with its proposal in the 2003 report, SEC amended Form 8-K to, among other things, add a new line item (Item 4.02), which requires public companies to file the Form 8-K (Item 4.02) within 4 business days if management or the company's independent auditors determine that previously issued financial statements should not be relied upon.[21] This alerts investors to potentially important company events that may impact their investment decision. This change became effective August 23, 2004. This change to Form 8-K included a limited safe harbor for failure to timely file an 8-K in certain situations, including in a situation in which the company makes the determination the financial statements may not be relied upon, but not in a situation when the independent auditor makes such a determination.

In November 2004, SEC issued additional guidance to address questions concerning the revised disclosures. This "Frequently Asked Questions" guidance states that a Form 8-K is required for Item 4.01 (Change in Accountant) and Item 4.02 events, even if a periodic report such as a Form 10-K or 10-Q disclosing such information is filed during the 4 business days

[20]Section 704 of the Sarbanes-Oxley Act directed SEC to study its enforcement actions over the 5 years preceding the enactment of the act in order to identify areas of issuer financial reporting that are more susceptible to fraud, inappropriate manipulation, or inappropriate earnings-management. Section 704 also directed SEC to report its findings to Congress, including potential recommendations to address any identified issues. SEC reported the results of its study in 2003.

[21]Such a determination is based upon Statement on Auditing Standards (SAS) No. 1, Section 561.06, which requires the appropriate disclosure of newly discovered facts and their impact on the financial statements to persons who are known to be currently relying, or who are likely to rely on, the financial statements when the newly discovered information meets the criteria set forth in SAS No. 1, Section 561.05.

following the event. The amended forms and the amended rules do not make this Form 8-K filing requirement clear, and instead indicate that the filing of a Form 8-K may not be required if previously reported. Specifically, the instructions for Form 8-K state that a public company is not required to file a Form 8-K when, substantially the same information has been previously disclosed on a periodic report.

Between August 23, 2004, and September 30, 2005, about 17 percent of restating companies (111 companies) did not appear to file a Form 8-K for restatements as required by SEC guidance.[22] According to our analysis, about 30 percent of restating companies (34 companies), during this same time period, failed to file a Form 8-K disclosing their restatements. It appears that these companies either failed to disclose the announced restatement at all or disclosed it in a Form 10-K or 10-Q or an amended form. The remaining 77 companies filed a Form 8-K disclosing their restatement, but under items other than the required 4.02—such as 2.02 (Results of Operations and Financial Condition) or 8.01 (Other Events). Furthermore, we found that the companies filing these potentially deficient filings included a mix of large and small companies. For example, over one-third of the 111 companies we identified were large companies (as measured by market capitalization, asset size, or revenue). Moreover, a study by Glass Lewis found that about one-third of companies restating in calendar year 2005 did not file a Form 8-K (Item 4.02) to notify investors, or the public in general, about such a corporate event.

[22] We excluded foreign issuers.

Market Capitalization of Restating Companies Decreased by Billions in the Days Surrounding Restatement Announcements, but Was Less Severe Than in Our Prior Report

We estimated that—from the trading day before through the trading day after an initial restatement announcement—stock prices of the restating companies decreased by an average of almost 2 percent, compared with an average decline of nearly 10 percent in our 2002 report.[23] In addition, we estimated that the market capitalization of restating companies decreased by nearly $63 billion when adjusted for overall market movements (nearly $43 billion unadjusted) compared to adjusted and unadjusted declines of around $100 billion reported in 2002. These declines, while potentially significant for the investors involved, if realized, represented about 0.4 percent of the total market capitalization of the three securities exchanges, which was about $17 trillion in 2005. The reasons for restatements also appear to have affected the severity of the impact on market capitalization, with restatements for reasons that could involve financial reporting fraud or other unspecified causes resulting in the most severe size-adjusted market reaction on average. However, revenue issues continued to have a sizeable impact and, in a change from our previous report, cost- or expense-related restatements had the greatest impact in dollar terms because there are more of them. We also found that the market impact of restatement announcements on restating companies over longer periods was mixed, in contrast to our prior report, in which we found larger, more persistent stock price and market capitalization declines for restating companies.

On Average, Stock Prices Fell over the Days Surrounding the Initial Restatement Announcement

We estimated that, for the 1,061 cases we were able to analyze from July 1, 2002, to September 30, 2005, the stock prices of companies making an initial restatement announcement fell by almost 2 percent (market-adjusted), on average, from the trading day before through the day after the announcement (the immediate impact). Unadjusted losses in the market capitalization of restating companies totaled about $43 billion, ranging

[23]To assess the impact of the restatement announcement on a company's stock price, we calculated the abnormal return of the stock over the event window (one trading day before through one trading day after the announcement for the immediate impact, 20 trading days before through 20 trading days after for the intermediate impact, and 60 trading days before through 60 trading days after for the longer-term impact). The abnormal return for a given stock is the actual rate of return for that stock over the event window minus the expected rate of return of that stock (the rate of return predicted by a statistical model incorporating the price behavior of a market index) over the same period. This measure attempts to isolate the impact of the announcement by controlling for general market movements. We reported the average holding period abnormal return for all stocks that we were able to analyze for a given event window for a given time period. See appendix I for more details.

from a net gain of about $12.2 billion from July through December 2002 to a loss of about $41 billion for 2004 (see table 3). But, when the losses were adjusted for general movements in the overall market, the market capitalization of the restating companies decreased an estimated $63 billion.

Table 3: Summary of Immediate Impact of Restatement Announcements on Restating Companies' Market Capitalization, July 2002–September 2005

Period	Percent of market–adjusted increase (decrease) in stock price	Total unadjusted increase (decrease) in market capitalization (dollars in billions)	Total market-adjusted increase (decrease) in market capitalization (dollars in billions)	Number of restatement announcements analyzed
July–December 2002	(4.1 %)	$12.2	$6.1	121 of 189
2003	(1.6)	(13.7)	(20.1)	242 of 308
2004	(2.5)	(41.2)	(40.9)	297 of 370
January–September 2005	(1.0)	0.2	(8.3)	401 of 523
Total (July 2002–September 2005)	**(1.9)**	**($42.6)**	**($63.2)**	**1,061 of 1,390**

Sources: GAO, NYSE's TAQ, and SEC.

Notes: The changes in stock prices (measured by average holding period abnormal returns) were statistically different from zero at the 5 percent level of significance for all periods except 2003. We excluded 329 restatement announcements because they involved companies that were not listed on NYSE, Nasdaq, or Amex, or had missing data because of trading suspensions, delistings, bankruptcies, mergers, or other reasons noted in appendix I. Numbers may not sum due to rounding.

In our prior report, we found that the immediate impact was an average decline in stock price of nearly 10 percent and a decline, both adjusted and unadjusted, in market capitalization of around $100 billion. Thus, in total, the immediate impact for July 2002–2005 appeared to be less severe. The smaller average decline in stock price (a 2 percent decline compared with a nearly 10 percent decline) suggested that the market's reaction for each company, on average, was not as severe. On an annual basis, and when not adjusted for market movements, in the current report the average annual decline was $13.1 billion, compared with $18.2 billion, in our 2002 report. However, when market-adjusted, the average decline was $19.4 billion over the analysis period for this report, compared with an average $17.4 billion decline for the period covered in our prior report. The increased severity of the market-adjusted immediate impact on market capitalization likely reflected the more negative reaction to a restatement announcement given the generally positive overall market movement during the 2003–2005 period, and could also reflect the fact that more, larger companies announced restatements in the July 2002–2005 period.

The immediate impact on the market capitalization of restating companies, while potentially large for the investors involved, if realized, generally was less than 0.3 percent of the total market capitalization of companies listed on NYSE, Nasdaq, and Amex for a given year during 2002–2005, ranging in magnitude from 0.05 percent to 0.25 percent (see table 4). That the immediate impact—as a percentage of total market capitalization—would appear relatively small is not surprising, considering the short trading day interval that we analyzed. We chose the 3-trading-day window to focus as much as possible on the restatement announcement, to the exclusion of other factors.[24] Later in this report, we examine losses over longer periods, as well as the effects of restatements on overall market confidence.

[24]Although we attempted to control for general market movements over each 3-trading-day window to isolate the impact of the announcement, other factors may have influenced the stock prices of the restating companies during this period. For example, a company might have issued its third quarter 2005 earnings while also announcing that it was going to restate its earnings for the first two quarters of 2005. If the company's third-quarter earnings fell short of the market's expectations, the news likely would exacerbate the negative reaction to the restatement announcement; if, however, the company's third-quarter earnings exceeded the market's expectations, the news likely would temper the negative reaction to the restatement announcement. Our analysis did not attempt to disaggregate these reactions.

Table 4: Summary of Immediate Impact on Restating Company Market Capitalization as a Percentage of Total Market Capitalization, July 2002–September 2005

Period	Total market capitalization of listed companies (dollars in billions)	Total adjusted increase (decrease) in market capitalization of restating companies (dollars in billions)	Total adjusted increase (decrease) in market capitalization as a percentage of total market-capitalization
July–December 2002	$11,055	$6.1	0.06%
2003	14,266	(20.1)	(0.14)
2004	16,324	(40.9)	(0.25)
January–September 2005	17,001	(8.3)	(0.05)
Total (January 2002–September 2005)	**$14,662**	**($63.2)**	**(0.43)**

Sources: GAO, NYSE's TAQ, SEC, and World Federation of Exchanges.

Notes: Data on the total market capitalization of listed companies are as of year-end. We excluded 329 restatement announcements for a variety of reasons, including cases that involved companies that were not listed on NYSE, Nasdaq, or Amex; and announcements that involved missing data because of trading suspensions, delistings, bankruptcies, and mergers. Numbers may not sum due to rounding.

While our analysis generally showed declines in market capitalization, the results for the second half of 2002 were positive and can be explained in large part by the influence of three large companies—Transocean Inc., Tyco International Ltd. (Tyco), and AOL. The market reactions to the restatement announcements of the three companies resulted in adjusted market capitalization gains of $10.7 billion. In the cases of Tyco and AOL, both of which involved revenue recognition issues, the restatement announcements came weeks or months after initial news of potential accounting fraud and errors surfaced, and so the market had likely already anticipated these announcements and factored the information into the companies' stock prices well before the restatement announcement. Over the 3 trading days surrounding the announcement dates that we identified, Tyco's market capitalization increased by around $2.8 billion and AOL's market capitalization increased by around $1.6 billion.

We also conducted a separate analysis of the immediate impact of restatement announcements for the 329 announcements that we were unable to analyze in the primary event study. This group included 159 announcements that were attributed to companies with stock not listed on the exchanges. We limited this additional analysis to a simple assessment of the unadjusted change in market capitalization over the three trading days surrounding the restatement announcement, generally relying on data we obtained from SEC's and Nasdaq's Web sites. We were able to gather sufficient data to analyze 242 of the 329 announcements (114 announcements made by listed companies and 128 announcements made by unlisted companies).[25] We estimated that, on average, these restatement announcements resulted in an average decline in market capitalization of 1.4 percent from the trading day before the announcement through the trading day after the announcement, reflecting an unadjusted decline of about $3.6 billion in addition to the nearly $43 billion decline estimated in the primary event study.

Reasons That Could Involve Reporting Fraud or Other Unspecified Issues, and Revenue Recognition Issues Continued to Significantly Impact Market Capitalization; but Cost or Expense Issues Produced Greater Dollar Losses

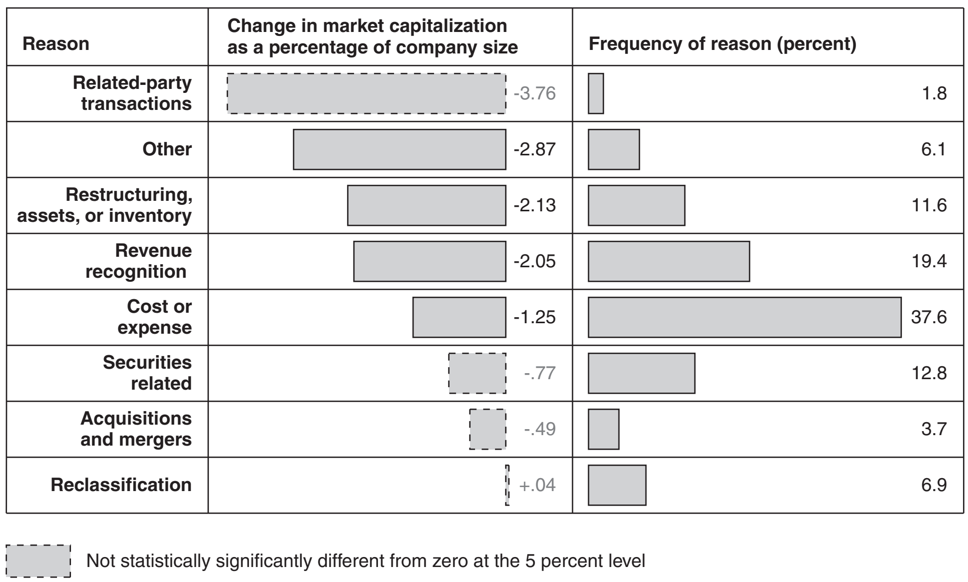
Announcements made for reasons that could involve financial reporting fraud or other unspecified causes, which we classified in the Other category, as well as restructuring and revenue recognition-related issues, had the largest negative impact on market capitalization when adjusted for the size of a restating company (see fig. 6); however, when measured in dollars, cost- or expense-related restatement announcements accounted for more of the immediate decline in market capitalization than each of the other reasons, over our analysis period.[26] These results are different from the findings in our earlier report, suggesting that the nature of the market response to restatements may have changed in some respects. (We discuss how different types of restatements may have affected investor confidence in another section of this report.) To assess the immediate market impact of a given type of restatement on a restating company's market capitalization, we computed the ratio of the estimated change in the company's market capitalization to the company's total market

[25]We were unable to analyze 87 announcements due to companies merging with or being acquired by other companies, companies filing for Chapter 11 bankruptcy protection, companies deregistering their stock, and companies for which we were unable to find any additional information.

[26]In this section we focus on market-adjusted results; the unadjusted results were qualitatively similar.

capitalization over the 3 trading days surrounding the announcement of a restatement. We then averaged these impacts for each reason.

Figure 6: Immediate Market-Adjusted Impact on Market Capitalization of Restating Companies by Restatement Reason, July 2002–September 2005



Sources: GAO analysis of initial restatement announcements; NYSE TAQ, and SEC data.

Notes: Company size is measured by market capitalization. This figure illustrates the average change in market capitalization (the immediate impact) as a percentage of restating company market capitalization. The single observation categorized as IPR&D was omitted from this figure.

While restatement announcements involving related-party transactions, which can revolve around revenue issues, appeared to have the largest negative impact, this result was not statistically different from zero. This category accounted for a relatively small number of restatements, and the results were heavily influenced by three announcements that had sizeable market reactions.[27]

[27] For example, the three restatements attributable to related-party transactions with the largest negative responses (in excess of 18 percent of market capitalization) involved misreported sales between affiliates (at Digital Video Systems, Inc. in April 2003), unspecified intercompany transactions (at Ionics, Inc. in Nov. 2002), and failure to disclose and account for a compensation arrangement with a former CEO (at Nara Bancorp, Inc. in March 2005).

In contrast to our previous report, in which positive responses to two large restatements attributed to restructuring, asset impairment, and inventory issues led to market gains in that category, restatements made for these reasons in 2002–2005 represented about 27 percent of the market-adjusted market capitalization losses. These reasons accounted for about 11 percent of the cases we analyzed, and the median size of a company restating for these reasons was $503 million.

The effect of restatements announced for revenue recognition issues on market capitalization initially appeared weaker than in our previous report. Restatements involving revenue recognition accounted for almost 20 percent of the cases, but only around 5 percent of the market-adjusted market capitalization losses. The median size of a company restating for this reason was $321 million; thus it appears that companies announcing restatements for revenue recognition reasons tended to be smaller. However, when adjusted by the size of the restating company, restatement announcements involving revenue recognition issues (more than many other reasons) resulted in an average loss that represented a larger percentage of a restating company's market capitalization.

Cost- or expense-related restatements had a greater effect on market capitalization than in our previous report, and were distinguished from restatements for other reasons in three ways. First by dollars, cost- or expense-related restatement announcements accounted for more of the immediate declines in market capitalization than other reasons over our analysis period. More specifically, cost- or expense-related restatement announcements accounted for $28.7 billion, or about 46 percent, of the $63.2 billion in total losses (market-adjusted) over our analysis period. This decline was driven in large part by the January 9, 2004, restatement announcements by Shell Transport and Trading Company, plc, and Royal Dutch Petroleum Company, which represented a nearly $13 billion decline in estimated market capitalization attributed to the cost- or expense category. Second, when measured by median market capitalization, companies announcing restatements involving cost or expense issues were the largest. The median size of a company restating for cost or expense reasons was $630 million. Furthermore, of the 1,061 cases analyzed, cost or expense was the most frequently cited reason for restating (38 percent).[28]

Finally, the market did not perceive all restatements negatively. We found that announcements involving the acquisition and merger category—with a median company size of $318 million—resulted in an overall increase of nearly $1 billion in market capitalization. The positive results are in significant contrast to our previous report, in which we attributed more than $19 billion in market capitalization decline to this category.

Restatement Announcements Continued to Have Some Longer-Term Impact on the Market Capitalization of Restating Companies

Our analysis of restatement announcements showed mixed results over intermediate and longer periods, but these announcements overall tended to have some longer-term impacts. On a market-adjusted basis, from 20 trading days before through 20 trading days after a restatement announcement (the intermediate impact), we estimated that the stock prices of restating companies declined by nearly 2 percent on average, and their market capitalization declined by $31 billion in aggregate; whereas, on an unadjusted basis, the market capitalization of restating companies increased almost $81 billion (see table 5).[29] This indicates that, while the market capitalization of the restating companies increased, the increase was less than expected given the movement in the overall market.

[28]As noted earlier, a large number of public companies announced restatements involving accounting for leases recently. We found that of the 1,390 restatement announcements that we captured, 151 were due solely to the lease accounting issue. We were able to analyze 133 of these 151 announcements and found that, on a market-adjusted basis, the stock prices of these companies declined by around 0.4 percent on average and their market capitalization decreased by $1.8 billion from the trading day before through the trading day after the announcement. We found that the average (median) immediate market-adjusted impact on market capitalization for these announcements was -$13.4 million (-$0.4 million). This is in comparison to the average (median) immediate market-adjusted impact on market capitalization of -$60.0 million (-$1.4 million) for all of the 1,061 announcements that we analyzed in the primary event study.

[29]In our 2002 report, we specified the intermediate impact as 60 trading days before through 60 trading days after the announcement. For purposes of this report, we have specified 20 trading days before through 20 trading days after the announcement as the intermediate impact and the longer-term impact as 60 trading days before through 60 trading days after the announcement.

Table 5: Summary of Intermediate Impact of Restatement Announcements on Restating Companies' Market Capitalization, July 2002–September 2005

Period	Percent of market-adjusted increase (decrease) in stock price	Total unadjusted increase (decrease) in market capitalization (dollars in billions)	Total market-adjusted increase (decrease) in market capitalization (dollars in billions)	Number of restatement announcements analyzed
July–December 2002	(6.1%)	$6.4	$(7.2)	108 of 189
2003	0.1	(31.6)	(52.6)	221 of 308
2004	(3.8)	(6.7)	(58.4)	267 of 370
January–September 2005	(0.3)	113.0	87.0	369 of 523
Total (July 2002–September 2005)	**(1.8)**	**$81.1**	**($31.3)**	**965 of 1,390**

Sources: GAO, NYSE's TAQ, and SEC.

Notes: We excluded 425 restatement announcements for a variety of reasons, including those cases that involved companies not listed on NYSE, Nasdaq, or Amex; and announcements that involved missing data resulting from trading suspensions, delistings, bankruptcies, and mergers.

On a market-adjusted basis, from 60 trading days before through 60 trading days after the announcement (the longer-term impact), we estimated that the stock prices of restating companies decreased by less than 2 percent on average and their market capitalization decreased by $40 billion in aggregate (see table 6). Unadjusted, the longer-term impact was an increase of $141 billion in the market capitalization of restating companies.[30] In our 2002 report, we estimated that the unadjusted market capitalization of restating companies that we analyzed decreased by close to $240 billion from 60 trading days before through 60 trading days after the announcement. This large difference may be the result of the generally positive overall market movement during 2003–2005, an increased number of restatements that the market did not view negatively, or the possibility that the financial markets have grown increasingly less sensitive to restatement announcements since 2002.

[30] As we considered longer event time frames, we increased the possibility that other factors and events may have impacted a restating company's stock price.

Table 6: Summary of Longer-Term Impact of Restatement Announcements on Restating Companies' Market Capitalization, July 2002–September 2005

Period	Percent of market-adjusted increase (decrease) in stock price	Total unadjusted increase (decrease) in market capitalization (dollars in billions)	Total market-adjusted increase (decrease) in market capitalization (dollars in billions)	Number of restatement announcements analyzed
July–December 2002	(12.6%)	$(49.8)	$12.7	113 of 189
2003	5.3	82.6	(14.0)	200 of 308
2004	(4.7)	62.8	(33.6)	258 of 370
January–September 2005	(0.1)	45.7	(5.1)	359 of 523
Total (July 2002–September 2005)	**(1.7)**	**$141.4**	**($40.1)**	**930 of 1,390**

Sources: GAO, NYSE's TAQ, and SEC.

Notes: We excluded 460 restatement announcements for a variety of reasons, including announcements that involved companies that were not listed on NYSE, Nasdaq, or Amex; and announcements that involved missing data resulting from trading suspensions, delistings, bankruptcies, and mergers.

As we considered longer event time frames, this increased the possibility that other factors and events may have affected a restating company's stock price. Nevertheless, expanding the event window beyond the immediate trading days around the restatement announcement date allowed us to assess the longer-term impact of restatement announcements. The longer time frame also allowed us to capture any impact from earlier company announcements, which may have signaled restatements (for example, a company's CFO departing a company suddenly, its outside audit firm resigning, or the notice of an internal or SEC investigation at the company). With such events, investors may sense that more negative news is forthcoming and drive the company's stock price lower. For example, speculation about potential accounting problems at AOL first appeared publicly in mid-July 2002 in *The Washington Post*; however, it was not until mid-August that the company announced that it would restate. Our immediate impact analysis around the August 14, 2002, announcement date revealed a sizeable positive impact. However, our intermediate impact analysis showed that the market reacted negatively to the release of the news over this event window.

Finally, our analysis only attempts to control for overall market movements, and so for these longer periods we cannot adjust for other factors such as company-specific news unrelated to the restatement. For example, several weeks after announcing a restatement a company could win a lucrative contract or be the target of an acquisition, both of which would likely have a positive impact on its stock price. We subsumed the impacts of any additional, unrelated events that occurred during this time period, which would attribute them to the restatement announcement. Appendix I provides additional details about these measures, along with information about their limitations.

Certain Restatements Appear to Affect Investor Confidence but Trends in Restatements Complicate Analysis

Although researchers generally agree that restatements can have a negative effect on investor confidence, the surveys and indexes of investor confidence that we reviewed did not indicate definitively whether investor confidence increased or decreased since 2002. Researchers noted several reasons for the inconclusive results about the effects of restatements on investor confidence. For example, some researchers have noted that, since 2002, investors may have had more difficulty discerning whether a restatement represented a response to aggressive or abusive accounting practices, constituted remediation of past accounting deficiencies, or merely represented technical adjustments. Furthermore, investor confidence remains difficult to quantify because it cannot be measured directly and because investors consider a variety of factors when making investment decisions. However, we identified several survey-based indexes that use a variety of methods to measure investor confidence; we also identified empirical work by academics and financial industry experts. A periodic UBS/Gallup survey-based index aimed at gauging investor confidence found that, although investor confidence remains low, accounting issues appear to be of less concern. In contrast, according to the Yale index, which asks a different set of questions, institutional investors have had slightly more confidence in the stock market since 2002; the index produced uncertain results for individual investors.

Researchers Have Suggested Numerous Reasons for Why Investors May Have Reacted Both Positively and Negatively to Restatements since 2002

Although researchers generally have agreed that restatement announcements could send unfavorable messages about restating companies to the capital markets, an analyst with whom we spoke expressed less agreement about the causes and effects of restatement announcements on investors (and investor confidence) since 2002.[31] While we found some evidence in our 2002 report that suggested that restatement announcements prior to July 2002 may have led to widespread concerns about the perceived unreliability of financial reports, the impact of restatements since July 2002 on investor confidence has been more uncertain because the driving forces behind the increase in restatements have been less clear. For example, some analysts have suggested that investors may not have been able to discern whether restatements since 2002 represented a response to: aggressive or abusive accounting practices, the complexity of accounting standards, the remediation of past accounting deficiencies, or just technical adjustments.[32]

Some analysts indicated that the increase in the restatements is a serious problem with negative consequences on investor confidence. Other analysts have said that restatements might have minimal (or positive)

[31]For example of some empirical studies see Z. Palmrose et al., "Determinants of Market Reactions to Restatement Announcements," *Journal of Accounting and Economics*, 37 (February): 2004, K. Anderson and T. Yohn, "The Effect of 10-K Restatements on Firm Value, Information Asymmetries, and Investors' Reliance on Earnings", Working Paper, Georgetown University, 2002, P. Hribar and N. Jenkins, "The Effect of Accounting Restatements on Earnings Revisions and the Estimated Cost of Capital", Review of Accounting Studies, 9: 2004. and C. Gleason et al., "Financial Statement Credibility: The Contagion Effects of Accounting Restatements," AAA FARS Meeting Paper (2004); and those studies reviewed in GAO-03-138, among others. These studies, which examine measures that may proxy for investor confidence—such as long-term cumulative abnormal returns, earnings response coefficients, bid-ask spreads, and cost-of-capital measures—suggest negative impacts, but may not extend to all types of restatements or generalize to restatements since the passage of the Sarbanes-Oxley Act. However, we found no published studies that attempted to measure how long this impact may last on restating companies, or whether the decline in confidence spreads to non-restating companies (thereby impacting the overall investment climate).

[32]Several studies have suggested there is a greater investor concern over errors involving revenue recognition, more than one account, financial reporting fraud, or accounting errors than over technical accounting issues and unintentional accounting defects that involve relatively smaller amounts and fewer accounting periods—or that suggest corrective action taken by the company. For example, see Palmrose et al. (2004); D. Farber, "Restoring Trust After Fraud: Does Corporate Governance Matter?", *The Accounting Review*, 80 (April): 2005, Anderson and Yohn (2002); A. Akhigbe et al., "Why Are Some Corporate Earnings Restatements More Damaging?" *Applied Financial Economics*, 15: 2005 and Hribar and Jenkins (2004).

effects on confidence if investors saw them as a remediation of accounting problems existing prior to the passage of the Sarbanes-Oxley Act, recognizing some restatements as the expected byproduct of a greater focus on the quality of financial reporting by management, audit committees, external auditors, and regulators since 2002. Although accounting issues discovered at one company could cause capital market participants to reassess the credibility of financial statements issued by other companies, researchers also noted the absence, so far, of large numbers of restatements that represent deliberate violations of GAAP—the same kind of restatements many believed produced widespread effects on investor confidence in 2001 and 2002 (e.g., Enron, WorldCom, and Adelphia). In that vein, others noted that the Sarbanes-Oxley Act, the collapse of Arthur Andersen, and perceived litigation risks have encouraged more conservative approaches that resulted in restatements to correct small errors or technical adjustments that likely were irrelevant to investors. Some believed that at least a portion of the restatements since 2002 have resulted from excessive complexity in accounting principles or the second-guessing of legitimate judgment calls that did not appear relevant to the valuations of the companies involved. One expert expressed concern that restatements may have lost their salience to market participants because they now occur so frequently, while others noted that investor confidence would be negatively affected if the number of restatements did not decline in the near future.

UBS/Gallup Index of Investor Confidence Reveals Investor Confidence Remains Low but Accounting Issues Appear to Be of Less Concern

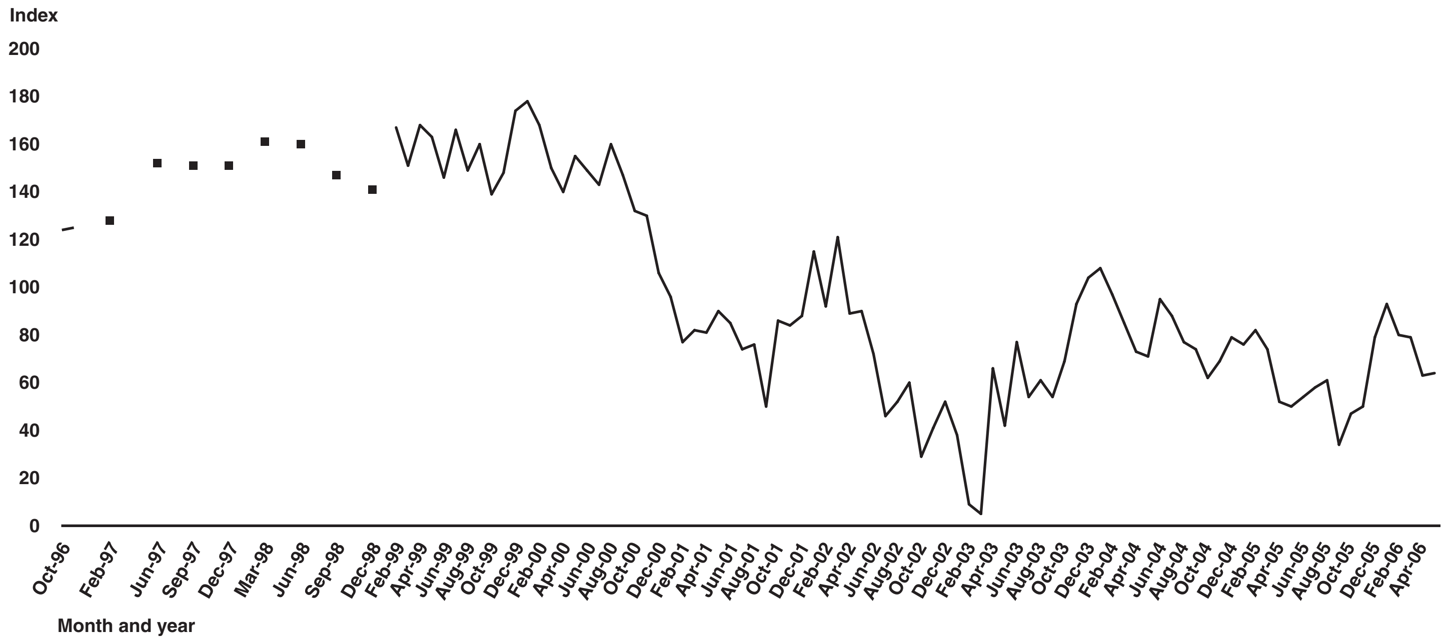
Directly measuring the effect of restatements on investor confidence remains difficult because so many factors go into any investment decision and the reasons for restatements, which can affect investor response, often are unclear. However, we have highlighted results from two respected survey-based indexes of investor confidence, obtained from UBS Americas, Inc. and the International Center for Finance at the Yale School of Management. The UBS Index has been acknowledged for its accuracy and timeliness, and the Yale School of Management Indexes are considered to be the longest-running effort to measure investor confidence.

The UBS/Gallup Index of Investor Optimism suggests that investor confidence remains well below the March 2002 level, when investor optimism had started to rebound following the Enron scandal.[33] As shown in figure 7, according to the survey, concerns about accounting practices and corporate governance started to affect investor optimism, which were heightened following the WorldCom restatement announcement in June 2002. The index continued to decline until March 2003 when it reached an all-time low of 5—mirroring a similar decline in stock markets. However, in April, the survey indicates that investors where becoming more confident in the U.S. economic recovery throughout most of 2003. By January 2004, the index was back up to 108 before experiencing another steep decline by September 2005 as markets reacted, in part, to a sharp increase in energy prices. While the Index increased over the reminder of 2005, it remained below the March 2002 level through the second quarter of 2006.[34]

[33]The UBS/Gallup Poll of Investor Attitudes determines a monthly Index of Investor Optimism. The index, composed of "personal" and "economic" dimensions, yields an overall estimate of investor confidence. The personal element asks investors (defined as any private household with at least $10,000 in investable assets, or nearly 40 percent of all U.S. households) how confident they are about increasing their income and achieving investment goals. The economic dimension poses questions about macroeconomic influences such as unemployment and overall stock market performance. A positive result indicates optimism, while a negative result denotes pessimism. In a statistical study of the poll's accuracy, Lawrence Klein, a Nobel Laureate in Economics and Professor at the University of Pennsylvania, endorsed the indicator as "at least as good as and probably better, in terms of accuracy, than the competing [indexes]."

[34]One critique of survey sentiment indexes is that they may unduly measure the optimism of small investors, which may not be as important to the stock market. However, Lawrence Klein's research using the Index of Investor Optimism shows that it has good correlations with key economic indicators, such as consumer spending, personal income, industrial production, employment, and stock market averages. Moreover, the U.S. Trust's Affluent Investor Index, which is based on individuals with adjusted gross incomes of more than $325,000 annually (or a net worth greater than $5.9 million), also found an increase in confidence in 2003 and 2004, and a decline in confidence in 2005.

Figure 7: UBS/Gallup Investor Optimism Index, October 1996–May 2006



Source: UBS/Gallup.

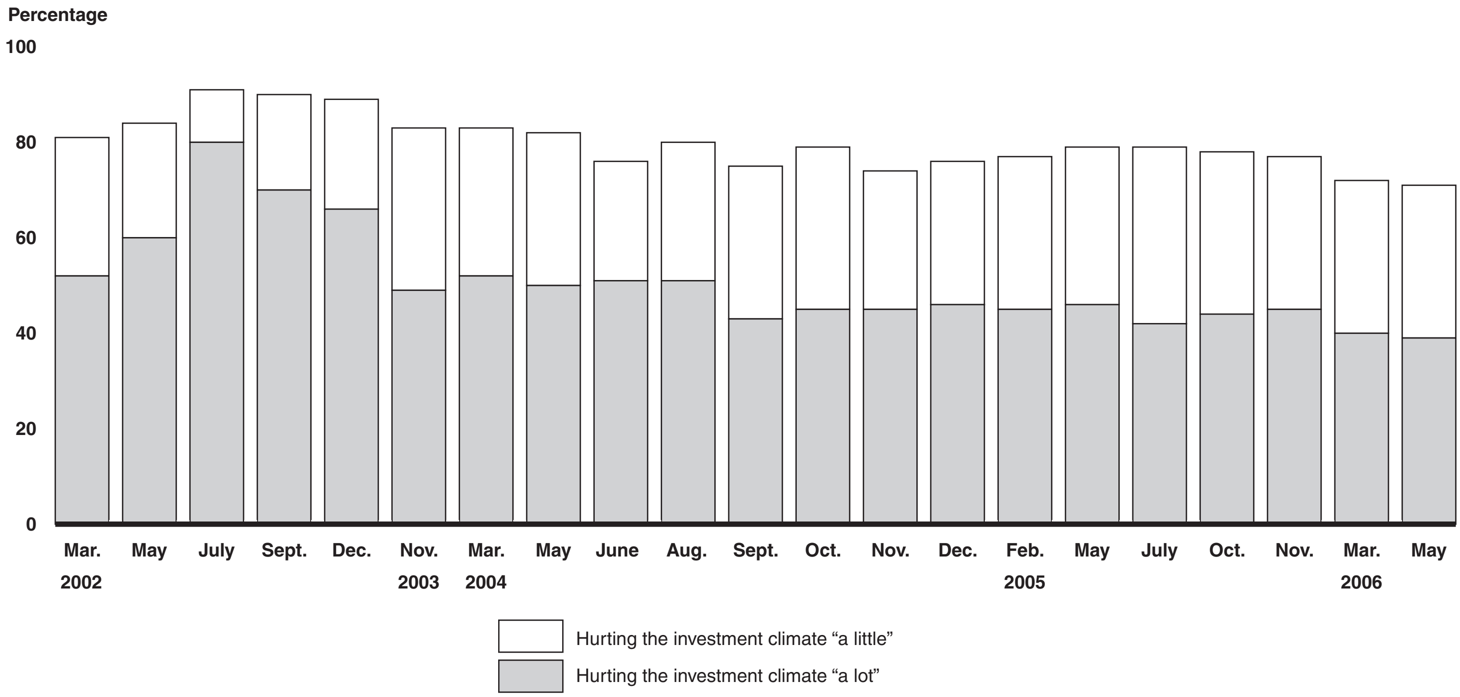
These trends are consistent with various proxies for investor confidence. For example, since April 2003, net new cash flows to equity mutual funds have been positive. And, according to "Barron's Confidence Index," investor confidence returned to its historical average by mid-2004 and—despite a decline in investor confidence in 2005—has remained above its lows in 2002 and 2003.[35]

[35]According to some researchers, mutual fund flows are another indicator of investor sentiment because mutual funds have become an important alternative to direct purchases of securities. Mutual fund investors demonstrate their confidence in the stock market by buying or selling equity mutual fund shares. The ratio of the average yield on high-grade bonds to the average yield on intermediate-grade bonds—commonly referred to as "Barron's Confidence Index" when employing Barron's yields—is used by some to indicate the general faith in corporations and investors' attitude toward risk. (For the purposes of this report, the Barron's Confidence Index is somewhat of a misnomer since we used Moody's yields from the Board of Governors of the Federal Reserve System.) A higher ratio (i.e., closer to 100 percent) implies that investors require less compensation for taking on additional risk and therefore are relatively confident in the stock market. However, changes in the ratio could also reflect investor sentiment about the economy, inflation, political climate, or other phenomena.

While the 2002 and 2003 surveys reported that the leading concern expressed by investors was the negative impact of questionable accounting practices on the market, in 2005 and 2006, investors identified a number of other reasons as more significant for the decline in investor optimism. The major reasons cited for the decline were (1) the price of energy, including gas and oil; (2) the outsourcing of jobs to foreign countries; (3) the federal budget deficit; (4) the situation in Iraq; and (5) the economic impact of Hurricane Katrina and other storms. While some of these reasons reflect current events, others consistently were viewed as less important than accounting issues in the 2002, 2003, and 2004 surveys. However, it should be noted that accounting issues continue to be viewed as more important than a variety of other forces affecting the investment climate such as expectations regarding inflation, the value of dollar, and the threat of more terrorist attacks.

While a significant portion of all investors surveyed continue to believe that accounting issues were negatively affecting the market, according to the UBS/Gallup survey the percent of investors feeling this way has decreased (see fig. 8). While 91 percent of all investors surveyed in 2002 felt that accounting issues were negatively impacting the market, about 71 percent felt that way in May 2006. Moreover, the percentage of investors indicating that accounting issues were hurting the investment climate in the United States “a lot” fell from 80 percent in July 2002 to 39 percent in May 2006.

Figure 8: Effect of Accounting Concerns on Investor Confidence in the Stock Market, March 2002–May 2006



Source: UBS/Gallup.

The results of UBS surveys were consistent with the findings of the Securities Industry Association’s (SIA) annual investor surveys.[36] SIA found that, although accounting at U.S. corporations was still a major concern among investors in 2004, concern had declined significantly from 2002. Moreover, in 2004, investors seemed more concerned with the political environment and the state of the U.S. economy than accounting fraud and corporate governance issues. What has happened since 2004 is unclear because no survey was conducted for 2005. However, a newer index, the State Street Investor Confidence Index, which attempts to measure investors’ risk appetite by measuring the percent of risky assets investors

[36]The annual SIA Investor Survey, conducted by Harris Interactive and commissioned by the SIA, provides opinion research on investors’ attitudes toward the securities industry, brokerage services, and investing in general. The investors surveyed have financial assets (excluding homes) of more than $100,000. In 2002–2004, about 1,500 investors were interviewed each year by telephone for their views.

hold in their portfolio, found that investor confidence remained relatively unchanged throughout 2005 and into 2006.[37]

Yale Indexes Shows Mixed Results for Changes in Stock Market Confidence since 2002

In our 2002 report, we noted the Yale Indexes suggested significantly different impacts of restatements on investor confidence than the UBS/Gallup Index of Investor Optimism; however, since the 2003, the differences in the indexes have become less significant. The International Center for Finance at the Yale School of Management calculates four indexes that are based on survey questions directed to both wealthy individual and institutional investors.[38] Although the indexes do not all move in the same direction over time, or even approximately so, the indexes generally show a small improvement in institutional investor confidence over the value for June 2002, but a slight decline in individual investor confidence with one exception. Some of the Yale indexes show pronounced volatility in short-term confidence. In fact, there were periods during 2003, 2004, and 2005, where some measures of confidence declined significantly before rebounding in 2006. Although these confidence indexes did not directly measure the impact of restatements on investor confidence, they illustrate the difficulty in attempting to gauge general confidence in the market and how different classes of investors can interpret and respond to events in different ways.

As in 2002, we focused on the three indexes that most directly measured investor confidence. The first Yale index is the One-Year Confidence Index,

[37]The index measures confidence quantitatively by assessing the changes in investor holdings of risky assets, implementing a research model developed by Harvard Professor Kenneth Froot and State Street Managing Director, Paul O'Connell. The index is based on financial theory that assigns precise meanings to changes in investor risk sentiment, or the willingness of investors to hold proportionally more or less of their portfolio in equities. While the global index dates back to 1998, the regional indexes only date back to January 2005. Each regional index analyzes the actual and changing levels of risk contained in investment portfolios domiciled in each of the regions, providing a more regional perspective on investor confidence.

[38]These indexes have been released semiannually since 1989 and monthly since July 2001. While capturing more sophisticated investors (wealthy individuals and institutional investors), the sample size is little more than 100 in each 6-month interval. For individual investors, net worth generally exceeds $250,000. The U.S. institutional investors have been sampled in each survey from the investment managers section of the *Money Market Directory of Pension Funds and Their Investment Managers*. We exclude the Valuation Confidence Index, which is based on responses to "Are stock prices in the [United States] too low, too high, or about right when compared with measures of true fundamental value?"

which indicated that institutional investor confidence fluctuated between June 2002 and May 2006, but ended higher than 2002 levels.[39] During the same periods, individual investor confidence also fluctuated, but continued to trend downward. This implies a divergence in opinion between individual and institutional investors, but it is unclear what this difference means for overall confidence in the stock market and how restatements affect confidence. These findings do appear to suggest that developments during 2004 and 2005 had some longer-term negative effect on individual investors' confidence, but that any negative effect on institutional investors' confidence was temporary.

The second Yale index is the Buy on Dip Confidence Index, which suggests confidence has been virtually unaffected despite fluctuations in both directions from 2004 to 2005.[40] Since the period immediately after September 11, 2001, and the beginning of the Enron scandal, a few months later individual and institutional confidence that the stock market would rise the day after a sharp fall has diverged, with institutional dropping and individual confidence rising somewhat. However, between December 2003 and May 2006, institutional investor confidence increased from 57 to 68 percent, somewhat above its June 2002 value (62 percent), while individual investor confidence fluctuated up and down but eventually settled just 1 percentage point below its June 2002 value. The price-to-earnings ratio functioned as an indicator supporting the finding of unchanged confidence; in January 2006, the ratio was equivalent to its June 2002 value, and has remained valued at more than the historical average.

The third Yale index is the Crash Confidence Index, which suggested that confidence generally has been low—less than 50 percent—for both individual and institutional investors, providing the only evidence of a similar movement.[41] Despite remaining low since October 2002, when the market reached its lowest point in 6 years, confidence has shown a distinct

[39]This index is based on responses to "How much of a change in percentage terms do you expect to see in the Dow Jones Industrial Average [Dow] for the next year?" Some researchers have observed that this index displayed some peculiar features during 1999 and 2000, as it showed weak confidence in late 1999 and early 2000 when the market generally was characterized as very exuberant.

[40]This index is based on responses to "If the Dow dropped 3 [percent] tomorrow, how would the Dow move the day after tomorrow?"

[41]This index is based on responses to "What do you think is the probability of a catastrophic stock market crash in the United States in the next [6] months?"

increase for both individual and institutional investors. Specifically, by May 2006 this index showed an improvement from June 2002 values, with a 43 percent and a 17 percent increase for institutional and individual investors, respectively. However, confidence in the probability that a catastrophic stock market crash would not occur in the United States may provide very little insight into whether market participants are confident in the reliability of financial information transmitted to investors, because not even the accounting scandals of 2001 and 2002 triggered a major collapse in market valuations. Instead, the increase in confidence observed may merely be a vote of general confidence in the resiliency of U.S. capital markets.

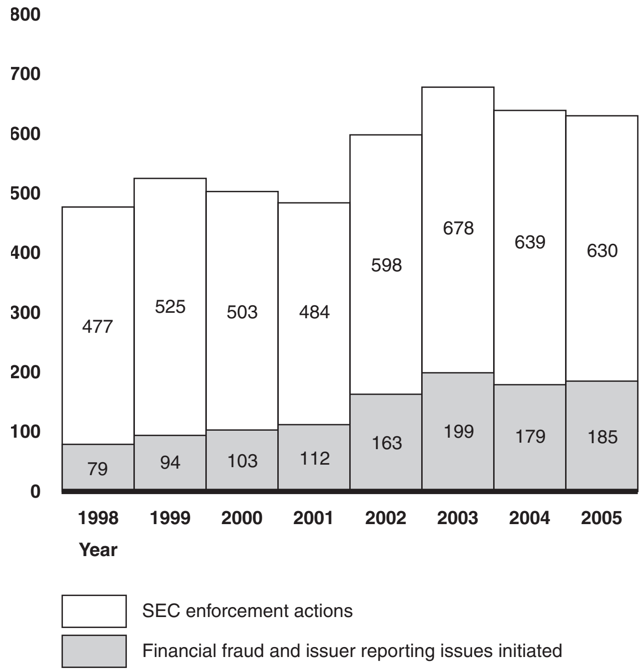
Accounting- and Auditing-Related Enforcement Actions Have Continued to Grow

The number of SEC enforcement cases involving financial fraud and issuer reporting issues increased more than 130 percent from fiscal year 1998 to 2005. Moreover, in fiscal year 2005, cases involving financial fraud and issuer reporting issues constituted the largest category of enforcement actions. The resources SEC devoted to enforcement grew as well. Of the enforcement actions SEC resolved between March 1, 2002, and September 30, 2005, most of the actions were taken against companies or their directors, officers, employees, and other related parties. Finally, the newly created PCAOB also has broad investigative and disciplinary authority over public accounting firms that have registered with it and persons associated with such firms; PCAOB has brought several enforcement actions since its inception.

Financial Fraud and Issuer Reporting Issues Accounted for a Significant Number of SEC's Actions

SEC's Division of Enforcement investigates possible violations of securities laws, including those related to financial fraud and issuer reporting issues. Between fiscal years 2001 and 2005, these types of cases have increased as a percent of SEC's total enforcement cases from 23 to almost 30 percent (see fig. 9). From fiscal years 2002 to 2005, SEC has initiated an average of about 588 enforcement actions per year, compared to an average of 497 for fiscal years 1998 to 2001. Of these actions, an average of about 135 per year involved financial fraud or issuer reporting issues compared to an average of 97 per year for the prior period.

Figure 9: Number of SEC Enforcement Actions and Financial Reporting and Issuer Disclosure Issues Initiated, Fiscal Years 1998–2005



Source: SEC.

In fiscal year 2005, cases involving financial fraud and issuer reporting issues were the largest category of enforcement actions accounting for almost one-third of the cases, followed by broker-dealer and investment company cases. For examples of some of the cases involving accounting- and/or auditing-related issues see our detailed case studies on American International Group Inc., (app. IX), Federal National Mortgage Corporation (app. XI), and Qwest Communications International, Inc. (app. XII).

SEC's Enforcement Resources Have Grown

In our 2002 report, we found that SEC's enforcement function was strained because of resource challenges and an increased workload; however, as a result of several high-profile corporate failures, and financial reporting fraud, among other things, the Sarbanes-Oxley Act authorized a 65 percent increase in SEC's 2003 appropriations, which directed the additional funding to be used in certain areas. Specifically, no fewer than 200 positions were to be used to strengthen existing program areas, including enforcement. In fiscal year 2003, enforcement resources increased over 20 percent, including 194 staff in Washington, D.C. and SEC's regional and district offices. Moreover, between fiscal years 2003 and 2004, enforcement staffing increased about 29 percent.

Accounting- and Auditing-Related Actions Included a Variety of Entities and Individuals

SEC has taken a variety of accounting- and audit-related enforcement actions against various entities and individuals, ranging from public companies and audit firms to CEOs and CPAs. Accounting-related violations identified included fraud, lying to auditors, filing misleading information with SEC, and failing to maintain proper books and records. Investigations can lead to SEC-prompted administrative or federal civil court actions. Depending on the type of proceeding, SEC can seek sanctions that include injunctions, civil money penalties, disgorgement, cease-and-desist orders, suspensions of registration, bars from appearing before the Commission, and bars from participating as an officer or director of a public company. As previously reported, most enforcement actions are settled, with respondents generally consenting to the entry of civil, judicial, or administrative orders without admitting or denying the allegations against them. We found this to be true of the auditing- and accounting-related cases we reviewed as well. For a more detailed discussion of SEC's enforcement process, see appendix VII.

About 90 percent of the more than 750 actions resolved between March 2002 and September 2005 were brought against companies or their directors, officers, employees, or other parties.[42] Another 10 percent involved audit firms and individuals associated with firms, including audit managers, partners, and engagement auditors. In the cases involving public companies and their officials and related persons, we found that SEC has taken a variety of actions against a wide range of officials and employees. Historically, SEC was reluctant to seek civil monetary penalties against companies in financial fraud cases because such costs would be passed along to shareholders who had already suffered as a result of the violations. In the AAERs reviewed from March 2002 to September 2005, we found that SEC started to take increasingly aggressive actions against public companies, including the levy of millions of dollars in civil money penalties in 2003 and 2004. However, SEC's position on civil money penalties against public companies continued to evolve. In January 2006, SEC outlined its

[42]Unlike SEC, which tracks cases, the number of actions were actions settled or finalized during this period, in some cases multiple actions were brought against the same individual or organization.

position on this issue when it announced the filing of two settled actions against McAfee, Inc. and Applix, Inc. In one case the company paid a civil money penalty and in the other, the company did not. According to the release, SEC thought it was important to "provide the maximum possible degree of clarity, consistency, and predictability in explaining the way that its corporate penalty authority will be exercised." The release discussed how the Sarbanes-Oxley Act changed the ultimate disposition of penalties, because SEC can now take penalties paid by individuals and entities in enforcement actions and add them to disgorgements for the benefit of victims through the Fair Funds provision.[43] Under this provision, civil money penalties that SEC collects no longer go to the Department of Treasury; instead, they can be used to help compensate victims for the losses they experienced, which would include harmed shareholders.

The Commission announced that it planned to more closely review actions involving civil money penalties against public companies and laid out the principles it planned to follow in making such determinations. The overarching principle appears to be that corporate penalties are an essential part of an aggressive and comprehensive enforcement program. In addition, SEC's view of the appropriateness of the penalty against corporations versus the individuals who actually commit the violations is to be based on two considerations. First, SEC considers whether the corporation received a direct benefit as a result of the violations (e.g., the violation resulted in reduced expenses or higher revenues). Second, the degree to which the penalty will recompensate or further harm injured shareholders. Other factors, SEC will consider are:

- the need to deter the particular type of offense,
- the extent of the injury to innocent parties,
- whether complicity in the violation is widespread throughout the corporation,
- the level of intent on the part of perpetrators,
- the degree of difficulty in detecting the particular type of offense,
- the presence or lack of remedial steps by the corporation, and

[43]Sarbanes-Oxley Act of 2002 § 308(a), 15 U.S.C. § 7246(a).

- the extent of cooperation with the Commission and other law enforcement

In our 2002 report, we also noted that Congress, market participants, and others, had questioned the lack of severity of many of the sanctions given the level of investor harm. At least one SEC official, at the time, felt that because monetary penalties are often paid by officer and director insurance policies, or are considered insignificant in relation to the violation, SEC should pursue more officer and director bars. However, the test for imposing officer and director bars was viewed as too restrictive. Since that time, the Sarbanes-Oxley Act changed the threshold for seeking officer and director bars by amending the securities acts' requirement from "substantial unfitness" to "unfitness," thereby making it easier for SEC to pursue officer and director bars. From March 2002 through September 2005, SEC obtained officer and director bars against hundreds of officials. Specifically, SEC resolved charges against hundreds of CFOs or chief accounting officers and CEOs with securities fraud or issuer reporting violations between March 2002 and December 2005. See appendixes IX, XI, and XII for a summary of the actions taken by SEC in three of the six cases we analyzed.

SEC may also bring an enforcement action against other individuals such as officers and principals who are not part of top management (other participants and responsible parties). In the AAERs we reviewed, SEC charged such individuals with accounting-related violations that resulted in injunctions, civil monetary penalties, disgorgements, cease-and-desist orders; and officer and director bars. For example, SEC and in some cases the Department of Justice, have filed suit against several senior officers at public companies—including chairmen, chief operating officers, controllers, directors, vice presidents, and clients. These executives have been charged with securities law violations such as fraud, reporting violations, record-keeping violations, and insider trading.

Although the Sarbanes-Oxley Act provided PCAOB enforcement authority over registered public accounting firms and their associated persons (which we discuss below), SEC continues to have the authority to bring actions against accounting firms. In addition to investigating violations of the securities laws, Enforcement investigates improper professional conduct by accountants and other professionals who appear before SEC, and the agency may pursue administrative disciplinary proceedings against these professionals under SEC's Rules of Practice 102(e). If SEC finds that securities laws have been violated or improper professional conduct has occurred, it can prohibit professionals from appearing before SEC temporarily or permanently. A licensed accountant engages in improper professional conduct if he or she intentionally or knowingly violates an applicable professional standard or engages in either of the two types of negligent conduct defined under the rule. From March 2002 to September 2005, SEC has taken action against numerous firms and dozens of individuals.[44] The actions included injunctions, civil monetary penalties, bars or suspensions from appearing before the Commission, cease- and-desist orders, officer and director bars, and censures.

Newly Created PCAOB Also Took Variety of Enforcement Actions

As mentioned previously, the Sarbanes-Oxley Act authorized PCAOB to conduct investigations concerning any acts or practices, or omissions to act, by registered public accounting firms and persons associated with such firms, or both, that may violate any provision of the act, PCAOB's rules, the provisions of the securities laws relating to the preparation and issuance of audit reports and the obligations and liabilities of accountants with respect thereto, including SEC rules issued under the act, or professional standards. In May 2004, SEC approved PCAOB's rules implementing this authority. When PCAOB alleges a violation, it has the authority after an opportunity for a hearing, to impose appropriate sanctions. The sanctions can range from revoking a firm's registration or barring a person from participating in audits of public companies, to imposing monetary penalties or requirements for remedial measures, such as training, new quality control procedures, or the appointment of an independent monitor.

Between May 2005 and July 2006, PCAOB has instituted and settled five disciplinary proceedings against registered public accounting firms and associated persons. These proceedings dealt with cases involving concealing information from PCAOB and submitting false information to it, in connection with a PCAOB inspection; noncompliance with PCAOB rules, independence standards, and auditing standards in auditing the financial statements; and failing to take prompt and appropriate steps in response to indications that an issuer audit client may have committed an illegal act. The associated sanctions ranged from revoking the firm's registration, barring the involved individual from being an associated person of a

[44]The actual number of firm sanctions is actually higher, but several firms were cited more than once.

registered public accounting firm, and censuring firms and associated persons.

Conclusions

A variety of factors appear to have contributed to the increased trend in restatements, including increased accountability requirements on the part of company executives; increased focus on ensuring internal controls for financial reporting; increased auditor and regulatory scrutiny (including clarifying guidance); and a general unwillingness on the part of public companies to risk failing to restate, regardless of the significance of the event. Given the new regulatory and oversight structure, and the current operating environment, it is unclear if and when the current trend toward increasing restatements will subside. The number of restatements may continue to increase in the immediate future, as new areas of scrutiny (for example, small public company implementation of the Sarbanes-Oxley Act internal control requirements and hedge accounting rules), by SEC and others, may trigger future restatements similar to the trends experienced after the focus on accounting for leases or income taxes in early 2005. Currently, approximately 60 percent of public companies—generally smaller public companies—have yet to fully implement the internal control requirements of the Sarbanes-Oxley Act, which could also impact the number of restatements. In recent years, the larger public companies' implementation of Section 404 requirements resulted in many companies announcing financial restatements. Alternatively, the number of restatement announcements could subside after the regulatory and firm changes called for in the Sarbanes-Oxley Act have been fully implemented and allowed to play through.

Companies that announce restatements generally continue to experience decreases in market capitalization in the days around the initial announcement; however, the magnitude of the impact has significantly decreased from the period analyzed in our 2002 report. The exact reason for this decline is unclear, but may include a variety of factors such as investors' inability to discern the reason for the restatement, varying reactions by investors about what the restatement means (e.g., whether the company is improving its disclosures), or investors' growing insensitivity to financial statement restatement announcements. These views, in part, are supported by some investor confidence data and research including that, while investor confidence seems to have increased, investors often are unable to decipher the reason for the restatement; restatements may be viewed in various ways by investors, depending on whether they believe that the trend is part of a "cleansing process" (i.e., public companies strengthening their internal controls), or whether they merely reflect technical adjustments for compliance.

SEC improved disclosure of restatement announcements in 2004 by requiring additional information on Form 8-K. However, some public companies continue to announce restatements that result in non-reliance on prior financial statements outside of the required Form 8-K (Item 4.02) filing process. That is, about 17 percent of companies announcing restatements that resulted in non-reliance between August 2004 and September 2005 failed to disclose this information under the appropriate item or failed to file an 8-K at all. While most filed the information under an item other than 4.02 in the Form 8-K, some appeared to have disclosed the information in a Form 10-K or 10-Q, which raises questions inconsistencies between the Form 8-K instructions versus staff questions-and-answers discussion concerning filing requirements under Item 4.02. The result of the potential noncompliance is that some companies continue to restate without consistently informing investors and the general public that such restatements have occurred and that previously issued financial statements should not be relied upon—which raises concerns about compliance with SEC's revised Form 8-K disclosure requirements and the ongoing transparency and consistency of public disclosures.

Recommendations

To better enable SEC to enforce its regulations and improve the consistency and transparency of information provided to investors about financial restatements, we recommend that SEC take specific actions to improve oversight and compliance of disclosures of certain restatements. First, SEC should direct the head of the Division of Corporation Finance to investigate the instances of potential noncompliance we, and Glass Lewis, identified, and take appropriate corrective action against any companies determined to have filed a deficient filing. Second, SEC should harmonize existing instructions and guidance concerning Item 4.02 by amending the instructions to Form 8-K and other relevant periodic filings to clearly state that an Item 4.02 disclosure on Form 8-K is required for all determinations of non-reliance on previously issued financial statements (Item 4.02), irrespective of whether such information has been disclosed on a periodic report or elsewhere.

Agency Comments and Our Evaluation

We provided a draft of this report to the Chairmen of SEC and PCAOB, for their review and comment. We received written comments from SEC and PCAOB that are summarized below and reprinted in appendixes II and III. Both SEC and PCAOB provided technical comments that were incorporated into the report as appropriate.

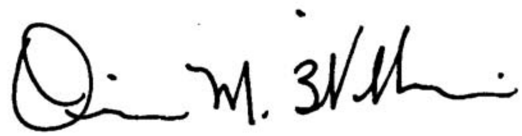
In response to our first recommendation that the Division of Corporation Finance investigate the instances of potential noncompliance identified and take appropriate corrective action, the Director of the Division of Corporation Finance stated that SEC appreciated the recommendation and that it will continue its long history of examining instances of potential noncompliance with federal securities laws. Finally, in response to our recommendation that SEC harmonize existing instructions and guidance, SEC stated that it will carefully consider our recommendation to harmonize existing instructions and guidance related to a company's need to notify the public that previously issued financial statements or results should not be relied upon.

In commenting on the draft report, the Chairman of PCAOB stated that as the organization charged by the Sarbanes-Oxley Act with overseeing the audit of public companies, the report's findings on the causes of, and trends in restatements by public companies would be useful to PCAOB's oversight efforts.

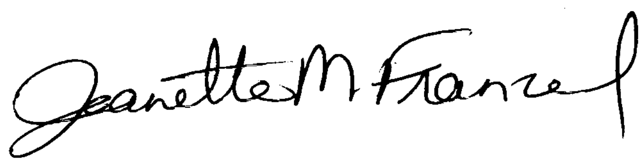
As agreed with your office, we plan no further distribution of this report until 30 days from its issuance unless you publicly release its contents sooner. At that time, we will send copies of this report to the Chairman of the Senate Committee on Banking, Housing, and Urban Affairs; the Chairman and Ranking Minority Member of the Senate Subcommittee on Securities and Investment, Senate Committee on Banking, Housing, and Urban Affairs; the Chairman and Ranking Minority Member, Senate Committee on Governmental Affairs; the Chairman and Ranking Minority Member, House Committee on Financial Services; and other interested congressional committees. We will also send copies to the Chairman of the SEC and the Chairman of the PCAOB and will make copies available to others upon request. In addition, this report is also available on GAO Web site at no charge at http://www.gao.gov.

If you have any questions concerning this report, please contact Orice M. Williams at (202) 512-5837 or williamso@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. See appendix XV for a list of other staff who contributed to the report.

Sincerely yours,



Orice M. Williams
Director, Financial Markets and
Community Investment



Jeanette M. Franzel
Director, Financial Management
and Assurance

Thomas J. McCool
Director, Center for Economics
Applied Research and Methods

Objectives, Scope, and Methodology

As agreed with your staff, our objectives were to (1) determine the number of, reasons for, and other trends in restatements since our 2002 report; (2) analyze the impact of restatement announcements on the restating companies' stock market capitalization; (3) research available data to determine the impact of restatements on investors' confidence in the existing U.S. system of financial reporting and capital markets; and (4) analyze the Securities and Exchange Commission (SEC) enforcement actions involving accounting- and auditing-related issues.

Identifying the Number of and Reasons for Restatements

To determine the number of and reasons for restatements since 2002, we employed substantially the same methodology used in our prior report, in which we analyzed the period from January 1997 through June 2002.[1] We identified restatements of previously reported financial results announced from July 1, 2002, through September 30, 2005, using the Lexis-Nexis online information service to search for press releases and other media coverage on restatements. When developing our search methodology for identifying restatements for our prior report, we reviewed the approaches used in several academic and nonacademic research papers.[2] Our search methodology was constructed to maximize the number of potentially relevant articles (and minimize the potentially irrelevant articles) for our consideration, given the focus of our research. Using the Lexis-Nexis "Power Search" command and the "US Newspapers and Wires" database, we performed keyword searches using variations of "restate" as well as the terms, "adjust," and "amend," and "revise"—all within 50 words of "financial statement" or "earning."

As was the case in our prior report, to our knowledge, no comprehensive, authoritative database of financial statement restatement announcements exists that is publicly available. While several researchers have constructed and maintained their own financial statement restatement databases, these lists are generally proprietary and are not publicly available. Moreover, these researchers may have a different focus from ours and may use different methods and criteria for constructing their databases, as well as

[1]GAO, *Financial Statement Restatements: Trends, Market Impacts, Regulatory Responses, and Remaining Challenges*, GAO-03-138 (Washington, D.C.: Oct. 4, 2002).

[2]In addition to sources cited in our 2002 report, we also relied on Huron Consulting Group (HCG), 2005, "2004 Annual Review of Financial Reporting Matters"; Glass, Lewis & Co., LLC (2005), "Restatements – Traversing Shaky Ground: and Glass, Lewis & Co., LLC (2006), "Getting It Wrong the First Time."

different sample periods, making it difficult to directly compare the database of restatements that we constructed with the databases that others have compiled. However, we were able to compare descriptive statistics from our database with proprietary information provided by Huron Consulting Group (HCG) and Glass, Lewis & Co. LLC (Glass Lewis). In comparing our list to Glass Lewis' database of actual restatement filings, it is clear that our database, while providing a comprehensive list of companies listed on the major exchanges, excludes a large number of small, over-the-counter companies with limited analyst and press coverage (see app. V). As a result, our database, which included 1,390 restatement announcements, should be viewed as a sample of restatements by publicly traded companies identified using our particular search methodology, and the results of our analysis should be viewed in this context. Specifically, users of this report should note that our figures likely do not reflect the number of smaller public companies that have restated over the 2002-2005 period. Our database was constructed using a methodology that reflects our focus on the impact on companies' market capitalization.[3] In many cases, the report discusses statistics as they pertain to publicly listed companies, since our database is fairly comprehensive in this regard. We reviewed filings in SEC's Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system, and companies' Web sites, to verify the accuracy of particular restatement announcement dates and reasons.

Although there are many reasons for restatements, most restatements involve more routine reporting issues (such as a merger or stock split) and are not symptomatic of financial reporting fraud. Consistent with our prior report, we generally specified financial reporting fraud and accounting errors—previously referred to as accounting irregularities in our prior report—to include so-called "aggressive" accounting practices, intentional and unintentional misuse of facts applied to financial statements, oversight or misinterpretation of accounting rules, and fraud. Given the general change in attitude toward what issues may warrant restatements in the post Sarbanes-Oxley Act environment, we also included restatements that involved computational errors—a departure from our prior report. Exclusion of such restatements likely had a negligible impact on our prior report's results since we encountered very few such instances. Also, we included in our database each restatement that met our criteria, regardless of its impact (positive or negative) on the restating company's financials.

[3]Publicly listed companies make up over 97 percent of the total market capitalization of publicly traded companies.

We excluded restatement announcements that resulted from normal corporate activity or simple presentation issues—unless we determined that there was some financial reporting fraud and/or accounting errors involved. For example, we excluded financial statement restatements resulting from mergers and acquisitions, discontinued operations, stock splits, issuance of stock dividends, currency-related issues (for example, converting from Japanese yen to U.S. dollars), changes in business segment definitions, changes due to transfers of management, changes made for presentation purposes, general accounting changes under generally accepted accounting principles (GAAP), and litigation settlements. As a general rule, we also excluded restatements resulting from accounting policy changes.[4] We excluded these financial statement restatements because they did not necessarily reveal previously undisclosed, economically meaningful data to market participants.

Consistent with our prior report, once a relevant restatement was identified, we classified it into one or more of nine categories—(1) acquisition and merger related, (2) cost- or expense related, (3) in-process research and development related, (4) reclassification related, (5) related-party transaction related, (6) restructuring, assets, or inventory related, (7) revenue recognition related, (8) securities related, and (9) other.[5] Our classification, as developed for our prior report, closely resembles that employed by the Financial Executives International and Wu (2001) and HCG (2002).

[4]We included restatement announcements that stemmed from the issuance of SEC clarification about revenue recognition (SEC Staff Accounting Bulletin No. 101) and accounting for leases (Feb. 5, 2005, letter from SEC's Chief Accountant to the American Institute of Certified Public Accountants clarifying SEC staff's interpretation of certain operating lease-related accounting issues and their application under GAAP).

[5]Some restatement announcements cited multiple accounting issues (for example, improper revenue recognition, improper recording of cost of goods sold, and improper valuation of inventory). In these cases, we included the restatement in all applicable categories, and in the analyses involving stratification by restatement reason, we assigned equal fractional weights to the reasons. For the above example, we would assign each reason (revenue, cost- or- expense, and restructuring, assets, or inventory) a weight of one-third when calculating the market capitalization loss.

Determining the Impact of Restatements on Market Values of Restating Companies

To analyze the impact of restatement announcements involving financial reporting fraud and/or accounting errors on the stock market value of restating companies, we used the standard event study approach. The event to be measured was the initial announcement within the period from July 1, 2002, to September 30, 2005, of a financial statement restatement involving financial reporting fraud and/or accounting errors by a publicly traded company with common stock issued on the New York Stock Exchange (NYSE), Nasdaq, American Stock Exchange (Amex), or quoted on the Over-the-Counter (OTC) Bulletin Board or the National Quotation Service Bureau's "Pink Sheets." Throughout this report, we refer to the subset of companies with stock traded on NYSE, Nasdaq, and Amex as "listed." We obtained historical stock price data for the relevant listed companies from NYSE's Trade and Quote (TAQ) database. This database contains detailed records of all quotes and transactions made for all NYSE, Nasdaq, and Amex issues.[6]

Although we identified 1,390 restatement announcements from July 1, 2002, to September 30, 2005, we excluded some restatements from our event study for a number of reasons. First, we excluded restatements by companies with common stock that was not listed (that is, with stock only quoted on the OTC Bulletin Board or Pink Sheets) because we did not have consistent access to reliable historical price data for these stocks. We estimated that the exclusion of these unlisted companies would have a negligible impact on our market capitalization results. Companies with stock only quoted on the OTC Bulletin Board or Pink Sheets tend to be smaller in terms of market capitalization, but it is not clear whether their exclusion will introduce positive or negative bias in our average holding period "abnormal returns" results (the realized rate of return of a stock over an event window minus the expected return of that stock over the same period). We also excluded from our analysis any restatement by a company that had extensive portions of data missing for the relevant time around the restatement announcement. Missing data were generally attributable to extended trading suspensions, stock delistings, stock

[6]To ensure the reliability of the TAQ data, we randomly cross-checked TAQ data with data provided by a variety of publicly available stock data sources.

deregistrations, bankruptcies, and mergers.[7] However, TAQ was also missing data for several listed companies; and thus, we excluded these companies from our analysis. We cannot estimate the impact that these exclusions would have on our reported results. To the extent a company's stock price declined following delisting, our analysis would be biased toward understating the impact of financial statement restatement announcements. To address these issues, we performed a separate analysis on a particular subset of these cases using alternative stock price data.

To determine the impact of the restatement announcement on a company's stock price, we identified the trading day that corresponded with the initial announcement date. We found that companies would frequently issue public announcements in which they suggested that they might restate their financial statements. Our criteria for selection required that a company disclosed that a restatement was, at a minimum, "likely." We found that some companies announced their restatements during or before normal trading hours on a trading day, while others publicly announced their financial statement restatement after the close of trading or on a nontrading day. Precise measurement of the time of an announcement was generally not possible; however, for those cases in the latter category that we were able to identify, we defined the announcement day as the next trading day. We then identified the relevant trading days before and after the restatement announcement, collectively known as the event window. To analyze the immediate impact of restatement announcements, we specified the immediate event window as the period from the trading day before the announcement through the trading day after the announcement. To analyze the longer-term impact of restatement announcements, we also specified an intermediate event window of approximately 2 calendar months, which included 20 trading days (1 month) before the announcement through 20 trading days (1 month) after the announcement; and a longer event window of approximately 6 calendar months, which

[7]Companies announcing financial restatements frequently were forced to delay their required SEC filings or were in violation of other listing standards and were subsequently delisted from NYSE, Nasdaq, or Amex within 60 trading days of the restatement announcement. In some cases, the stock of the delisted company moved to the OTC Bulletin Board or Pink Sheets. In several cases, these companies ultimately filed for bankruptcy or were acquired by other companies.

included 60 trading days (3 months) before the announcement through 60 trading days (3 months) after the announcement.[8]

To assess the impact of the restatement announcement on a company's stock price, we calculated the "abnormal return"—the market-adjusted increase (or decrease) in stock price—of the stock over the event window. The abnormal return is the realized rate of return of a stock over the event window minus the expected return of that stock over the same period. The realized, or actual, rate of return of a stock of company i from date $t-1$ to date t is defined as

$$R_{it} = \frac{P_{it} - P_{i,t-1}}{P_{i,t-1}}$$

in which P_{it} is the closing price of the stock at date t, and $P_{i,t-1}$ is the closing price of the stock at date $t-1$. The expected return is defined as the rate of return of the stock (predicted by some valuation model) that is expected under the assumption that the event does not occur. In this way, the abnormal return is designed to capture the impact of the event on the stock. For any company i and date t,

$$A_{it} = R_{it} - \mathrm{E}\left(R_{it} \mid X_t\right),$$

in which A_{it} is the abnormal return of the stock of company i on date t, R_{it} is the realized return of the stock of company i on date t, and $\mathrm{E}\left(R_{it} \mid X_t\right)$ is the expected return of the stock of company i on date t conditioned on some information set, X_t. We used the rate of return of the Wilshire Total Market Index on date t as our conditioning information, X_t.[9]

To calculate the abnormal return, we first specified a statistical model for estimating the expected return of the stock of company i on date t. We used

[8]We included the trading days prior to a restatement announcement to address possible information leakage prior to the announcement. These longer pre-announcement date windows would also capture any impact of a company publicly releasing information about possible, unconfirmed accounting problems that later were confirmed to require a restatement.

[9]Wilshire Associates Incorporated, an investment advisory company, provides widely quoted and tracked market indices. We used index data provided by Global Insight and randomly cross-checked them against data available on Wilshire's Web site.

a standard market model, which relates the rate of return of the stock of *i* to the return of the overall market as

$$R_{it} = \alpha_i + \beta_i X_t + \varepsilon_{it}$$

in which ε_{it} is an error term and α_i and β_i are the parameters of the market model. In this specification, α_i and β_i are the intercept and slope, respectively, of the linear relationship between the return of the stock of company *i* on date *t* and the return of the market on date *t*.[10] The parameter, β_i, is a measure of the co-variation between the returns of the stock of *i* and the returns of the market. In this way, the expected return is risk-adjusted, taking into account the risk of stock *i* relative to the overall market. Next, we estimated the parameters of the model using a subset of the data. This subset, referred to as the "estimation window,"generally included at least 120 trading days (typically about 6 calendar months) of daily closing price data through the day prior to the initial restatement announcement.[11] We estimated the market model using the ordinary least-squares estimation procedure for each of the companies for which we had sufficient data. Each estimation produced parameter estimates, $\hat{\alpha}_i$ and $\hat{\beta}_i$, for the given company and estimation window. The parameter estimates were subsequently used to generate an estimate of the expected return, $\mathrm{E}(R_{it} \mid X_t)$, for each stock *i* at each date *t* using the market model. This estimate of the expected return, $\hat{N}_{it}$, was determined as

$$\hat{N}_{it} = \hat{\alpha}_i + \hat{\beta}_i X_t .$$

Using this expected return, we also calculated an estimate of the expected stock price for each stock *i* at each date *t*, $\hat{Q}_{it}$, as

$$\hat{Q}_{it} = P_{i,t-1} \times \left(1 + \hat{N}_{it}\right) = P_{i,t-1} \times \left(1 + \hat{\alpha}_i + \hat{\beta}_i X_t\right).$$

We then calculated the abnormal return for each stock based on the results of our estimation. For any company *i* and date *t*, the estimated abnormal return, $\hat{A}_{it}$, was

[10]In a standard financial econometrics text, Campbell, Lo, and MacKinlay (1997) provide a detailed discussion of the market model. While the market model we use is very simple, according to these authors, it is not clear that using a more sophisticated model is necessary.

[11]The event itself is not included in the estimation window so that the event does not influence the estimates of the model's parameters.

$$\hat{A}_{it} = R_{it} - \left(\hat{\alpha}_i + \hat{\beta}_i X_t\right) = R_{it} - \hat{N}_{it}.$$

We also calculated the estimated unexpected, or market-adjusted, change in the stock price of i from $t{-}1$ to t, $\hat{U}_{it}$, as

$$\hat{U}_{it} = P_{it} - \hat{Q}_{it} = P_{it} - P_{i,t-1} \times \left(1 + \hat{N}_{it}\right) = P_{it} - P_{i,t-1} \times \left(1 + \hat{\alpha}_i + \hat{\beta}_i X_t\right).$$

To measure the impact of the restatement announcement on the stock of company i, we calculated the abnormal return over the holding period from day –1 to day +1 to capture the immediate impact; we calculated the abnormal return over the holding period from day –20 to day +20 to capture the intermediate impact; and we calculated the abnormal return over the holding period from day –60 to day +60 to capture the longer-term impact. We also calculated the immediate impact on the market capitalization of company i by multiplying the difference between the actual stock price on day +1 and the expected price on day +1 (the immediate market-adjusted change in price) by the number of shares outstanding; and we calculated the intermediate and longer-term impact on the market capitalization of company i by multiplying the difference between the actual stock price on days +20 and +60 and the expected price on days +20 and +60 (the intermediate and longer-term market-adjusted change in price) by the number of shares outstanding.[12] To assess the overall impact of the general event of a restatement announcement, we averaged individual holding period abnormal returns over all restatement announcement events in our sample for each of the event windows, and we summed all of the unadjusted and adjusted market changes in price for each of the event windows.

The usual interpretation of abnormal returns over an event window is that they measure the impact of the event on the value of a company's stock. This interpretation may be misleading due to other firm specific or market factors. Our simple market model attempted to account for only the overall market's effect on the stock. One of the more relevant factors in this event

[12]We obtained the number of shares outstanding for a company from the company's Form 10-Q covering the 3-month period during which the restatement announcement was made. If this were not available, we used either the closest Form 10-Q, appropriate Form 10-K, or other company sources. Specifically, we obtained the average number of diluted shares over this period. Diluted shares are the pools of outstanding common shares issued by a company, combined with the shares that would be created upon the conversion of the company's options, warrants and convertible securities. Our use of diluted, rather than basic shares, provides a more accurate assessment of the overall impact on shareholders.

study was the simultaneous release of a restatement announcement and scheduled financial statements to the market. (For example, a company could have issued its first quarter 2005 earnings that missed, met, or exceeded the market's expectations while also announcing that it was restating previously issued financial statements from prior periods including 2003 and 2004.) To the extent that this was an issue, our results could be biased in either direction and, hence, attributing abnormal returns solely to the restatement announcement could be misleading. Another potential factor is information leakage. Events such as the announcement of an SEC inquiry, internal or external accounting review, or the abrupt departure of a company's chief executive officer or chief financial officer may be an early indication that a financial restatement is forthcoming. Furthermore, it is important to note that because we increased the period over which we attempted to assess the impact of the restatement on a particular stock, many other factors influencing the behavior of the stock price can come into play. To the extent that other influences on the price are significant, our intermediate results reflect not only the impact of the restatement announcement but these factors as well.

Additionally, there are potential sources of bias in our estimation procedure. Some of the more important involve event-date uncertainty, violations of our statistical assumptions, and using daily closing stock prices. While our event study methodology assumes that we are able to precisely identify the event date, this sometimes involved a certain amount of judgment. The announcement of a financial statement restatement typically only provides the date of the announcement; whether the announcement was made before, during, or after trading on that date may not be clear. We used the 3-day event window technique to address this issue. Another possible source of bias stems from violation of our standard statistical assumptions.[13] A further potential source of bias in our estimation involves using the daily closing prices of stocks. In the event study framework, we implicitly assumed that these daily closing prices were recorded at identical time intervals each day. However, this assumption is easily violated because the last transaction for a given stock, can and generally does, occur at a different time each day. Additionally, some of the stocks in our event study were "thinly" or infrequently traded, and several days could elapse between transactions. Referring to the last recorded prices as daily closing prices assumed that closing prices are

[13]See Campbell, Lo, and MacKinlay (1997).

equally spaced at 24-hour intervals, which is not the case. To the extent that this assumption is violated, our results may be biased.

Overall, our analysis focused on the impact of a company's restatement announcement on its market capitalization. Therefore, we did not take into account the effects on market participants with short positions or various options positions, nor did we gauge the impact on the company's bondholders. To whatever extent—whether positively or negatively—these market participants were affected by restatements, our results are necessarily incomplete.

Determining the Impact of Restatements on Investor Confidence

To analyze the impact of restatements on the confidence of market participants, we relied principally on outside sources. Namely, we identified indexes of investor confidence, located quantitative research on the issue, conducted interviews with experts in the field, and collected data on mutual fund flows and other proxies for investor sentiment. The survey-based indexes of investor confidence were obtained from UBS Americas, Inc. and the International Center for Finance at the Yale School of Management. The Nobel Laureate economist, Dr. Lawrence Klein, acknowledged the UBS Index for its accuracy and timeliness. The Yale School of Management Indexes are considered to be the longest-running effort to measure investor confidence and the project is directed by one of the leading experts in the field, Dr. Robert Shiller. In addition, we obtain an investor confidence index from State Street Corporation. This index measures confidence quantitatively by assessing the changes in investor holdings or risky assets, implementing a research model developed by Harvard Professor Kenneth Froot and State Street Managing Director, Paul O'Connell. The index uses the principles of modern financial theory to model the underlying behavior of global investors. Unlike other survey-based confidence measures that focus on expectations for future prices and returns, the Index provides a quantitative measure of the actual and changing levels of risk contained in investment portfolios representing about 15 percent of the world's tradable assets. Unfortunately, while the global confidence measure dates back to 1998, the time series for confidence in North America only spans 2005 and 2006. We also were able to collect survey results about the direct impact of restatements on investor confidence from UBS Americas and the Securities Industry Association.

Although the literature on the impact of restatements on investor confidence is limited, we identified a number of studies. The results of studies are consistent with the hypothesis that, while financial restatements elicit different responses from the market depending on the type, certain financial restatements can have negative effects on investor confidence. However, these studies were based on restatement data prior to the period under examination in this report and the evidence of effects on the broader market is limited. To gain further insight, we also interviewed some experts in the field and summarized their responses to a set of questions regarding accounting practices, restatements, and investor confidence. Finally, we collected data on mutual fund flows from the Investment Company Institute, a popular source for statistical data on the mutual fund industry, and data on holdings of corporate equities and bond yields from the Board of Governors of the Federal Reserve System.

Analysis of SEC's Accounting-Related Enforcement Activities

To analyze SEC enforcement actions involving accounting- and auditing-related issues, we reviewed more than 800 SEC-identified Accounting- and Auditing-Enforcement Releases (AAER)[14] issued from March 1, 2002, through September 30, 2005, posted on SEC's Web site as of July 1, 2006. We collected information on all actions sought or brought but only counted actions against the same organization or individual once for purposes of analysis. We also collected other common information disclosed in the AAERs, such as the individuals and companies charged in the cases and the sanction levied. To describe the process that SEC uses to develop an enforcement case, including whom to include as a defendant in the case and penalties to assess, we used a variety of information provided by SEC. To obtain historical general enforcement and accounting-related enforcement actions, we downloaded the information from SEC's Web site, and where there were gaps in the data made direct requests for information from SEC. To the extent possible, to determine the roles that key players, such as auditors and company senior management, played in fostering misleading financial information upon investors, we selected six financial restatements for in-depth case study. The cases were selected based on asset size, restatement period, reason for the restatement, market where stock traded and industry. (See app. VIII for an overview of the case studies; the individual studies are presented in appendixes IX–XIV.)

[14]AAER is a numbering or catalogue system for SEC enforcement actions that relate to accounting or financial improprieties.

We performed our work in Washington, D.C., between June 2005 and July 2006, in accordance with generally accepted government auditing standards.

Comments from the Securities and Exchange Commission

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

DIVISION OF
:ORPORATION FINANCE

July 18, 2006

Orice M. Williams
Director, Financial Markets and Community Investment
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Williams:

Thank you for the opportunity to review and comment on the Government Accountability Office's draft report entitled *Financial Restatements: Update of Public Company Trends, Market Impacts and Regulatory Enforcement Activities*. The GAO recommends the Commission take specific actions to improve oversight and compliance of disclosures of certain restatements. I appreciate your seeking our input on these recommendations as you finalize your report.

First, the GAO recommends that the SEC's Division of Corporation Finance investigate the instances of potential noncompliance identified by GAO, and by Glass, Lewis & Co. LLC in its March 2006 Restatements Trend Alert, and take appropriate corrective action against any companies determined to have filed a deficient filing. The Division of Corporation Finance has a long history of examining instances of potential noncompliance brought to its attention. I can assure you that we will continue this practice and take appropriate action.

The GAO also recommends that the SEC harmonize existing instructions and guidance concerning Item 4.02 by amending the instructions to Form 8-K and other relevant periodic filings to clearly state that an Item 4.02 Form 8-K is required for all determinations of non-reliance on previously issued financial statements, irrespective of whether such information has been disclosed on a periodic report or elsewhere. We appreciate and will carefully consider your recommendation.

Thank you for the courtesy the GAO extended to the SEC during the course of preparing its report and thank you again for the opportunity to provide comments to the GAO as it prepares its final draft of the report.

Sincerely,

John W. White

John W. White
Director

Comments from the Public Company Accounting Oversight Board

PCAOB
Public Company Accounting Oversight Board

1666 K Street, N.W.
Washington, DC 20006
Telephone: (202) 207-9100
Facsimile: (202) 862-8430
www.pcaobus.org

July 14, 2006

Ms. Orice M. Williams
Director, Financial Markets and Community Investment
United States Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Ms. Williams:

We have received and reviewed your draft report entitled Financial Restatements: Update of Public Company Trends, Market Impacts and Regulatory Enforcement Activities. The report updates the GAO's 2002 report on restatements and discusses: 1) the number of, reasons for, and other trends in restatements; 2) what is known about the impact of restatement announcements on the restating companies' stock prices and investors' confidence in U.S. capital markets; and 3) enforcement actions of the Securities and Exchange Commission (SEC) involving accounting and audit-related issues. The report also makes certain recommendations to the SEC.

We appreciate your providing the PCAOB with an opportunity to comment on the draft report. As the organization charged by the Sarbanes-Oxley Act with overseeing the audit of public companies, we have a strong interest in the causes of, and trends in, restatements. We believe GAO's report will advance understanding of this important issue. We have separately provided GAO staff with technical comments on the draft report. We do not have any additional comments at this time.

Sincerely,

Mark W. Olson

Mark W. Olson
Chairman

Summary of Selected Sarbanes-Oxley Act Provisions Affecting Public Companies and Registered Accounting Firms

Responding to corporate failures and fraud that resulted in substantial financial losses to institutional and individual investors, Congress passed the Sarbanes-Oxley Act in 2002. As shown in table 7, the act contains provisions affecting the corporate governance, auditing, and financial reporting of public companies, including provisions intended to deter and punish corporate accounting fraud and corruption.[1] The Sarbanes-Oxley Act generally applies to those companies required to file reports with SEC under the Securities Exchange Act of 1934.[2]

Table 7: Summary of Selected Sarbanes-Oxley Act Provisions Affecting Public Companies and Registered Accounting Firms

Provision	Main requirements
Section 101: Public Company Accounting Oversight Board (PCAOB) Establishment	Establishes PCAOB to oversee the audit of public companies that are subject to the securities laws.
Section 102: Registration with the Board	Requires accounting firms that prepare or issue audit reports for public companies to register with PCAOB.
Section 103: Auditing, Quality Control, and Independence Standards and Rules	Requires PCAOB, by rule, to establish auditing and other professional standards to be used by registered public accounting firms in the preparation and issuance of audit reports.
Section 104: Inspections of Registered Public Accounting Firms	Requires PCAOB to annually inspect registered public accounting firms with more than 100 issuer audit clients and triennially inspect registered public accounting firms with 100 or less issuer audit clients.
Section 105: Investigations and Disciplinary Proceedings	Requires PCAOB to establish fair procedures for investigating and disciplining registered public accounting firms and associated persons and authorizes PCAOB to investigate and discipline such firms and persons.
Section 201: Services Outside the Scope of Practice of Auditors	Registered accounting firms cannot provide certain nonaudit services to a public company if the firm also serves as the auditor of the financial statements for the public company. Examples of prohibited nonaudit services include bookkeeping, appraisal or valuation services, internal audit outsourcing services, and management functions.
Section 301: Public Company Audit Committees	Listed company audit committees are responsible for the appointment, compensation, and oversight of the registered accounting firm, including the resolution of disagreements between the registered accounting firm and company management regarding financial reporting. Audit committee members must be independent.

[1]While there is no standard definition of corporate governance, it can broadly be understood to refer to the system by which companies are directed and controlled, including the role of the board of directors, management, shareholders, and other stakeholders. According to the Organisation for Economic Co-operation and Development, corporate governance provides the structure through which the objectives of the company are set and the means of attaining those objectives and monitoring performance are determined.

[2]In addition to those companies required to file reports with SEC under the Securities Exchange Act of 1934, the Sarbanes-Oxley Act also applies to companies considered to be issuers that have filed a Securities Act of 1933 registration statement that is not yet effective.

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Provision	Main requirements
Section 302: Corporate Responsibility for Financial Reports	For each annual and quarterly report filed with SEC, the CEO and CFO must certify that they have reviewed the report and, based on their knowledge, the report does not contain untrue statements or omissions of material facts resulting in a misleading report and that, based on their knowledge, the financial information in the report is fairly presented.
Section 304: Forfeiture of Certain Bonuses and Profits	The CEO and CFO of the issuer have to reimburse the issuer for any bonus or profits from sale of securities during the 12 month period following the filing of a financial document that required an issuer to prepare an accounting restatement due to misconduct.
Section 308: Fair Funds for Investors	The civil penalties can be added to the disgorgement fund for the benefit of the victims of a security law violation.
Section 404: Management Assessment of Internal Controls	This section consists of two parts. First, in each annual report filed with SEC, company management must state its responsibility for establishing and maintaining an internal control structure and procedures for financial reporting; it must also assess the effectiveness of its internal control structure and procedures for financial reporting. Second, the registered accounting firm must attest to, and report on, management's assessment of the effectiveness of its internal control over financial reporting.-
Section 407: Disclosure of Audit Committee Financial Expert	Public companies must disclose in periodic reports to SEC whether the audit committee includes at least one member who is a financial expert and, if not, the reasons why.

Source: GAO.

Title I of the act establishes PCAOB as a private sector non-profit organization to oversee the audits of public companies that are subject to the securities laws. PCAOB is subject to SEC oversight. The act gives PCAOB four primary areas of responsibility:

- registration of accounting firms that audit public companies in the U.S. securities markets;
- inspections of registered accounting firms;
- establishment of auditing, quality control, and ethics standards for registered accounting firms; and
- investigation and discipline of registered accounting firms for violations of law or professional standards.

Title II of the act addresses auditor independence. It prohibits the registered external auditor of a public company from providing certain nonaudit services to that public company audit client. Title II also specifies communication that is required between auditors and the public company's audit committee (or board of directors) and requires periodic rotation of the audit partners managing a public company's audits.

Titles III and IV of the act focus on corporate responsibility and enhanced financial disclosures. Title III addresses listed company audit committees, including responsibilities and independence, and corporate responsibilities for financial reports, including certifications by corporate officers in annual and quarterly reports, among other provisions. Title IV addresses disclosures in financial reporting and transactions involving management and principal stockholders, and other provisions such as internal control over financial reporting. More specifically, section 404 of the act establishes requirements for companies to publicly report on management's responsibility for establishing and maintaining an adequate internal control structure, including controls over financial reporting and the results of management's assessment of the effectiveness of internal control over financial reporting. Section 404 also requires the firms that serve as external auditors for public companies to attest to the assessment made by the companies' management, and report on the results of their attestation and whether they agree with management's assessment of the company's internal control over financial reporting.

Listing of Financial Restatement Announcements, July 1, 2002 through September 30, 2005

Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Abiomed, Inc.	ABMD	Nasdaq	07/02/02	20,956,587	Company and Auditor	Revenue		
Reliant Resources, Inc.	RRI	NYSE	07/05/02	290,036,000	Company	Revenue		
The Great Atlantic & Pacific Tea Company, Inc.	GAP	NYSE	07/05/02	38,506,565	Company	Revenue	Restructuring, Assets or Inventory	Cost or Expense
Bowater, Inc.	BOW	NYSE	07/12/02	57,200,000	Company	Revenue		
Dynegy Inc.	DYN	NYSE	07/15/02	419,000,000	Company	Cost or Expense		
Jennifer Convertibles, Inc.	JENN	OTC	07/15/02	7,296,140	Company	Revenue		
Orchestream Holdings PLC	OCHS	Nasdaq	07/15/02	10,700,000	Unknown	Revenue		
Range Resources Corporation	RRC	NYSE	07/15/02	54,616,019	Auditor	Restructuring, Assets or Inventory		
Firearms Training Systems, Inc.	FATS	OTC	07/16/02	70,829,000	Company	Revenue		
AMERCO	UHAL	Nasdaq	07/17/02	37,298,000	Auditor	Related Party Transaction		
Pacific Capital BanCorporation	SABB	Nasdaq	07/17/02	26,087,561	Company	Reclassification		
Applied Digital Solutions, Inc.	ADSX	Nasdaq	07/19/02	260,869,000	Auditor	Acquisition or Merger	Securities Related	
HPL Technologies, Inc.	HPLA	Nasdaq	07/19/02	32,853,000	Company	Revenue		
Alaska Air Group, Inc.	ALK	NYSE	07/22/02	26,549,161	Auditor	Cost or Expense		
School Specialty, Inc.	SCHS	Nasdaq	07/22/02	18,633,000	Company	Reclassification		
Southern Peru Copper Corporation	PCU	NYSE	07/24/02	80,006,000	Company	Restructuring, Assets or Inventory		
Annuity and Life Re (Holdings), Ltd.	ANR	NYSE	07/25/02	26,973,881	Company and Auditor	Securities Related		
Captaris, Inc.	CAPA	Nasdaq	07/25/02	31,887,883	Auditor	Acquisition or Merger		
Fresh Brands, Inc.	FRSH	Nasdaq	07/25/02	5,265,000	Company	Cost or Expense		
Switchboard Inc.	SWBD	Nasdaq	07/25/02	18,786,676	Company and Auditor	Revenue	Cost or Expense	Reclassification

(Continued From Previous Page)

Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Brooks-PRI Automation, Inc.	BRKS	Nasdaq	07/26/02	20,269,920	Company	Revenue		
Qwest Communications International Inc.	Q	NYSE	07/28/02	1,676,906,200	Company and Auditor	Revenue	Cost or Expense	
Cytec Industries, Inc.	CYT	NYSE	07/29/02	39,635,519	Company	Securities Related		
Adolph Coors Company	RKY	NYSE	07/30/02	36,045,000	Unknown	Other		
MAPICS, Inc.	MAPX	Nasdaq	07/30/02	18,348,850	Company	Revenue		
RalCorp Holdings, Inc.	RAH	NYSE	07/30/02	30,441,000	Unknown	Restructuring, Assets or Inventory		
Millennium Bankshares Corporation	MBVA	Nasdaq	07/31/02	3,685,478	Company	Other		
Pointe Financial Corporation	PNTE	Nasdaq	07/31/02	2,106,453	Other	Other		
Bio-Technology General Corporation	BTGC	Nasdaq	08/02/02	40,269,000	Auditor	Cost or Expense	Securities Related	Revenue
Kerr-McGee Corporation	KMG	NYSE	08/02/02	52,104,000	Unknown	Cost or Expense		
Frontstep, Inc.	FSTP	Nasdaq	08/05/02	7,568,000	Company	Revenue		
MSC Industrial Direct Company, Inc.	MSM	NYSE	08/05/02	71,125,000	Company	Restructuring, Assets or Inventory		
Newmont Mining Corporation	NEM	NYSE	08/06/02	399,468,000	Company	Acquisition or Merger	Securities Related	
Aon Corporation	AOC	NYSE	08/07/02	278,000,000	SEC	Other	Restructuring, Assets or Inventory	
Middleby Corporation	MIDD	Nasdaq	08/07/02	9,031,000	Company and Auditor	Securities Related		
C2, Inc.	CTOO	Nasdaq	08/08/02	5,277,286	Company and Auditor	Revenue		
Completel Europe N.V.	CLTL	Nasdaq	08/08/02	157,419,330	SEC	Reclassification		
DT Industries, Inc.	DTII	Nasdaq	08/08/02	10,387,274	Company	Cost or Expense		
Lakes Entertainment, Inc.	LACO	Nasdaq	08/08/02	10,638,000	Company and Auditor	Reclassification		

(Continued From Previous Page)

Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Penn Traffic Company	PNFT	Nasdaq	08/08/02	20,383,567	Company	Restructuring, Assets or Inventory		
Seabulk International, Inc.	SBLK	Nasdaq	08/08/02	10,494,000,000	Unknown	Cost or Expense		
WorldCom, Inc.	WCOM	Nasdaq	08/08/02	2,963,000,000	Unknown	Revenue		
ESG Re Ltd.	ESREF	Nasdaq	08/09/02	11,857,618	Unknown	Other		
Cutter & Buck Inc.	CBUK	Nasdaq	08/12/02	10,563,814	Company	Revenue		
QuadraMed Corporation	QMDC	Nasdaq	08/12/02	26,390,000	Company	Revenue	Restructuring, Assets or Inventory	Reclassification
The Pantry, Inc.	PTRY	Nasdaq	08/12/02	18,108,000	Company	Restructuring, Assets or Inventory		
USFreightways Corporation	USFC	Nasdaq	08/12/02	26,798,022	Company and Auditor	Reclassification		
Humboldt BanCorporation	HBEK	Nasdaq	08/13/02	10,853,000	Unknown	Cost or Expense		
Interpublic Group of Companies, Inc.	IPG	NYSE	08/13/02	381,100,000	Company	Cost or Expense		
ROHN Industries, Inc.	ROHN	Nasdaq	08/13/02	41,135,000	Company	Restructuring, Assets or Inventory		
Alaska Air Group, Inc.	ALK	NYSE	08/14/02	26,549,161	Auditor	Reclassification		
AOL Time Warner Inc.	AOL	NYSE	08/14/02	4,452,708,104	Media	Revenue		
Bedford Property Investors Inc.	BED	NYSE	08/14/02	16,637,353	Auditor	Cost or Expense		
Capital One Financial Corporation	COF	NYSE	08/14/02	229,151,000	Unknown	Securities Related		
DPL Inc.	DPL	NYSE	08/14/02	119,100,000	Auditor	Restructuring, Assets or Inventory		
Dynex Capital, Inc.	DX	NYSE	08/14/02	10,873,853	Company	Reclassification		
Gemstar-TV Guide International Inc.	GMST	Nasdaq	08/14/02	414,785,000	Company	Revenue		
Horizon Medical Products, Inc.	HMP	Amex	08/14/02	15,129,630	Company	Securities Related	Restructuring, Assets or Inventory	
Household International Inc.	HI	NYSE	08/14/02	461,200,000	Auditor	Cost or Expense		

(Continued From Previous Page)

Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Huntington Preferred Capital, Inc.	HPCCP	Nasdaq	08/14/02	14,000,000	Company	Related Party Transaction		
Mail-Well, Inc.	MWL	NYSE	08/14/02	47,658,000	Unknown	Restructuring, Assets or Inventory		
Newmont Mining Corporation	NEM	NYSE	08/14/02	399,468,000	Unknown	Reclassification		
Nicor, Inc.	GAS	NYSE	08/14/02	44,500,000	Employee	Revenue		
PFF BanCorporation, Inc.	PFB	NYSE	08/14/02	13,046,236	Unknown	Securities Related		
Southwestern Energy Company	SWN	NYSE	08/14/02	25,995,692	Company	Securities Related		
Tech Laboratories, Inc.	TCHL	OTC	08/14/02	5,389,029	Unknown	Securities Related		
Transaction Systems Architects, Inc.	TSAI	Nasdaq	08/14/02	35,576,000	Company	Revenue	Restructuring, Assets or Inventory	
U.S. Xpress Enterprises, Inc.	XPRSA	Nasdaq	08/14/02	14,047,000	Auditor	Securities Related		
Vina Technologies, Inc.	VINA	Nasdaq	08/14/02	61,539,000	Company	Revenue		
Neoforma, Inc.	NEOF	Nasdaq	08/15/02	15,365,000	Company and Auditor	Related Party Transaction		
ResortQuest International Inc.	RZT	NYSE	08/15/02	19,369,568	Company	Restructuring, Assets or Inventory		
MaxWorldwide, Inc.	MAXW	Nasdaq	08/16/02	25,253,000	Company and Auditor	Cost or Expense		
MTS Systems Corporation	MTSC	Nasdaq	08/16/02	21,423,000	Auditor	Restructuring, Assets or Inventory	Other	
New World Restaurant Group, Inc.	NWCI	OTC	08/16/02	17,481,394	Auditor	Securities Related		
American National Insurance Company	ANAT	Nasdaq	08/19/02	26,479,832	Company	Restructuring, Assets or Inventory		
CTI Industries Corporation	CTIB	Nasdaq	08/19/02	1,996,734	Unknown	Securities Related		
Rural Cellular Corporation	RCCC	Nasdaq	08/19/02	11,919,000	Company	Securities Related		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Visual Networks, Inc.	VNWK	Nasdaq	08/19/02	32,487,000	Unknown	Revenue		
Craftmade International, Inc.	CRFT	Nasdaq	08/20/02	5,962,058	SEC	Reclassification		
Measurement Specialties, Inc.	MSS	Amex	08/21/02	11,928,000	Company and Auditor	Cost or Expense		
TiVo, Inc.	TIVO	Nasdaq	08/22/02	47,739,712	Company	Securities Related		
Team America Inc.	TMOS	Nasdaq	08/23/02	8,123,000	Company	Securities Related		
InterTAN, Inc.	ITN	NYSE	08/27/02	24,670,000	Company	Cost or Expense	Reclassification	
Rexhall Industries, Inc.	REXL	Nasdaq	08/27/02	3,036,350	Company	Restructuring, Assets or Inventory		
Stolt Offshore S.A.	SOSA	Nasdaq	08/29/02	85,009,632	Unknown	Restructuring, Assets or Inventory	Cost or Expense	
Edelbrock Corporation	EDEL	Nasdaq	08/30/02	4,954,333	Unknown	Securities Related		
HomeGold Financial, Inc.	HGFN	OTC	08/30/02	16,912,594	Company	Cost or Expense	Reclassification	
Stolt-Nielsen S.A.	SNSA	Nasdaq	08/30/02	68,686,733	Unknown	Restructuring, Assets or Inventory		
Edison Schools Inc.	EDSN	Nasdaq	09/05/02	53,477,000	Company and Auditor	Reclassification		
Lakes Entertainment, Inc.	LACOE	Nasdaq	09/09/02	10,638,000	Company	Reclassification	Revenue	
First Investors Financial Services Group, Inc.	FIFS	Nasdaq	09/10/02	5,339,800	Company and Auditor	Restructuring, Assets or Inventory		
Echo Bay Mines Ltd.	ECO	Amex	09/13/02	499,975,000	Company	Securities Related		
World Wireless Communications, Inc.	XWC	Amex	09/13/02	31,453,516	Company	Securities Related	Cost or Expense	
Medi-Hut Company, Inc.	MHUT	Nasdaq	09/17/02	14,660,784	Company	Revenue		
Somerset Hills BanCorporation	SOMH	OTC	09/18/02	1,664,000	Company	Revenue		
AimGlobal Technologies Company, Inc.	AGT	Amex	09/20/02	14,567,652	Unknown	Revenue	Restructuring, Assets or Inventory	Cost or Expense

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
ePresence, Inc.	EPREE	Nasdaq	09/20/02	22,282,000	Company and Auditor	Reclassification	Restructuring, Assets or Inventory	Cost or Expense
Metropolitan Financial Corporation	METF	Nasdaq	09/20/02	12,379,304	Company	Restructuring, Assets or Inventory		
Switchboard Inc.	SWBDE	Nasdaq	09/20/02	18,497,000	Company and Auditor	Reclassification	Restructuring, Assets or Inventory	Cost or Expense
Championship Auto Racing Teams, Inc.	MPH	NYSE	09/23/02	14,718,000	Company	Cost or Expense	Revenue	
ePresence, Inc.	EPREE	Nasdaq	09/25/02	22,282,000	Company and Auditor	Revenue	Restructuring, Assets or Inventory	
Cantel Medical Corporation	CMN	NYSE	09/26/02	9,884,000	Unknown	Reclassification		
D.G. Jewelry Inc.	DGJL	Nasdaq	09/26/02	7,394,125	Company	Revenue	Restructuring, Assets or Inventory	
Ladish Company, Inc.	LDSH	Nasdaq	09/27/02	13,144,887	Auditor	Other		
Patina Oil & Gas Corporation	POG	NYSE	09/30/02	28,406,000	Auditor	Cost or Expense	Securities Related	
Range Resources Corporation	RRC	NYSE	09/30/02	54,029,000	Auditor	Acquisition or Merger	Cost or Expense	Securities Related
Comerica Inc.	CMA	NYSE	10/02/02	174,824,000	Other	Restructuring, Assets or Inventory	Other	
Datatec Systems, Inc.	DATCE	Nasdaq	10/02/02	35,750,000	Company and Auditor	Cost or Expense	Revenue	
Sears, Roebuck & Company	S	NYSE	10/02/02	322,500,000	SEC	Other		
Staten Island BanCorporation, Inc.	SIB	NYSE	10/09/02	57,581,028	Company	Securities Related		
Accenture Ltd.	ACN	NYSE	10/10/02	1,026,971,327	Company	Related Party Transaction		
Cutter & Buck Inc.	CBUK	Nasdaq	10/10/02	10,548,785	Company	Other		
Commercial Metals Company	CMC	NYSE	10/15/02	27,904,366	Company	Other		
Liberate Technologies	LBRT	Nasdaq	10/15/02	106,144,000	Company	Revenue		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Atlas Air Worldwide Holdings, Inc.	CGO	NYSE	10/16/02	38,219,000	Company	Restructuring, Assets or Inventory	Cost or Expense	Other
QuadraMed Corporation	QMDC E	Nasdaq	10/16/02	26,390,000	Company	Revenue	Cost or Expense	Restructuring, Assets or Inventory
Tengtu International Corporation	TNTU	OTC	10/16/02	52,565,665	Company	Revenue		
Symbol Technologies, Inc.	SBL	NYSE	10/17/02	229,287,000	SEC	Revenue		
Exelon Corporation	EXC	NYSE	10/18/02	324,000,000	Company	Securities Related	Restructuring, Assets or Inventory	
ClickSoftware Technologies Ltd.	CKSW	Nasdaq	10/21/02	25,105,598	Company	Revenue		
Global Crossing	GBLXQ	OTC	10/21/02	886,471,473	Employee	Revenue		
AOL Time Warner Inc.	AOL	NYSE	10/23/02	4,702,385,826	Company	Revenue		
Hanover Compressor Company	HC	NYSE	10/23/02	79,288,000	Company	Revenue		
Newmont Mining Corporation	NEM	NYSE	10/23/02	394,721,500	Company and Auditor	Reclassification		
Bristol-Myers Squibb Company	BMY	NYSE	10/24/02	1,946,000,000	Company and Auditor	Revenue	Cost or Expense	Acquisition or Merger
Neoforma, Inc.	NEOF	Nasdaq	10/24/02	16,442,000	Company and Auditor	Restructuring, Assets or Inventory	Securities Related	
PC Connection, Inc.	PCCC	Nasdaq	10/24/02	24,552,000	Company	Revenue		
Tyco International Ltd.	TYC	NYSE	10/24/02	1,986,700,000	Company and Auditor	Revenue		
Zila, Inc.	ZILA	Nasdaq	10/24/02	44,592,932	SEC	Cost or Expense	Revenue	
Vail Resorts, Inc.	MTN	NYSE	10/25/02	35,154,054	Company and Auditor	Cost or Expense	Restructuring, Assets or Inventory	Reclassification
MTS Systems Corporation	MTSCE	Nasdaq	10/28/02	21,391,000	Auditor	Restructuring, Assets or Inventory	Cost or Expense	Revenue
Lumenis, Ltd.	LUME	Nasdaq	10/29/02	36,756,000	Company	Securities Related		
UbiquiTel Inc.	UPCS	Nasdaq	10/29/02	81,116,000	Unknown	Cost or Expense		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Transocean Inc.	RIG	NYSE	10/30/02	3,236,000,000	Unknown	Securities Related		
Gemstar-TV Guide International Inc.	GMSTE	Nasdaq	10/31/02	413,067,000	Company	Revenue	Other	
Ladish Company, Inc.	LDSH	Nasdaq	11/01/02	13,144,887	Company	Cost or Expense		
Point.360	PTSX	Nasdaq	11/01/02	9,244,311	Unknown	Restructuring, Assets or Inventory	Securities Related	Other
Protection One, Inc.	POI	NYSE	11/01/02	98,194,000	Company and Auditor	Restructuring, Assets or Inventory		
Westar Energy, Inc.	WR	NYSE	11/01/02	71,508,053	Company and Auditor	Restructuring, Assets or Inventory	Securities Related	
Ionics, Inc.	ION	NYSE	11/05/02	17,742,000	Unknown	Related Party Transaction		
Oceaneering International, Inc.	OII	NYSE	11/05/02	24,754,000	Company and Auditor	Securities Related	Cost or Expense	
Frontstep, Inc.	FSTP	Nasdaq	11/06/02	7,568,000	Company	Revenue		
Mirant Corporation	MIR	NYSE	11/07/02	402,923,915	Company	Other		
Noland Company	NOLD	Nasdaq	11/07/02	3,512,515	Company	Revenue		
DepoMed, Inc.	DMI	Amex	11/12/02	12,920,243	Company	Related Party Transaction		
Foster Wheeler Ltd.	FWC	NYSE	11/12/02	40,932,000	Company	Cost or Expense		
Footstar Inc.	FTS	NYSE	11/13/02	20,400,000	Company	Cost or Expense		
Interpublic Group of Companies, Inc.	IPG	NYSE	11/13/02	389,100,000	Company	Cost or Expense		
CMS Energy Corporation	CMS	NYSE	11/14/02	138,900,000	Company	Other		
Comdial Corporation	CMDL	OTC	11/14/02	11,112,000	Company	Restructuring, Assets or Inventory		
English Language Learning and Instruction System	EELG	OTC	11/14/02	16,001,166	Company	Revenue		
Financial Industries Corporation	FNIN	Nasdaq	11/14/02	9,594,000	Company	Cost or Expense		
Oneida, Ltd.	OCQ	NYSE	11/14/02	16,575,000	Company	Acquisition or Merger		

(Continued From Previous Page)

Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
TALX Corporation	TALX	Nasdaq	11/14/02	14,166,757	SEC	Restructuring, Assets or Inventory	Cost or Expense	
The Gap, Inc.	GPS	NYSE	11/14/02	874,012,082	Company	Restructuring, Assets or Inventory		
Crescent Banking Company	CSNT	Nasdaq	11/15/02	2,429,412	Company	Restructuring, Assets or Inventory		
Dynegy Inc.	DYN	NYSE	11/15/02	416,000,000	Auditor	Reclassification	Related Party Transaction	Cost or Expense
Lydall, Inc.	LDL	NYSE	11/15/02	16,327,000	Company	Cost or Expense		
ServiceMaster Company	SVM	NYSE	11/15/02	302,368,000	Company	Revenue		
Staten Island BanCorporation, Inc.	SIB	NYSE	11/15/02	57,581,028	Company and Auditor	Securities Related		
The Singing Machine Company	SMD	Amex	11/15/02	8,061,277	Unknown	Revenue		
Trust Company of New Jersey	TCNJ	Nasdaq	11/15/02	162,330,000	Company and Auditor	Revenue	Cost or Expense	
RMH Teleservices, Inc.	RMHT	Nasdaq	11/18/02	13,638,000	Auditor	Cost or Expense		
Annuity and Life Re (Holdings), Ltd.	ANR	NYSE	11/19/02	25,716,453	SEC	Securities Related	Reclassification	Cost or Expense
CFC International, Inc.	CFCI	Nasdaq	11/19/02	4,425,673	Company	Restructuring, Assets or Inventory		
Charter Communications, Inc.	CHTR	Nasdaq	11/19/02	294,424,366	SEC	Acquisition or Merger		
SkillSoft PLC	SKIL	Nasdaq	11/19/02	99,599,477	Company	Revenue	Other	
SkyWest, Inc.	SKYW	Nasdaq	11/20/02	57,552,000	Auditor	Cost or Expense		
Cole National Corporation	CNJ	NYSE	11/26/02	16,547,198	Company and Auditor	Revenue		
NUI Corporation	NUI	NYSE	12/02/02	14,632,307	Unknown	Cost or Expense		
Mobile Telesystems OJSC	MBT	NYSE	12/04/02	1,993,326,150	Unknown	Restructuring, Assets or Inventory	Acquisition or Merger	
American HomePatient, Inc.	AHOM	OTC	12/05/02	16,732,000	Company and Auditor	Cost or Expense		
Oneida, Ltd.	OCQ	NYSE	12/05/02	16,581,000	Company and Auditor	Acquisition or Merger		

(Continued From Previous Page)

Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
PLATO Learning, Inc.	TUTR	Nasdaq	12/05/02	16,512,000	Company	Restructuring, Assets or Inventory	Cost or Expense	
Cotelligent, Inc.	CGZT	OTC	12/06/02	17,387,792	Company and Auditor	Restructuring, Assets or Inventory		
efunds Corporation	EFDS	Nasdaq	12/06/02	47,394,000	Company	Revenue	Cost or Expense	
Steak n Shake Company	SNS	NYSE	12/06/02	28,147,467	Company and Auditor	Cost or Expense		
Kmart Corporation	KM	NYSE	12/09/02	502,800,000	Company	Cost or Expense	Restructuring, Assets or Inventory	
Central Garden & Pet Company	CENT	Nasdaq	12/10/02	22,847,000	Unknown	Cost or Expense	Restructuring, Assets or Inventory	
Delphax Technologies Inc.	DLPX	Nasdaq	12/10/02	6,164,267	Unknown	Related Party Transaction		
Fonix Corporation	FONX	OTC	12/18/02	431,443,574	Unknown	Restructuring, Assets or Inventory		
Restoration Hardware, Inc.	RSTO	Nasdaq	12/18/02	29,526,000	Company	Restructuring, Assets or Inventory		
Allegheny Energy, Inc.	AYE	NYSE	12/19/02	125,763,096	Company	Other		
Applied Extrusion Technologies, Inc.	AETC	Nasdaq	12/20/02	12,709,000	Unknown	Restructuring, Assets or Inventory	Cost or Expense	
TeamStaff, Inc.	TSTF	Nasdaq	12/20/02	16,221,953	Auditor	Cost or Expense		
Xerox Corporation	XRX	NYSE	12/20/02	730,140,170	Company	Securities Related		
Vital Living Inc.	VTLV	OTC	12/23/02	13,638,639	Unknown	Securities Related		
Ariba, Inc.	ARBA	Nasdaq	12/31/02	258,184,000	Company	Cost or Expense		
Parametric Technology Corporation	PMTC	Nasdaq	12/31/02	260,901,000	Company	Revenue		
McKenzie Bay International Ltd.	MKBY	OTC	01/14/03	23,903,139	Unknown	Securities Related		
RMH Teleservices, Inc.	RMHT	Nasdaq	01/14/03	15,222,871	Company and Auditor	Cost or Expense		
Ariba, Inc.	ARBAE	Nasdaq	01/15/03	264,053,000	Company	Securities Related		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
BayCorporation Holdings, Ltd.	MWH	Amex	01/16/03	8,671,328	SEC	Related Party Transaction	Cost or Expense	
HumaTech Inc.	HUMT	OTC	01/16/03	18,919,733	Company	Revenue		
Gaylord Entertainment Company	GET	NYSE	01/17/03	33,800,000	Company and Auditor	Cost or Expense	Restructuring, Assets or Inventory	
Veritas Software Corporation	VRTS	Nasdaq	01/17/03	418,959,000	Company	Acquisition or Merger		
Canadian National Railway Company	CNI	NYSE	01/21/03	197,500,000	Company	Restructuring, Assets or Inventory		
Pixelworks, Inc.	PXLW	Nasdaq	01/21/03	44,580,570	Auditor	Acquisition or Merger		
Freddie Mac	FRE	NYSE	01/22/03	695,116,000	Auditor	Securities Related		
Cambrex Corporation	CBM	NYSE	01/23/03	26,520,000	Company	Cost or Expense		
Gemstar-TV Guide International Inc.	GMSTE	Nasdaq	01/23/03	410,610,000	Company and Auditor	Revenue	Reclassification	
Pechiney	PY	NYSE	01/23/03	78,520,814	Company	Other	Restructuring, Assets or Inventory	
Anika Therapeutics, Inc.	ANIK	Nasdaq	01/28/03	9,934,000	Company	Revenue		
Carreker Corporation	CANIE	Nasdaq	01/28/03	.	Company	Revenue		
Glenborough Realty Trust Inc.	GLB	NYSE	01/28/03	30,744,142	Company	Revenue		
St. Mary Land & Exploration Company	SM	NYSE	01/28/03	28,391,000	Unknown	Cost or Expense	Other	
Keystone Property Trust	KTR	NYSE	01/29/03	19,467,656	Company	Revenue	Cost or Expense	
Vectren Corporation	VVC	NYSE	01/29/03	67,600,000	Company	Cost or Expense	Revenue	
Cummins, Inc.	CMI	NYSE	01/30/03	39,000,000	Unknown	Cost or Expense		
Pro-Fac Cooperative, Inc.	PFACP	Nasdaq	01/30/03	1,939,273	Company	Related Party Transaction		
Dynegy Inc.	DYN	NYSE	01/31/03	418,000,000	Auditor	Cost or Expense	Securities Related	
Sequenom, Inc.	SQNM	Nasdaq	01/31/03	38,149,692	Unknown	Revenue		
BankAtlantic BanCorp, Inc.	BBX	NYSE	02/05/03	64,400,725	Company	Reclassification		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Dun & Bradstreet	DNB	NYSE	02/05/03	76,900,000	Company	Revenue		
Cedar Fair, L.P.	FUN	NYSE	02/06/03	51,263,000	Unknown	Reclassification		
1st Source Corporation	SRCE	Nasdaq	02/10/03	21,191,171	Company	Cost or Expense	Restructuring, Assets or Inventory	
CornerStone Propane Partners, L.P.	CNPP	OTC	02/10/03	23,897,000	Company	Acquisition or Merger	Revenue	Reclassification
Quidel Corporation	QDEL	Nasdaq	02/10/03	29,629,000	Company	Revenue	Other	
NCO Group, Inc.	NCOG	Nasdaq	02/11/03	29,829,000	Auditor	Revenue		
Qwest Communications International Inc.	Q	NYSE	02/11/03	1,682,056,000	Company	Revenue	Cost or Expense	
AmeriCredit Corporation	ACF	NYSE	02/12/03	153,001,207	Company and Auditor	Restructuring, Assets or Inventory		
Caraco Pharmaceutical Laboratories, Ltd.	CARA	OTC	02/12/03	22,031,425	Unknown	Restructuring, Assets or Inventory	Securities Related	
CNA Financial Corporation	CNA	NYSE	02/13/03	223,600,000	Company	Restructuring, Assets or Inventory		
Loews Corporation	LTR	NYSE	02/13/03	185,441,200	Company	Restructuring, Assets or Inventory		
Symbol Technologies, Inc.	SBL	NYSE	02/13/03	229,593,000	SEC	Revenue		
3D Systems Corporation	TDSC	Nasdaq	02/18/03	12,724,000	Company	Revenue		
Barrister Global Services Networks, Inc.	BRTR	OTC	02/18/03	11,901,000	Company	Securities Related		
Comstock Resources, Inc.	CRK	NYSE	02/18/03	33,901,000	Company and Auditor	Cost or Expense	Other	
Capitol Federal Financial	CFFN	Nasdaq	02/19/03	72,850,812	Company	Revenue		
Tengtu International Corporation	TNTU	OTC	02/20/03	52,682,685	Company	Cost or Expense		
CMS Energy Corporation	CMS	NYSE	02/21/03	165,000,000	Company	Other		
The Mills Corporation	MLS	NYSE	02/21/03	36,355,000	Company	Revenue		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Beasley Broadcast Group, Inc.	BBGI	Nasdaq	02/24/03	24,312,899	Company	Revenue	Cost or Expense	
Royal Ahold	AHO	NYSE	02/24/03	926,546,000	Unknown	Revenue	Restructuring, Assets or Inventory	
Allegheny Energy, Inc.	AYE	NYSE	02/26/03	125,657,979	Unknown	Other		
McMoRan Exploration Company	MMR	NYSE	02/26/03	19,879,000	Unknown	Cost or Expense		
Ultralife Batteries, Inc.	ULBI	Nasdaq	02/26/03	12,958,000	Company	Revenue		
CT Communications Inc.	CTCI	Nasdaq	02/27/03	18,710,000	Company	Revenue	Cost or Expense	
Placer Dome Inc.	PDG	NYSE	02/27/03	411,300,000	Company	Restructuring, Assets or Inventory		
Applix, Inc.	APLX	Nasdaq	02/28/03	12,365,000	Unknown	Revenue		
Calpine Corporation	CPN	NYSE	03/03/03	380,960,000	Company and Auditor	Reclassification		
Nicor, Inc.	GAS	NYSE	03/04/03	44,100,000	Company	Restructuring, Assets or Inventory	Reclassification	Revenue
Provident Financial Group, Inc.	PFGI	Nasdaq	03/05/03	50,766,000	Company	Other		
Interpool, Inc.	IPX	NYSE	03/06/03	27,354,000	Company and Auditor	Reclassification		
Interpublic Group of Companies, Inc.	IPG	NYSE	03/06/03	381,800,000	Company	Cost or Expense	Restructuring, Assets or Inventory	
EMC Insurance Group, Inc.	EMCI	Nasdaq	03/11/03	11,403,353	Company	Other		
United States Steel Corporation	X	NYSE	03/11/03	103,145,305	Company	Cost or Expense		
Alaska Air Group, Inc.	ALK	NYSE	03/12/03	26,582,000	Company	Cost or Expense	Revenue	Reclassification
Nevada Star Resource Corporation	NVSRF	OTC	03/12/03	61,955,654	Other	Other		
The Standard Register Company	SR	NYSE	03/12/03	28,202,000	Company	Acquisition or Merger		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Hewlett Packard Company	HPQ	NYSE	03/13/03	3,059,000,000	Company	Reclassification		
Audiovox Corporation	VOXX	Nasdaq	03/14/03	21,967,263	Company	Revenue	Cost or Expense	
Hartmarx Corporation	HMX	NYSE	03/14/03	34,441,000	Company	Restructuring, Assets or Inventory		
Motient Corporation	MNCP	OTC	03/14/03	25,097,000	SEC	Securities Related	Revenue	Reclassification
Aerosonic Corporation	AIM	Amex	03/17/03	3,921,019	Company	Restructuring, Assets or Inventory	Revenue	
Nanophase Technologies Corporation	NANX	Nasdaq	03/17/03	15,161,686	SEC	Revenue		
ServiceMaster Company	SVM	NYSE	03/17/03	301,635,000	Company and Auditor	Restructuring, Assets or Inventory	Other	
Antares Pharma, Inc.	ANTR	Nasdaq	03/18/03	11,736,291	Company	Cost or Expense		
CNA Financial Corporation	CNA	NYSE	03/19/03	223,600,000	Company	Restructuring, Assets or Inventory		
HealthSouth Corporation	HLSH	OTC	03/19/03	397,625,000	SEC	Other	Restructuring, Assets or Inventory	
Loews Corporation	LTR	NYSE	03/19/03	225,360,000	SEC	Restructuring, Assets or Inventory		
TROY Group, Inc.	TROY	OTC	03/19/03	10,649,000	Company	Restructuring, Assets or Inventory		
Electro Scientific Industries, Inc.	ESIO	Nasdaq	03/20/03	27,782,000	Company	Cost or Expense	Revenue	
Annuity and Life Re (Holdings), Ltd.	ANR	NYSE	03/21/03	25,796,195	SEC	Cost or Expense		
Reliant Resources, Inc.	RRI	NYSE	03/21/03	291,438,000	Company	Securities Related		
AFC Enterprises, Inc.	AFCE	Nasdaq	03/24/03	28,600,000	Company and Auditor	Restructuring, Assets or Inventory	Cost or Expense	
Flow International Corporation	FLOW	Nasdaq	03/24/03	15,348,000	Company	Cost or Expense	Revenue	

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
UnumProvident Corporation	UNM	NYSE	03/24/03	241,619,400	SEC	Restructuring, Assets or Inventory		
Foamex International, Inc.	FMXI	Nasdaq	03/25/03	24,351,000	Company	Reclassification		
Rotech Healthcare, Inc.	ROHI	OTC	03/25/03	25,200,000	Company	Restructuring, Assets or Inventory		
Foster Wheeler Ltd.	FWC	NYSE	03/26/03	41,035,000	Company	Cost or Expense		
Moore Medical Corp	MMD	Amex	03/26/03	3,190,000	Company	Reclassification	Cost or Expense	
Networks Associates, Inc.	NET	NYSE	03/26/03	159,552,000	SEC	Revenue		
T-NETIX, Inc.	TNTX	Nasdaq	03/26/03	15,052,000	Company	Cost or Expense		
Watts Industries, Inc.	WTS	NYSE	03/26/03	27,264,000	Company	Other		
Halliburton Company	HAL	NYSE	03/27/03	436,000,000	Company	Cost or Expense		
Cognitronics Corporation	CGN	Amex	03/28/03	5,654,494	Company	Cost or Expense		
Fleming Companies, Inc.	FLM	NYSE	03/28/03	53,950,000	Company	Other		
Newmont Mining Corporation	NEM	NYSE	03/28/03	408,242,000	Company	Restructuring, Assets or Inventory		
PAR Technology Corporation	PTC	NYSE	03/28/03	8,767,000	Company and Auditor	Revenue		
PubliCARD, Inc.	CARD.OB	OTC	03/28/03	26,103,402	Company	Cost or Expense		
The Commerce Group, Inc.	CGI	NYSE	03/28/03	32,263,706	Company and Auditor	Securities Related		
AHL Services, Inc.	AHLS	Nasdaq	03/31/03	15,247,000	Company	Reclassification	Other	
America West Holdings Corporation	AWA	NYSE	03/31/03	33,713,000	Company	Restructuring, Assets or Inventory		
American States Water Company	AWR	NYSE	03/31/03	15,194,000	Company	Revenue	Cost or Expense	
Books-A-Million, Inc.	BAMM	Nasdaq	03/31/03	16,220,000	Company	Revenue		
Capital Bank Corporation	CBKN	Nasdaq	03/31/03	6,904,526	Company	Acquisition or Merger		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Charter Communications, Inc.	CHTR	Nasdaq	03/31/03	294,466,137	Company	Cost or Expense	Securities Related	
Core Laboratories N.V.	CLB	NYSE	03/31/03	32,520,000	Company	Other	Cost or Expense	Revenue
D&E Communications, Inc.	DECC	Nasdaq	03/31/03	15,421,000	Company	Restructuring, Assets or Inventory	Reclassification	
deCODE genetics	DCGN	Nasdaq	03/31/03	51,156,718	Company	Revenue	Cost or Expense	
ESG Re Ltd.	ESREF	OTC	03/31/03	11,884,173	Unknown	Related Party Transaction	Other	
Gemstar-TV Guide International Inc.	GMSTE	Nasdaq	03/31/03	408,156,000	Company and Auditor	Restructuring, Assets or Inventory	Cost or Expense	Revenue
Gold Banc Corporation, Inc.	GLDB	Nasdaq	03/31/03	38,128,000	Unknown	Other		
Imclone Systems Inc.	IMCL	Nasdaq	03/31/03	73,653,000	Company	Securities Related	Cost or Expense	Other
Massey Energy Company	MEE	NYSE	03/31/03	74,531,000	SEC	Reclassification	Cost or Expense	Securities Related
OneSource Technologies, Inc	OSRC	OTC	03/31/03	37,246,402	Unknown	Cost or Expense	Securities Related	Other
OpenTV Corporation	OPTV	Nasdaq	03/31/03	72,275,480	Company	Restructuring, Assets or Inventory	Securities Related	Reclassification
Pico Holdings, Inc.	PICO	Nasdaq	03/31/03	12,379,042	Unknown	Securities Related	Restructuring, Assets or Inventory	
Scott's Liquid Gold-Inc.	SLGD	OTC	03/31/03	10,153,100	Company	Cost or Expense	Revenue	
AstroPower, Inc.	APWRE	Nasdaq	04/01/03	22,682,839	Unknown	Revenue		
Fischer Imaging Corporation	FIMG	Nasdaq	04/01/03	9,325,000	Company and Auditor	Revenue	Restructuring, Assets or Inventory	
Gateway, Inc.	GTW	NYSE	04/01/03	324,072,000	Unknown	Revenue		
Hines Horticulture, Inc.	HORT	Nasdaq	04/01/03	22,072,549	Company and Auditor	Restructuring, Assets or Inventory		
Northwestern Corporation	NOR	NYSE	04/01/03	37,397,000	Company	Cost or Expense	Revenue	
Abington Bancorp, Inc.	ABBKE	Nasdaq	04/02/03	3,955,000	Company	Restructuring, Assets or Inventory		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Crystallex International Corporation	KRY	Amex	04/03/03	118,309,198	Company	Securities Related		
Ariba, Inc.	ARBA	Nasdaq	04/10/03	267,002,000	Company	Securities Related	Acquisition or Merger	Revenue
Sharper Image Corporation	SHRP	Nasdaq	04/14/03	15,717,000	Company	Revenue	Cost or Expense	Securities Related
Aquila, Inc.	ILA	NYSE	04/15/03	194,300,000	Unknown	Reclassification	Restructuring, Assets or Inventory	
Digital Video Systems, Inc.	DVID	Nasdaq	04/15/03	6,487,000	Company	Related Party Transaction		
Electro Scientific Industries, Inc.	ESIO	Nasdaq	04/15/03	27,782,000	Company	Other		
First Southern Bancshares, Inc.	FSTH	OTC	04/15/03	1,256,715	Unknown	Cost or Expense		
Gold Banc Corporation, Inc.	GLDB	Nasdaq	04/15/03	37,950,000	Company	Other	Restructuring, Assets or Inventory	Securities Related
Provident Financial Group, Inc.	PFGI	Nasdaq	04/15/03	48,770,000	Auditor	Reclassification		
Stronghold Technologies, Inc.	SGHT	OTC	04/15/03	11,304,347	Company and Auditor	Revenue		
Crescent Banking Company	CSNT	Nasdaq	04/16/03	2,565,108	Company	Cost or Expense	Revenue	
Huntington Bancshares, Inc.	HBAN	Nasdaq	04/16/03	232,805,000	Auditor	Reclassification		
US Dataworks, Inc.	UDW	Amex	04/17/03	60,841,738	Company and Auditor	Acquisition or Merger		
Avery Communications, Inc.	AVYC	OTC	04/18/03	888,483	Unknown	Restructuring, Assets or Inventory		
AFC Enterprises, Inc.	AFCEE	Nasdaq	04/22/03	28,600,000	Company	Restructuring, Assets or Inventory	Cost or Expense	
The Perrigo Company	PRGO	Nasdaq	04/23/03	71,158,000	Company	Cost or Expense		
Microtune, Inc.	TUNEE	Nasdaq	04/29/03	49,773,000	Company	Revenue		
Phelps Dodge Corporation	PD	NYSE	04/29/03	88,600,000	Company	Restructuring, Assets or Inventory	Cost or Expense	

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Placer Dome Inc.	PDG	NYSE	04/29/03	411,300,000	Unknown	Restructuring, Assets or Inventory		
U.S. Liquids Inc.	USL	Amex	04/29/03	16,233,000	Company	Cost or Expense	Restructuring, Assets or Inventory	
Value City Department Stores, Inc.	VCD	NYSE	04/29/03	33,673,000	Unknown	Securities Related		
Wilsons The Leather Experts Inc.	WLSN	Nasdaq	05/02/03	20,480,000	Company	Cost or Expense		
Computer Associates International, Inc.	CA	NYSE	05/06/03	580,000,000	Company and Auditor	Revenue		
eUniverse, Inc.	EUNI	Nasdaq	05/06/03	26,505,000	Company	Revenue		
IXOS Software AG	XOSY	Nasdaq	05/06/03	21,059,116	Company	Revenue		
Rayonier Inc.	RYN	NYSE	05/07/03	42,516,508	Auditor	Cost or Expense		
Artisoft, Inc.	ASFT	Nasdaq	05/08/03	2,889,000	SEC	Securities Related		
Callifornia Micro Devices Corporation	CAMD	Nasdaq	05/08/03	15,885,000	Company	Cost or Expense		
Carolina Group	CG	NYSE	05/08/03	39,910,000	Unknown	Restructuring, Assets or Inventory		
AMERCO	UHAL	Nasdaq	05/12/03	19,825,852	SEC	Related Party Transaction		
Applix, Inc.	APLX	Nasdaq	05/13/03	12,649,000	Unknown	Acquisition or Merger		
IXYS Corporation	SYXI	Nasdaq	05/13/03	33,116,000	Company	Restructuring, Assets or Inventory		
PW Eagle, Inc.	PWEI	Nasdaq	05/14/03	6,820,000	Company	Revenue		
AirNet Communications Corporation	ANCC	Nasdaq	05/15/03	23,854,132	Company	Securities Related		
Canyon Resources Corporation	CAU	Amex	05/15/03	21,021,100	Company	Cost or Expense		
Detrex, Corporation	DTRX	Nasdaq	05/15/03	1,583,414	Auditor	Cost or Expense		
ElkCorporation	ELK	NYSE	05/15/03	19,600,000	Company	Revenue		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
TeamStaff, Inc.	TSTF	Nasdaq	05/15/03	15,683,844	Company and Auditor	Restructuring, Assets or Inventory	Cost or Expense	Revenue
Vectren Corporation	VVC	NYSE	05/15/03	68,100,000	Company	Revenue	Other	
Vical Corporation	VICL	Nasdaq	05/15/03	20,091,344	Unknown	Revenue		
CPI Corporation	CPY	NYSE	05/16/03	8,100,868	SEC	Revenue		
Shurgard Storage Centers, Inc.	SHU	NYSE	05/16/03	35,953,318	Auditor	Securities Related		
Touch America Holdings, Inc.	TCAHQ	OTC	05/16/03	103,737,000	SEC	Cost or Expense		
Varco International, Inc.	VRC	NYSE	05/16/03	97,970,000	Company	Revenue		
Viad Corporation	VVI	NYSE	05/16/03	86,508,000	Company and Auditor	Securities Related		
Clean Harbors, Inc.	CLHB	Nasdaq	05/20/03	13,436,000	Company and Auditor	Restructuring, Assets or Inventory		
Hollinger International, Inc.	HLR	NYSE	05/20/03	86,869,000	Company	Restructuring, Assets or Inventory		
Rural/Metro Corporation	RURL	Nasdaq	05/20/03	16,116,000	Company	Other	Revenue	
SIFCO Industries, Inc.	SIF	Amex	05/20/03	5,252,000	Company	Cost or Expense		
Aerosonic Corporation	AIM	Amex	05/22/03	3,920,832	Company	Restructuring, Assets or Inventory	Revenue	Cost or Expense
Computerized Thermal Imaging, Inc.	CIO	Amex	05/22/03	91,669,483	Unknown	Cost or Expense		
Sports Club Company, Inc.	SCYL	OTC	05/23/03	18,326,000	Auditor	Revenue		
Audiovox Corporation	VOXXE	Nasdaq	05/29/03	21,873,875	SEC	Revenue	Restructuring, Assets or Inventory	Cost or Expense
Monro Muffler Brake, Inc.	MNRO	Nasdaq	05/30/03	9,587,000	Unknown	Revenue		
BAA PLC	BAAPF	OTC	06/03/03	1,172,000,000	Unknown	Cost or Expense		
National Vision, Inc.	NVI	Amex	06/04/03	5,099,000	Company	Reclassification		
Intervoice, Inc.	INTV	Nasdaq	06/09/03	34,360,000	Unknown	Restructuring, Assets or Inventory		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Interferon Sciences, Inc.	IFSC	OTC	06/10/03	36,292,142	Unknown	Restructuring, Assets or Inventory	Cost or Expense	
Video Display Corporation	VIDE	Nasdaq	06/12/03	4,922,000	Unknown	Cost or Expense		
Tyco International Ltd.	TYC	NYSE	06/16/03	2,203,800,000	SEC	Cost or Expense		
Alliance Atlantis Communications Inc.	AACB	Nasdaq	06/18/03	42,800,000	Auditor	Restructuring, Assets or Inventory		
Cypress Semiconductor Corporation	CY	NYSE	06/19/03	122,941,000	Company	Securities Related		
LaSalle Hotel Properties	LHO	NYSE	06/20/03	18,912,120	Unknown	Restructuring, Assets or Inventory	Revenue	
Warrantech Corporation	WTEC	OTC	06/25/03	15,672,197	SEC	Revenue		
Cryo-Cell International, Inc.	CCCEC	Nasdaq	06/27/03	11,352,379	Company and Auditor	Revenue	Cost or Expense	
PG&E Corporation	PCG	NYSE	06/27/03	409,000,000	Company	Reclassification		
The Singing Machine Company	SMD	Amex	06/27/03	8,278,469	Unknown	Cost or Expense		
3D Systems Corporation	TDSCE	Nasdaq	06/30/03	12,778,000	Auditor	Revenue		
AXA	AXA	NYSE	06/30/03	1,778,000,000	Company	Securities Related		
Catalina Marketing Corporation	POS	NYSE	06/30/03	52,569,000	Company	Revenue		
Polymedica Corporation	PLMD	Nasdaq	06/30/03	25,810,000	Unknown	Cost or Expense		
Verizon Communications Inc.	VZ	NYSE	07/01/03	2,786,000,000	Unknown	Revenue	Cost or Expense	
Tractor Supply Company	TSCO	Nasdaq	07/02/03	40,553,000	Unknown	Cost or Expense		
Zindart Ltd.	ZNDT	Nasdaq	07/02/03	9,044,000	Auditor	Cost or Expense		
Cryopak Industries Inc.	CYPKF	OTC	07/03/03	35,114,346	Unknown	Revenue	Securities Related	Restructuring, Assets or Inventory
Imaging Technologies Corporation	IMTO	OTC	07/07/03	240,556,000	SEC	Revenue		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Crystallex International Corporation	KRY	Amex	07/09/03	118,309,198	Company and Auditor	Securities Related		
Willis Lease Finance Corporation	WLFC	Nasdaq	07/14/03	8,874,000	Company	Cost or Expense		
Electro Scientific Industries, Inc.	ESIOE	Nasdaq	07/15/03	27,745,000	Company	Cost or Expense	Revenue	
Fisher Communications, Inc.	FSCI	Nasdaq	07/18/03	8,595,000	Auditor	Restructuring, Assets or Inventory		
Intrepid Capital Corporation	ICAP	OTC	07/18/03	3,399,183	Company and Auditor	Cost or Expense		
IDT Corporation	IDT	NYSE	07/21/03	80,262,000	SEC	Restructuring, Assets or Inventory		
Northeast Pennsylvania Financial Corporation	NEPF	Nasdaq	07/21/03	3,934,135	Unknown	Revenue		
Riverstone Networks, Inc.	RSTN	Nasdaq	07/21/03	126,319,000	Company	Revenue		
Riverstone Networks, Inc.	RSTNE	Nasdaq	07/22/03	126,319,000	Company	Revenue		
AOL Time Warner Inc.	AOL	NYSE	07/23/03	4,677,300,000	SEC	Revenue		
Quest Software, Inc.	QSFT	Nasdaq	07/23/03	92,195,000	Company	Revenue		
Scientific Games Corporation	SGMS	Nasdaq	07/24/03	89,228,000	Unknown	Acquisition or Merger		
Elan Corporation, plc	ELN	NYSE	07/30/03	386,200,000	SEC	Related Party Transaction		
Hanover Compressor Company	HC	NYSE	07/30/03	82,004,000	Company	Securities Related		
Impath Inc.	IMPH	Nasdaq	07/30/03	16,384,000	Company	Revenue		
Midwest Express Holdings, Inc.	MEH	NYSE	07/30/03	15,538,228	Company	Cost or Expense		
Handleman Company	HDL	NYSE	08/01/03	25,504,000	SEC	Revenue		
O'Sullivan Industries Holdings, Inc.	OSULP	OTC	08/04/03	1,368,000	SEC	Cost or Expense		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Asante Technologies, Inc.	ASNT	OTC	08/05/03	10,150,000	Company	Cost or Expense		
FirstEnergy Corporation	FE	NYSE	08/05/03	294,166,000	Unknown	Cost or Expense		
Millennium Chemicals Inc.	MCH	NYSE	08/06/03	64,050,943	SEC	Cost or Expense	Reclassification	
Bema Gold Corporation	BGO	Amex	08/07/03	323,475,000	Unknown	Other		
eBay, Inc.	EBAY	Nasdaq	08/11/03	656,147,000	Other	Cost or Expense		
MetLife Inc.	MET	NYSE	08/11/03	731,256,454	Unknown	Cost or Expense		
HPSC, Inc.	HDR	Amex	08/13/03	4,538,070	Company and Auditor	Reclassification		
OPNET Technologies, Inc.	OPNT	Nasdaq	08/13/03	20,479,000	Company and Auditor	Revenue		
BearingPoint, Inc.	BE	NYSE	08/14/03	185,637,693	Company	Restructuring, Assets or Inventory	Acquisition or Merger	Revenue
Internet Pictures Corporation	IPIX	Nasdaq	08/14/03	7,613,000	Company	Securities Related		
Perot Systems Corporation	PER	NYSE	08/14/03	114,694,000	Auditor	Revenue		
Smith & Wesson Holding Corporation	SWB	Amex	08/14/03	37,126,451	Unknown	Cost or Expense	Acquisition or Merger	
Stonepath Group, Inc.	STG	Amex	08/14/03	38,082,567	SEC	Restructuring, Assets or Inventory		
First Southern Bancshares, Inc.	FSTH	OTC	08/15/03	1,453,539	Unknown	Revenue		
Arden Group, Inc.	ARDNA	Nasdaq	08/18/03	3,382,016	Unknown	Cost or Expense		
Onyx Acceptance Corporation	ONYX	Nasdaq	08/19/03	6,002,979	Company and Auditor	Restructuring, Assets or Inventory	Acquisition or Merger	
The Andersons, Inc.	ANDE	Nasdaq	08/19/03	7,106,000	Company and Auditor	Revenue		
EP MedSystems, Inc.	EPMD	Nasdaq	08/20/03	18,766,433	Unknown	Securities Related		
AMERCO	UHAEQ	Nasdaq	08/25/03	20,514,958	Unknown	Cost or Expense	Restructuring, Assets or Inventory	
AmeriCredit Corporation	ACF	NYSE	08/25/03	137,807,775	Company and Auditor	Securities Related		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
BIOLASE Technology, Inc.	BLTIE	Nasdaq	08/29/03	23,037,000	Company	Revenue		
Accredo Health, Inc.	ACDO	Nasdaq	09/04/03	48,554,127	Unknown	Revenue		
Counsel Corporation	CXSN	Nasdaq	09/04/03	25,596,000	Unknown	Acquisition or Merger		
Fidelity Southern Corporation	LION	Nasdaq	09/10/03	8,991,252	Company	Cost or Expense		
Western Wireless Corporation	WWCA	Nasdaq	09/11/03	82,348,000	Company	Cost or Expense	Other	
Fisher Communications, Inc.	FSCI	Nasdaq	09/15/03	8,595,000	Company	Cost or Expense		
FactSet Research Systems Inc.	FDS	NYSE	09/16/03	35,540,000	Company	Revenue		
National Construction Inc.	NATS	OTC	09/18/03	14,406,000	Unknown	Other		
Endocare Inc.	ENDO	OTC	09/26/03	24,162,090	Company and Auditor	Revenue	Cost or Expense	Other
SportsLine.com, Inc.	SPLN	Nasdaq	09/26/03	43,669,743	Company	Cost or Expense	Reclassification	Securities Related
MAPICS, Inc.	MAPX	Nasdaq	09/28/03	25,928,000	Unknown	Acquisition or Merger		
Rural/Metro Corporation	RUREC	Nasdaq	09/29/03	17,286,000	SEC	Cost or Expense	Revenue	
Sun Microsystems, Inc.	SUNW	Nasdaq	09/29/03	3,190,000,000	Company	Cost or Expense		
Frontline Communications Corporation	FNT	Amex	10/06/03	11,069,102	Company	Securities Related		
Computer Associates International, Inc.	CA	NYSE	10/08/03	579,000,000	Company and Auditor	Revenue		
Lindsay Manufacturing Company	LNN	NYSE	10/13/03	148,250,000	Unknown	Revenue		
Analogic Corporation	ALOG	Nasdaq	10/15/03	13,547,000	Unknown	Revenue	Related Party Transaction	
Huntington Bancshares, Inc.	HBAN	Nasdaq	10/15/03	230,966,000	Unknown	Cost or Expense	Revenue	Other
Jacuzzi Brands, Inc.	JJZ	NYSE	10/16/03	75,300,000	SEC	Acquisition or Merger		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Crown Financial Group, Inc.	MHMY and CFGI	Nasdaq	10/17/03	9,955,182	Company	Other		
Sterling Bancshares, Inc.	SBIB	Nasdaq	10/21/03	44,852,000	Company	Restructuring, Assets or Inventory		
Goodyear Tire & Rubber Company	GT	NYSE	10/22/03	175,300,000	Company	Other	Cost or Expense	
ProLogis	PLD	NYSE	10/22/03	187,222,000	Unknown	Securities Related		
Nortel Networks, Corporation	NT	NYSE	10/23/03	4,338,000,000	Company	Cost or Expense	Revenue	Reclassification
Outback Steakhouse, Inc.	OSI	NYSE	10/23/03	78,354,000	SEC	Cost or Expense		
Trinity Biotech plc	TRIB	Nasdaq	10/23/03	50,583,247	Unknown	Other		
Waypoint Financial Corporation	WYPT	Nasdaq	10/23/03	33,065,457	Unknown	Reclassification		
Pechiney	PY	NYSE	10/24/03	78,520,814	Company	Other		
Sapient Corporation	SAPE	Nasdaq	10/24/03	121,188,000	Unknown	Revenue		
Isolagen, Inc.	ILE	Amex	10/27/03	19,726,478	SEC	Cost or Expense	Securities Related	
Federal National Mortgage Association	FNM	NYSE	10/29/03	976,000,000	Company	Securities Related		
Thomas Group, Inc.	TGIS	OTC	10/29/03	10,169,575	Unknown	Cost or Expense		
STAAR Surgical Company	STAA	Nasdaq	10/30/03	18,281,000	Company	Revenue		
Aerosonic Corporation	AIM	Amex	10/31/03	3,921,019	Company	Restructuring, Assets or Inventory	Revenue	
Northeast Pennsylvania Financial Corporation	NEPF	Nasdaq	10/31/03	6,427,350	Unknown	Revenue		
Anchor Glass Container Corporation	AGCC	Nasdaq	11/03/03	16,364,196	Unknown	Securities Related		
Optical Communication Products, Inc.	OCPI	Nasdaq	11/03/03	112,287,000	Company	Securities Related		
CryoLife, Inc.	CRY	NYSE	11/04/03	19,684,000	Unknown	Cost or Expense		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Wickes Inc.	WIKS	OTC	11/04/03	8,307,984	Unknown	Reclassification		
CarrAmerica Realty Corporation	CRE	NYSE	11/05/03	53,794,000	SEC	Securities Related		
Cablevision Systems Corporation	CVC	NYSE	11/11/03	286,716,000	Company	Cost or Expense		
PlanVista Corporation	PVST	OTC	11/11/03	16,899,000	Unknown	Securities Related		
Conolog Corporation	CNLG	Nasdaq	11/12/03	1,300,013	Unknown	Restructuring, Assets or Inventory		
Tenneco Automotive Inc.	TEN	NYSE	11/13/03	42,187,011	Company	Revenue	Cost or Expense	
U.S. Concrete, Inc.	RMIX	Nasdaq	11/13/03	28,105,000	Unknown	Restructuring, Assets or Inventory		
Vail Resorts, Inc.	MTN	NYSE	11/13/03	35,286,000	Unknown	Cost or Expense	Restructuring, Assets or Inventory	
Washington Mutual, Inc.	WM	NYSE	11/13/03	921,757,000	Unknown	Revenue		
Sandy Spring Bancorp, Inc.	SASR	Nasdaq	11/14/03	14,677,000	Company and Auditor	Cost or Expense		
United Security Bancshares	UBFO	Nasdaq	11/14/03	5,512,000	SEC	Revenue		
VantageMed Corporation	VMDC	OTC	11/14/03	8,400,000	Unknown	Cost or Expense		
VaxGen, Inc.	VXGN	Nasdaq	11/14/03	18,916,000	Unknown	Securities Related		
Friedman's Inc.	FRM	NYSE	11/17/03	19,142,000	Unknown	Other		
MDSI Mobile Data Solutions Inc.	MDSI	Nasdaq	11/17/03	8,201,000	Company	Revenue		
Atwood Oceanics, Inc.	ATW	NYSE	11/18/03	13,852,301	Company	Cost or Expense		
5G Wireless Communications, Inc.	FGWC	OTC	11/19/03	120,043,524	Company	Securities Related		
Digital Generation Systems, Inc.	DGIT	Nasdaq	11/19/03	74,891,000	Company	Cost or Expense		
Dynex Capital, Inc.	DX	NYSE	11/19/03	10,873,903	Unknown	Securities Related		
Helmerich & Payne, Inc.	HP	NYSE	11/19/03	50,168,655	Company	Restructuring, Assets or Inventory		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Natural Health Trends Corporation	NHLC	OTC	11/19/03	5,688,099	Company	Revenue	Cost or Expense	
SportsLine.com, Inc.	SPLN	Nasdaq	11/19/03	43,502,652	Company and Auditor	Revenue	Cost or Expense	
Virbac Corporation	VBACE	Nasdaq	11/24/03	22,234,000	Company and Auditor	Revenue	Restructuring, Assets or Inventory	
Cotelligent, Inc.	CGZT	OTC	11/25/03	13,324,217	Unknown	Securities Related		
Capital Environmental Resource Inc.	CERI	Nasdaq	11/26/03	38,782,000	Unknown	Securities Related		
Financial Industries Corporation	FNIN	Nasdaq	11/26/03	9,634,000	Unknown	Securities Related		
Mercury Air Group, Inc.	MAX	Amex	12/02/03	3,268,211	Company and Auditor	Other	Securities Related	Reclassification
First Southern Bancshares, Inc.	FSTH	OTC	12/03/03	1,463,103	Unknown	Securities Related		
Verdisys, Inc.	VDYS	OTC	12/04/03	22,180,185	Unknown	Revenue	Other	Reclassification
Keithley Instruments, Inc.	KEI	NYSE	12/08/03	15,487,000	Company and Auditor	Reclassification		
Greenland Corporation	GRLC	OTC	12/09/03	197,436,000	Unknown	Cost or Expense		
VendingData Corporation	VNDC	OTC	12/10/03	8,134,173	Unknown	Revenue		
Richardson Electronics, Ltd.	RELL	Nasdaq	12/18/03	14,361,000	Company and Auditor	Cost or Expense		
Citizens Bancshares Corporation	CZBS	OTC	12/22/03	2,073,000	Auditor	Securities Related		
First Sentinel Bancorp, Inc.	FSLA	Nasdaq	12/22/03	27,358,536	Company	Cost or Expense		
Whitehall Jewellers, Inc.	JWL	NYSE	12/22/03	14,098,000	Unknown	Restructuring, Assets or Inventory	Cost or Expense	Other
NAPCO Security Systems, Inc.	NSSCE	Nasdaq	12/29/03	3,488,567	Unknown	Cost or Expense		
Stonepath Group, Inc.	STG	Amex	12/29/03	39,918,712	Company	Related Party Transaction		
Micromuse Inc.	MUSE	Nasdaq	12/30/03	82,063,000	Unknown	Cost or Expense		
TALX Corporation	TALX	Nasdaq	01/05/04	14,023,878	Company	Revenue		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Castle Energy Corporation	CECX	Nasdaq	01/06/04	6,889,729	Unknown	Cost or Expense		
Axcan Pharma Inc.	AXCA	Nasdaq	01/07/04	45,562,336	Unknown	Securities Related		
Royal Dutch Petroleum Company	RD	NYSE	01/09/04	2,083,500,000	Company	Restructuring, Assets or Inventory	Securities Related	Cost or Expense
Shell Transport and Trading Company, PLC	SC	NYSE	01/09/04	9,624,902,724	Company	Restructuring, Assets or Inventory	Securities Related	Cost or Expense
Metromedia International Group, Inc.	MTRM	OTC	01/12/04	94,035,000	Company	Restructuring, Assets or Inventory	Securities Related	
Advanced Marketing Services, Inc.	MKT	NYSE	01/14/04	19,624,000	Company	Revenue		
United States Exploration, Inc.	UXP	Amex	01/14/04	18,891,167	SEC	Revenue		
National City Corporation	NCC	NYSE	01/15/04	643,004,817	SEC	Securities Related		
Adecco S.A.	ADO	NYSE	01/16/04	201,328,174	Company	Revenue		
Wells Fargo & Company	WFC	NYSE	01/16/04	1,721,200,000	Unknown	Reclassification		
Medicsight, Inc.	MSHT	OTC	01/20/04	21,154,874	Company	Securities Related	Restructuring, Assets or Inventory	
Rag Shops, Inc.	RAGS	Nasdaq	01/20/04	4,797,983	Company	Restructuring, Assets or Inventory		
Foamex International, Inc.	FMXI	Nasdaq	01/22/04	24,394,000	Company	Restructuring, Assets or Inventory	Reclassification	
Core Molding Technologies, Inc.	CMT	Amex	01/26/04	9,778,680	Company	Restructuring, Assets or Inventory		
John B. Sanfilippo & Sons Inc.	JBSS	Nasdaq	01/27/04	9,606,761	Company	Cost or Expense		
Cadence Design Systems, Inc.	CDN	NYSE	01/28/04	271,477,000	Company	Restructuring, Assets or Inventory	Other	
Captaris, Inc.	CAPA	Nasdaq	01/30/04	32,293,000	Company	Cost or Expense		
Take-Two Interactive Software, Inc.	TTWO	Nasdaq	01/30/04	43,297,000	SEC	Revenue		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
El Paso Corporation	EP	NYSE	02/02/04	638,000,000	Company	Restructuring, Assets or Inventory		
Kerzner International Ltd.	KZL	NYSE	02/02/04	33,884,075	Company and Auditor	Restructuring, Assets or Inventory		
KSW Inc	KSWW	OTC	02/02/04	5,470,311	Company	Related Party Transaction		
Principal Financial Group, Inc.	PFG	NYSE	02/02/04	322,000,000	Company	Securities Related		
Quality Distribution, Inc.	QLTY	Nasdaq	02/02/04	19,114,000	Company	Revenue		
Flowserve Corporation	FLS	NYSE	02/03/04	55,429,000	Company	Restructuring, Assets or Inventory		
Diageo plc	DEO	NYSE	02/04/04	3,031,000,000	Unknown	Cost or Expense		
LION Bioscience AG	LEON	Nasdaq	02/04/04	19,870,175	Company and Auditor	Revenue		
Commerce One, Inc.	CMRC	Nasdaq	02/05/04	30,431,000	Unknown	Reclassification		
Great American Bancorp Inc.	GTPS	Nasdaq	02/05/04	824,155,000	Auditor	Securities Related		
The GEO Group, Inc.	GGI	NYSE	02/05/04	9,712,000	Unknown	Cost or Expense		
PepsiCo Inc	PEP	NYSE	02/09/04	1,736,000,000	Company	Cost or Expense		
CNA Surety Corporation	SUR	NYSE	02/11/04	43,055,000	Unknown	Revenue		
Health Net, Inc.	HNT	NYSE	02/11/04	113,235,000	Auditor	Cost or Expense		
Vital Images, Inc.	VTAL	Nasdaq	02/11/04	11,338,829	Company	Reclassification		
Tripos, Inc.	TRPS	Nasdaq	02/12/04	9,047,000	Company	Revenue		
HickoryTech Corporation	HTCO	Nasdaq	02/16/04	13,020,000	Company	Cost or Expense		
Cicinnati Bell Inc.	CBB	NYSE	02/17/04	253,600,000	Company	Cost or Expense	Revenue	
Marsh Supermarkets, Inc.	MARSA AND MARSB	Nasdaq	02/17/04	8,050,000	Unknown	Restructuring, Assets or Inventory		
National R.V. Holdings, Inc.	NVH	NYSE	02/17/04	10,334,000	Company	Restructuring, Assets or Inventory		
OM Group, Inc.	OMG	NYSE	02/17/04	28,587,000	SEC	Restructuring, Assets or Inventory		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Young Broadcasting Inc.	YBTVA	Nasdaq	02/17/04	19,737,156	SEC	Restructuring, Assets or Inventory		
Calais Resources Inc.	CAAUF	OTC	02/18/04	10,812,795	Other	Other	Restructuring, Assets or Inventory	Related Party Transaction
Ceridian Corporation	CEN	NYSE	02/18/04	153,072,000	Company and Auditor	Revenue		
JLG Industries, Inc.	JLG	NYSE	02/18/04	44,013,000	Company	Revenue		
Sauer-Danfoss Inc.	SHS	NYSE	02/18/04	47,659,284	Unknown	Cost or Expense		
Terex Corporation	TEX	NYSE	02/18/04	50,600,000	Company	Cost or Expense		
HCC Insurance Holdings, Inc.	HCC	NYSE	02/19/04	65,416,000	Company and Auditor	Revenue		
Health & Nutrition Systems International, Inc.	HNNS	OTC	02/19/04	3,832,813	Unknown	Cost or Expense		
Voxware, Inc.	VOXW	OTC	02/19/04	36,684,000	Company and Auditor	Securities Related	Cost or Expense	Revenue
Liquidmetal Technologies, Inc.	LQMTE	Nasdaq	02/20/04	41,610,000	Unknown	Revenue		
Goodrich Corporation	GR	NYSE	02/24/04	119,900,000	Other	Revenue		
Alaska Air Group, Inc.	ALK	NYSE	02/26/04	26,582,000	Company	Restructuring, Assets or Inventory		
Insight Communications Company, Inc.	ICCI	Nasdaq	02/26/04	59,661,000	Company	Securities Related		
Alpharma Inc.	ALO	NYSE	02/27/04	52,010,000	Unknown	Other	Reclassification	
Avalon Correctional Services, Inc.	CITY	Nasdaq	02/27/04	6,187,622	SEC	Restructuring, Assets or Inventory		
Archon Corporation	ARHN	OTC	03/01/04	6,221,431	Company	Other		
IMPAC Medical Systems, Inc.	IMPCE	Nasdaq	03/01/04	10,315,000	Company	Revenue		
Cablevision Systems Corporation	CVC	NYSE	03/02/04	286,842,000	Company and Auditor	Cost or Expense		
Granite Broadcasting Corporation	GBTVK	OTC	03/02/04	19,319,460	SEC	Restructuring, Assets or Inventory		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Metris Companies Inc.	MXT	NYSE	03/02/04	89,382,000	Unknown	Securities Related		
Ace Ltd.	ACE	NYSE	03/05/04	284,289,568	Unknown	Securities Related		
Annuity and Life Re (Holdings), Ltd.	ANR	NYSE	03/08/04	25,880,202	Company	Cost or Expense		
Gray Television, Inc.	GTN	NYSE	03/08/04	50,503,000	Company	Reclassification		
Safescript Pharmacies Inc.	SAFS	OTC	03/08/04	6,794,834	SEC	Revenue		
Tower Automotive, Inc.	TWR	NYSE	03/08/04	58,110,000	Company and Auditor	Revenue	Cost or Expense	
Intermet Corporation	INMT	Nasdaq	03/09/04	25,676,000	Unknown	Cost or Expense		
Nortel Networks, Corporation	NT	NYSE	03/10/04	4,379,000,000	Unknown	Other		
Bally Total Fitness Holding Corporation	BFT	NYSE	03/11/04	33,171,836	Company	Revenue		
Echostar Communications Corporation	DISH	Nasdaq	03/11/04	478,919,000	SEC	Reclassification		
Lennox International, Inc.	LII	NYSE	03/11/04	59,500,000	Company	Revenue		
Bristol-Myers Squibb Company	BMY	NYSE	03/15/04	1,976,000,000	Company	Reclassification	Cost or Expense	
Middlesex Water Company	MSEX	Nasdaq	03/15/04	11,411,304	Unknown	Reclassification		
P.F. Chang's China Bistro, Inc.	PFCB	Nasdaq	03/15/04	26,038,000	SEC	Reclassification	Related Party Transaction	Restructuring, Assets or Inventory
Paxson Communications Corporation	PAX	Amex	03/15/04	67,540,702	Unknown	Acquisition or Merger		
Quovadx, Inc.	QVDX	Nasdaq	03/15/04	39,279,000	Company	Revenue		
Service Corporation International	SRV	NYSE	03/15/04	353,088,000	Unknown	Revenue		
SPSS Inc.	SPSS	Nasdaq	03/15/04	17,228,000	Company	Restructuring, Assets or Inventory	Cost or Expense	
The Phoenix Companies, Inc.	PNX	NYSE	03/15/04	102,301,000	Company	Restructuring, Assets or Inventory		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Verdisys, Inc.	VDYS	OTC	03/15/04	31,415,041	SEC	Revenue		
Veritas Software Corporation	VRTS	Nasdaq	03/15/04	444,921,000	Company	Revenue	Cost or Expense	Acquisition or Merger
CMS Energy Corporation	CMS	NYSE	03/17/04	161,100,000	SEC	Related Party Transaction		
MedicalCV Inc.	MDCVU	OTC	03/17/04	9,489,670	Company	Reclassification		
Evans & Sutherland Computer Corporation	ESCC	Nasdaq	03/18/04	10,488,000	Company	Revenue	Cost or Expense	
Lattice Semiconductor Corporation	LSCC	Nasdaq	03/18/04	112,627,000	Company	Revenue		
Gyrodyne Company of America Inc.	GYRO	Nasdaq	03/22/04	1,155,838	Company	Restructuring, Assets or Inventory		
Asconi Corporation	ACD	Amex	03/23/04	12,048,933	SEC	Securities Related	Cost or Expense	
Cellegy Pharmaceuticals, Inc.	CLGY	Nasdaq	03/24/04	20,087,000	Company	Securities Related		
Blue Ridge Energy, Inc.	BREY	OTC	03/25/04	7,516,094	Company	Cost or Expense		
Comarco, Inc.	CMRO	Nasdaq	03/25/04	7,285,000	Company	Cost or Expense		
Westar Energy, Inc.	WR	NYSE	03/25/04	74,464,910	Company	Reclassification		
Claimsnet.com Inc.	CLAI	OTC	03/26/04	20,537,000	Company	Cost or Expense		
Credit Suisse Group	CSR	NYSE	03/26/04	1,110,819,481	Company	Cost or Expense		
Shurgard Storage Centers, Inc.	SHU	NYSE	03/26/04	45,654,000	Company	Cost or Expense		
Key Energy Services, Inc.	KEG	NYSE	03/29/04	131,433,000	Company	Restructuring, Assets or Inventory		
Sonus Networks, Inc.	SONS	Nasdaq	03/29/04	255,592,000	Company and Auditor	Revenue	Other	
AaiPharma, Inc.	AAII	Nasdaq	03/30/04	28,653,000	Company	Revenue		
Allied Holdings, Inc.	AHI	Amex	03/30/04	8,789,000	Company	Reclassification		
Goodrich Petroleum Corporation	GDP	NYSE	03/30/04	20,796,148	Company	Cost or Expense		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Hollywood Media Corporation	HOLL	Nasdaq	03/30/04	26,308,112	Company and Auditor	Cost or Expense		
MSC.Software Corporation	MNS	NYSE	03/30/04	42,803,000	Auditor	Revenue	Cost or Expense	Restructuring, Assets or Inventory
Scan-Optics, Inc.	SOCR	OTC	03/30/04	7,026,232	Company	Other		
SmartVideo Technologies Inc.	SMVD	OTC	03/30/04	10,084,446	Company	Reclassification		
Synagro Technologies, Inc.	SYGR	Nasdaq	03/30/04	19,775,821	Unknown	Reclassification		
Wilshire Financial Services Group Inc.	WFSG	Nasdaq	03/30/04	21,288,258	Company	Acquisition or Merger		
Data Systems & Software Inc.	DSSCE	Nasdaq	03/31/04	7,570,000	Auditor	Securities Related	Acquisition or Merger	
Kansas City Southern Industries Inc.	KSU	NYSE	03/31/04	63,811,000	Unknown	Cost or Expense		
Paxson Communications Corporation	PAX	Amex	03/31/04	67,540,702	Unknown	Cost or Expense		
Pemco Aviation Group, Inc.	PAGI	Nasdaq	03/31/04	4,544,000	Unknown	Related Party Transaction		
Premier Financial Bancorp, Inc.	PFBI	Nasdaq	03/31/04	5,235,000	Company	Restructuring, Assets or Inventory	Other	
Strategic Distribution, Inc.	STRD	Nasdaq	03/31/04	2,953,301	Company	Cost or Expense		
Dynacq Healthcare, Inc.	DYIIE	Nasdaq	04/06/04	14,962,864	SEC	Reclassification	Securities Related	
First Bancshares, Inc.	FSLO	OTC	04/06/04	.	Unknown	Securities Related	Other	
Goodyear Tire & Rubber Company	GT	NYSE	04/12/04	175,300,000	Company	Restructuring, Assets or Inventory	Cost or Expense	Other
Pro-Fac Cooperative, Inc.	PFACP	Nasdaq	04/12/04	1,833,738	Company	Restructuring, Assets or Inventory		
Nektar Therapeutics	NKTR	Nasdaq	04/13/04	83,501,000	Company and Auditor	Securities Related		
Blyth, Inc.	BTH	NYSE	04/14/04	46,105,000	Company and Auditor	Restructuring, Assets or Inventory	Reclassification	

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Prolong International Corporation	PRL	Amex	04/14/04	29,789,598	Company	Reclassification	Cost or Expense	
Royal BodyCare, Inc.	ROBE	OTC	04/14/04	20,813,667	Company and Auditor	Revenue		
Diversified Corporate Resources, Inc.	HIR	Amex	04/15/04	4,932,000	Unknown	Securities Related		
Telephone and Data Systems, Inc.	TDS	Amex	04/19/04	57,579,000	Company	Cost or Expense	Reclassification	
United States Cellular Corporation	USM	Amex	04/19/04	86,653,000	Company	Cost or Expense	Reclassification	
Computer Associates International, Inc.	CA	NYSE	04/26/04	615,000,000	Company	Revenue		
Advanced Materials Group, Inc.	ADMG	OTC	04/27/04	9,226,829	Company	Cost or Expense		
Global Crossing Ltd.	GLBC	Nasdaq	04/27/04	22,000,000	Company	Cost or Expense		
Mesa Air Group, Inc.	MESA	Nasdaq	04/30/04	42,435,000	Company	Cost or Expense		
Asconi Corporation	ACD	Amex	05/03/04	12,057,440	SEC	Related Party Transaction		
Catalina Marketing Corporation	POS	NYSE	05/03/04	52,245,000	Company	Restructuring, Assets or Inventory	Cost or Expense	
Acclaim Entertainment, Inc.	AKLM	Nasdaq	05/05/04	109,254,000	Unknown	Reclassification		
Alpharma Inc.	ALO	NYSE	05/06/04	52,518,000	Other	Restructuring, Assets or Inventory		
Computer Associates International, Inc.	CA	NYSE	05/06/04	615,000,000	SEC	Revenue		
Tegal Corporation	TGAL	Nasdaq	05/06/04	41,812,000	Unknown	Securities Related		
Cinergy Corporation	CIN	NYSE	05/07/04	180,236,000	Unknown	Securities Related		
Biotel Inc.	BTEL	OTC	05/10/04	2,967,131	Unknown	Revenue		
Churchill Downs Inc.	CHDN	Nasdaq	05/10/04	13,460,000	Unknown	Cost or Expense		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Sierra Pacific Resources	SRP	NYSE	05/10/04	117,279,506	Unknown	Securities Related	Cost or Expense	
Alaska Air Group, Inc.	ALK	NYSE	05/11/04	33,273,000	Unknown	Reclassification		
BCSB Bankcorp, Inc.	BCSB	Nasdaq	05/12/04	5,841,516	Company	Other		
ViaSat Inc.	VSAT	Nasdaq	05/12/04	28,276,000	Unknown	Restructuring, Assets or Inventory		
Checkpoint Systems, Inc.	CKP	NYSE	05/13/04	37,200,000	Company	Cost or Expense		
Per-Se Technologies, Inc.	PSTIE	Nasdaq	05/13/04	31,530,000	Unknown	Reclassification	Revenue	Cost or Expense
Global Power Equipment Group, Inc.	GEG	NYSE	05/14/04	46,949,000	Unknown	Reclassification		
J. Alexander's Corporation	JAX	Amex	05/14/04	6,776,000	Auditor	Securities Related		
Analytical Surveys, Inc.	ANLT	Nasdaq	05/17/04	1,858,000	Company	Securities Related		
Covad Communications Group, Inc.	COVD	OTC	05/17/04	242,359,000	Company	Securities Related		
HMI Industries Inc.	HMII	OTC	05/17/04	6,746,000	SEC	Cost or Expense		
NYFIX, Inc.	NYFXE	Nasdaq	05/17/04	32,243,000	SEC	Acquisition or Merger	Securities Related	
Pegasus Communications Corporation	PGTVE	Nasdaq	05/17/04	6,016,000	Unknown	Cost or Expense		
The BISYS Group, Inc.	BSG	NYSE	05/17/04	120,575,000	Company	Revenue		
BakBone Software, Inc.	BKBOF	OTC	05/20/04	58,621,216	Company	Securities Related	Revenue	
Orthodontic Centers of America, Inc.	OCA	NYSE	05/20/04	50,270,000	Unknown	Revenue		
Commerical National Financial Corporation	CNAF	Nasdaq	05/21/04	3,427,262	Company	Acquisition or Merger		
RCG Companies Inc.	RCG	Amex	05/24/04	16,799,540	Company	Acquisition or Merger	Reclassification	
Canyon Resources Corporation	CAU	Amex	05/25/04	6,326,800	Unknown	Securities Related		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Grill Concepts, Inc.	GRIL	Nasdaq	05/26/04	5,590,445	Auditor	Securities Related		
Arena Resources, Inc.	ARD	Amex	05/28/04	7,183,855	Unknown	Acquisition or Merger		
Astris Energi Inc.	ASRNF	OTC	05/28/04	26,316,551	Unknown	Securities Related		
CHC Helicopter Corporation	FLI	NYSE	06/08/04	42,673,000	Unknown	Cost or Expense		
AMC Entertainment Inc.	AEN	Amex	06/09/04	37,608,000	Unknown	Cost or Expense		
Warrantech Corporation	WTEC	OTC	06/09/04	15,398,677	SEC	Revenue		
DIMON Inc.	DMN	NYSE	06/10/04	48,004,000	Unknown	Cost or Expense		
HiEnergy Technologies, Inc.	HIET	OTC	06/14/04	31,261,473	Unknown	Securities Related		
Sola International Inc.	SOL	NYSE	06/14/04	32,577,000	Company	Cost or Expense		
Lowrance Electronics, Inc.	LEIX	Nasdaq	06/15/04	4,395,000	Company	Securities Related		
Transcat, Inc.	TRNS	Nasdaq	06/21/04	6,321,000	Unknown	Reclassification		
Omnivision Technologies, Inc.	OVTI	Nasdaq	06/23/04	61,131,000	Company	Revenue		
BankAtlantic Bancorp, Inc.	BBX	NYSE	06/24/04	62,807,683	Company	Securities Related		
GoldSpring, Inc.	GSPG	OTC	06/24/04	196,355,461	Company	Acquisition or Merger		
Sonus Networks, Inc.	SONSE	Nasdaq	06/24/04	250,127,000	Company and Auditor	Revenue	Other	
Rentrak Corporation	RENT	Nasdaq	06/29/04	10,471,252	Company	Revenue		
Opticare Health Systems, Inc.	OPT	Amex	07/01/04	30,663,562	Company	Restructuring, Assets or Inventory	Reclassification	
Fonix Corporation	FNIX	OTC	07/02/04	94,295,183	Company	Acquisition or Merger		
Life Partners Holdings, Inc.	LPHI	Nasdaq	07/07/04	9,494,785	Unknown	Cost or Expense		
Newmont Mining Corporation	NEM	NYSE	07/08/04	447,060,000	Company	Reclassification		
World Heart Corporation	WHRT	Nasdaq	07/12/04	16,556,950	Company	Revenue		
Red Hat Inc.	RHAT	Nasdaq	07/13/04	195,633,000	Auditor	Revenue		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Eagle Broadband, Inc.	EAG	Amex	07/15/04	209,418,000	Unknown	Acquisition or Merger		
VaxGen, Inc.	VXGNE	Nasdaq	07/19/04	20,561,000	Company	Revenue		
FormFactor, Inc.	FORM	Nasdaq	07/20/04	37,090,000	Auditor	Cost or Expense		
Taser International, Inc.	TASR	Nasdaq	07/20/04	63,948,784	Company	Cost or Expense		
Bay View Capital Corporation	BVC	NYSE	07/21/04	6,588,000	Company	Cost or Expense		
Nature's Sunshine Products, Inc.	NATR	Nasdaq	07/21/04	15,654,000	Company	Cost or Expense		
Advent Software, Inc.	ADVS	Nasdaq	07/22/04	33,179,000	Company	Securities Related		
Baxter International Inc.	BAX	NYSE	07/22/04	619,000,000	Company	Revenue	Other	
Crosstex Energy, Inc.	XTXI	Nasdaq	07/22/04	12,918,000	Company	Other		
Crosstex Energy, L.P.	XTEX	Nasdaq	07/22/04	18,662,000	Company	Other		
Impac Mortgage Holdings, Inc.	IMH	NYSE	07/22/04	65,939,000	Unknown	Revenue	Reclassification	
Middleby Corporation	MIDD	Nasdaq	07/22/04	10,048,000	Company	Reclassification		
Philadelphia Consolidated Holding Corporation	PHLY	Nasdaq	07/22/04	23,193,000	Company	Revenue		
Ferro Corporation	FOE	NYSE	07/23/04	43,747,430	Company	Other		
Berry Petroleum Company	BRY	NYSE	07/26/04	22,416,000	Unknown	Cost or Expense		
McAfee, Inc.	MFE	NYSE	07/27/04	172,103,000	Company	Revenue	Cost or Expense	
SITEL Corporation	SWW	NYSE	07/28/04	73,710,000	Unknown	Revenue		
Tengtu International Corporation	TNTU	OTC	07/28/04	102,792,110	Company	Revenue		
Thomson Corporation	TOC	NYSE	07/28/04	655,835,944	Company	Restructuring, Assets or Inventory		
CGI Group Inc.	GIB	NYSE	07/29/04	419,510,503	Unknown	Cost or Expense		
LION, Inc.	LINN	OTC	07/29/04	34,096,314	Company	Revenue		
Millennium Chemicals Inc.	MCH	NYSE	07/29/04	76,976,000	Company	Cost or Expense		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Minerals Technologies Inc.	MTX	NYSE	07/29/04	20,769,000	Company and Auditor	Cost or Expense		
Telewest Global, Inc.	TLWT	Nasdaq	07/29/04	245,000,001	Company	Reclassification		
Thomas Group, Inc.	TGIS	OTC	07/29/04	10,529,020	Company and Auditor	Cost or Expense		
Highwoods Properties, Inc.	HIW	NYSE	08/04/04	54,002,000	Company and Auditor	Revenue	Reclassification	
The Brink's Company	BCO	NYSE	08/04/04	55,500,000	Company	Cost or Expense		
Wireless Facilities, Inc.	WFII	Nasdaq	08/04/04	75,700,000	Company	Cost or Expense		
XATA Corporation	XATA	Nasdaq	08/04/04	7,021,573	Unknown	Securities Related		
Covansys Corporation	CVNSE	Nasdaq	08/05/04	28,616,000	Company	Restructuring, Assets or Inventory		
Zix Corporation	ZIXI	Nasdaq	08/05/04	32,029,000	Unknown	Acquisition or Merger		
Granite Broadcasting Corporation	GBTVK	OTC	08/06/04	19,381,124	SEC	Restructuring, Assets or Inventory		
Bally Total Fitness Holding Corporation	BFT	NYSE	08/09/04	33,171,836	Unknown	Revenue		
Coeur d'Alene Mines Corporation	CDE	NYSE	08/09/04	213,261,000	Unknown	Revenue		
CP Ships Ltd.	TEU	NYSE	08/09/04	90,297,528	Unknown	Cost or Expense		
Interstate Bakeries Corporation	IBC	NYSE	08/09/04	44,903,000	Company	Cost or Expense		
ScanSoft, Inc.	SSFT	Nasdaq	08/09/04	115,992,000	Company	Revenue		
Symantec Corporation	SYMC	Nasdaq	08/09/04	368,269,000	Company	Revenue		
eCollege	ECLG	Nasdaq	08/10/04	20,694,481	Unknown	Securities Related		
Hanover Direct, Inc.	HNV	Amex	08/10/04	31,356,000	Company	Revenue		
MSC.Software Corporation	MNS	NYSE	08/11/04	42,360,000	Company and Auditor	Revenue	Other	
Stratagene Corporation	STGN	Nasdaq	08/12/04	22,077,933	Company	Securities Related		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Teleglobe International Holdings Ltd.	TLGB	Nasdaq	08/12/04	38,985,663	Company	Cost or Expense		
United PanAm Financial Corporation	UPFC	Nasdaq	08/12/04	18,022,000	Company and Auditor	Other		
Electro Rent Corporation	ELRC	Nasdaq	08/13/04	25,102,000	Unknown	Cost or Expense		
Huffy Corporation	HUF	NYSE	08/13/04	15,350,000	Company	Cost or Expense	Restructuring, Assets or Inventory	Revenue
Integrated Electrical Services, Inc.	IES	NYSE	08/13/04	38,835,737	Company and Auditor	Cost or Expense	Revenue	
Sight Resource Corporation	VISN	OTC	08/15/04	30,698,000	Unknown	Other		
Hanger Orthopedic Group, Inc.	HGR	NYSE	08/16/04	21,548,925	Company	Revenue		
iSecureTrac Corporation	ISRE	OTC	08/16/04	57,721,146	Unknown	Cost or Expense	Securities Related	
Isramco, Inc.	ISRL	Nasdaq	08/16/04	2,639,853	Company and Auditor	Restructuring, Assets or Inventory		
Pegasus Communications Corporation	PGTVE	Nasdaq	08/16/04	6,016,000	Unknown	Cost or Expense		
Transpro, Inc.	TPR	Amex	08/16/04	7,367,000	Unknown	Revenue		
Warwick Valley Telephone Company	WWVY E	Nasdaq	08/16/04	5,401,780	Other	Revenue		
MetroCorp Bancshares, Inc.	MCBI	Nasdaq	08/17/04	7,235,000	Company	Revenue	Cost or Expense	
Golden Enterprises, Inc.	GLDC	Nasdaq	08/18/04	11,852,830	Auditor	Cost or Expense		
UniSource Energy Corporation	UNS	NYSE	08/23/04	35,113,000	Company	Revenue		
Centennial Communications Corporation	CYCL	Nasdaq	08/31/04	104,366,000	Company and Auditor	Other	Revenue	
Implant Services Corporation	IMX	Amex	09/01/04	10,962,703	Auditor	Securities Related		
Kookmin Bank	KB	NYSE	09/01/04	306,650,000	Other	Acquisition or Merger	Cost or Expense	Securities Related

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Veritas DGC Inc.	VTS	NYSE	09/01/04	34,895,000	Company	Cost or Expense		
Riverstone Networks, Inc.	RSTN	OTC	09/02/04	127,247,000	Company	Revenue		
Canyon Resources Corporation	CAU	Amex	09/08/04	28,557,500	Company	Restructuring, Assets or Inventory	Cost or Expense	
Cardinal Health, Inc.	CAH	NYSE	09/13/04	434,700,000	SEC	Revenue	Cost or Expense	Other
Digimarc Corporation	DMRC	Nasdaq	09/13/04	20,371,000	Company	Cost or Expense		
Global Crossing Ltd.	GLBCE	Nasdaq	09/13/04	22,000,000	Company	Cost or Expense		
Rag Shops, Inc.	RAGS	Nasdaq	09/13/04	4,797,983	Unknown	Cost or Expense		
The Pantry, Inc.	PTRY	Nasdaq	09/13/04	21,102,000	Company	Reclassification		
Quality Dining, Inc.	QDIN	Nasdaq	09/15/04	10,212,000	Company	Securities Related		
Aerosonic Corporation	AIM	Amex	09/16/04	3,921,019	Other	Cost or Expense		
Netopia, Inc.	NTPAE	Nasdaq	09/16/04	24,748,000	Company	Revenue		
Williams Companies Inc.	WMB	NYSE	09/16/04	529,525,000	Unknown	Reclassification		
Flow International Corporation	FLOW	Nasdaq	09/20/04	15,916,000	Company	Reclassification	Cost or Expense	
Stonepath Group, Inc.	STG	Amex	09/20/04	41,352,332	Company	Cost or Expense		
Tefron Ltd.	TFR	NYSE	09/20/04	12,409,929	Company and Auditor	Restructuring, Assets or Inventory		
Dynegy Inc.	DYN	NYSE	09/22/04	504,000,000	Company and Auditor	Restructuring, Assets or Inventory	Cost or Expense	
Municipal Mortgage & Equity, LLC	MMA	NYSE	09/23/04	35,267,697	Company	Cost or Expense		
Intelligroup, Inc.	ITIGE	Nasdaq	09/24/04	35,103,000	Company	Other	Revenue	
Edelbrock Corporation	EDEL	Nasdaq	09/28/04	5,637,000	Company	Cost or Expense		
Acceris Communications Inc.	ACRS	OTC	09/29/04	19,261,000	Auditor	Securities Related		
Energy West, Inc.	EWST	Nasdaq	09/29/04	2,598,506	Auditor	Reclassification		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
IMPAC Medical Systems, Inc.	IMPCE	Nasdaq	09/29/04	9,933,000	Auditor	Revenue		
PDI, Inc.	PDII	Nasdaq	09/29/04	14,933,000	Company	Cost or Expense		
UIL Holdings Corporation	UIL	NYSE	09/29/04	14,593,000	Company	Securities Related		
Ceridian Corporation	CEN	NYSE	09/30/04	150,642,000	Company	Cost or Expense		
Ship Finance International Ltd.	SFL	NYSE	09/30/04	74,610,946	Auditor	Cost or Expense	Reclassification	
Axesstel, Inc	AFT	Amex	10/05/04	22,325,978	Company	Cost or Expense		
CyGene Laboratories, Inc.	CYGE	OTC	10/07/04	42,712,579	Unknown	Securities Related		
ACR Group, Inc.	ACRG	OTC	10/08/04	11,030,000	Company	Securities Related		
Computer Horizons Corporation	CHRZ	Nasdaq	10/08/04	30,931,000	Company	Related Party Transaction		
SunTrust Banks, Inc.	STI	NYSE	10/11/04	283,502,000	Company	Other		
AMB Property Corporation	AMB	NYSE	10/12/04	86,516,695	Company	Cost or Expense		
Pegasus Communications Corporation	PGTVE	Nasdaq	10/12/04	12,144,000	Company	Restructuring, Assets or Inventory		
BRE Properties, Inc.	BRE	NYSE	10/13/04	51,330,000	Company and Auditor	Cost or Expense		
Analogic Corporation	ALOGE	Nasdaq	10/14/04	13,546,000	Company	Revenue		
Centerplate, Inc.	CVP	Amex	10/14/04	22,524,992	SEC	Securities Related		
Morgan Stanley	MWD	NYSE	10/14/04	1,084,121,708	Company	Cost or Expense		
IMCO Recycling Inc.	IMF	NYSE	10/19/04	15,186,000	Company and Auditor	Acquisition or Merger	Reclassification	
Sprint Corporation	FON	NYSE	10/19/04	1,443,400,000	Company	Restructuring, Assets or Inventory	Cost or Expense	
Washington Federal, Inc.	WFSL	Nasdaq	10/19/04	87,440,181	Company	Securities Related		
Transmeta Corporation	TMTA	Nasdaq	10/20/04	175,487,000	Unknown	Restructuring, Assets or Inventory		
First Industrial Realty Trust, Inc.	FR	NYSE	10/21/04	42,466,376	Company	Cost or Expense		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
D&E Communications, Inc.	DECC	Nasdaq	10/22/04	14,308,000	Company	Securities Related		
Vail Banks, Inc.	VAIL	Nasdaq	10/25/04	5,471,864	Auditor	Cost or Expense		
Flowserve Corporation	FLS	NYSE	10/26/04	55,429,000	Company	Cost or Expense		
Intergraph Corporation	INGR	Nasdaq	10/27/04	35,398,000	Company	Revenue		
Investors Financial Services Corporation	IFIN	Nasdaq	10/27/04	68,617,491	Company	Cost or Expense		
NII Holdings, Inc.	NIHD	Nasdaq	10/27/04	79,196,000	Company	Other		
SOURCECORP, Inc.	SRCP	Nasdaq	10/27/04	16,217,000	Company	Revenue		
Island Pacific, Inc.	IPI	Amex	10/28/04	63,031,000	Company	Revenue	Cost or Expense	Acquisition or Merger
Martha Stewart Living Omnimedia, Inc.	MSO	NYSE	10/28/04	49,698,000	Unknown	Cost or Expense		
EMC Insurance Group, Inc.	EMCI	Nasdaq	10/29/04	11,561,870	Unknown	Securities Related		
NovaDel Pharma Inc.	NVD	Amex	11/01/04	40,606,000	Auditor	Securities Related		
Stillwater Mining Company	SWC	NYSE	11/01/04	90,714,000	Unknown	Cost or Expense		
Blount International, Inc.	BLT	NYSE	11/02/04	47,292,000	Company	Revenue		
Material Sciences Corporation	MSC	NYSE	11/02/04	14,448,000	Company	Restructuring, Assets or Inventory	Reclassification	
Western Wireless Corporation	WCA	Nasdaq	11/02/04	102,106,000	Company	Cost or Expense		
Cephalon, Inc.	CEPH	Nasdaq	11/03/04	65,065,000	Company	Cost or Expense		
DPL Inc.	DPL	NYSE	11/03/04	127,800,000	Employee	Securities Related	Cost or Expense	
Haggar Corporation	HGGR	Nasdaq	11/03/04	7,072,000	Unknown	Other	Related Party Transaction	
Presidential Life Corporation	PLFE	Nasdaq	11/03/04	29,444,050	Company	Acquisition or Merger		
Terremark Worldwide, Inc.	TWW	Amex	11/03/04	39,100,568	Company	Securities Related		
Time Warner Inc.	TWX	NYSE	11/03/04	4,722,300,000	SEC	Acquisition or Merger		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Carrollton Bancorp	CRRB	Nasdaq	11/04/04	2,851,158	Company	Cost or Expense		
E-Loan, Inc.	EELN	Nasdaq	11/04/04	68,291,000	Company	Revenue	Cost or Expense	
The Smith & Wollensky Restaurant Group, Inc.	SWRG	Nasdaq	11/04/04	9,841,596	Company	Cost or Expense		
Emeritus Assisted Living	ESC	Amex	11/05/04	10,821,000	Company	Cost or Expense		
Goodyear Tire & Rubber Company	GT	NYSE	11/05/04	177,900,000	Company	Reclassification	Cost or Expense	Restructuring, Assets or Inventory
United PanAm Financial Corporation	UPFC	Nasdaq	11/05/04	18,385,000	Company	Other		
Albany Molecular Research, Inc.	AMRI	Nasdaq	11/08/04	32,183,000	Company	Securities Related		
Blonder Tongue Laboratories, Inc.	BDR	Amex	11/08/04	8,015,000	Company	Restructuring, Assets or Inventory		
Symbol Technologies, Inc.	SBL	NYSE	11/08/04	241,402,000	Company	Revenue	Restructuring, Assets or Inventory	
CGI Group Inc.	GIB	NYSE	11/09/04	441,573,512	Company	Acquisition or Merger		
Hercules Inc.	HPC	NYSE	11/09/04	110,500,000	Other	Cost or Expense		
IMPAX Laboratories, Inc.	IPXL	Nasdaq	11/09/04	62,417,454	Company	Revenue	Cost or Expense	
Lamar Advertising Company	LAMR	Nasdaq	11/09/04	104,945,008	Company and Auditor	Restructuring, Assets or Inventory	Cost or Expense	
Mayor's Jewelers, Inc.	MYR	Amex	11/09/04	95,582,537	Company	Securities Related		
Register.com, Inc.	RCOM	Nasdaq	11/09/04	25,056,000	Company	Cost or Expense		
Vintage Petroleum, Inc.	VPI	NYSE	11/09/04	66,888,000	Unknown	Securities Related		
Compass Minerals International, Inc.	CMP	NYSE	11/10/04	32,323,129	Company	Cost or Expense		
FIND/SVP, Inc.	FSVP	OTC	11/10/04	21,502,585	Company	Securities Related		
Hanover Direct, Inc.	HNV	Amex	11/10/04	32,585,000	Company	Revenue		
Laidlaw International, Inc.	LI	NYSE	11/10/04	104,100,000	Unknown	Cost or Expense		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Vital Images, Inc.	VTAL	Nasdaq	11/10/04	12,482,797	Company	Revenue		
Telewest Global, Inc.	TLWT	Nasdaq	11/11/04	245,000,000	Company	Reclassification	Cost or Expense	
West Marine, Inc.	WMAR	Nasdaq	11/11/04	21,229,000	Company and Auditor	Cost or Expense		
Applied Imaging Corporation	AICX	Nasdaq	11/15/04	4,772,000	Company	Revenue		
Autobytel, Inc.	ABTL	Nasdaq	11/15/04	44,049,000	Company	Revenue	Cost or Expense	
Bally Total Fitness Holding Corporation	BFT	NYSE	11/15/04	33,268,395	Company	Revenue	Other	
Carver Bancorp, Inc.	CNY	Amex	11/15/04	2,504,747	Unknown	Securities Related	Restructuring, Assets or Inventory	
Electronic Data Systems Corporation	EDS	NYSE	11/15/04	523,000,000	Auditor	Cost or Expense	Revenue	
Integrity Bancshares, Inc.	ITYC	OTC	11/15/04	4,293,193	Unknown	Other		
MDC Partners Inc.	MDCAE	Nasdaq	11/15/04	22,207,229	Auditor	Securities Related	Cost or Expense	Revenue
TurboChef Technologies, Inc.	TCF	Amex	11/15/04	80,030,949	Company	Revenue		
Integrity Financial Corporation	IFCB	Nasdaq	11/16/04	5,075,588	Company	Other		
Motorcar Parts of America, Inc.	MPAA	OTC	11/16/04	8,590,828	SEC	Revenue		
Petroleum Geo-Services ASA	PGEOY	OTC	11/16/04	20,000,000	Auditor	Revenue	Restructuring, Assets or Inventory	Cost or Expense
BearingPoint, Inc.	BE	NYSE	11/18/04	197,039,303	Company	Revenue		
Tri-Valley Corporation	TIV	Amex	11/19/04	22,123,363	Company	Revenue		
Willamette Valley Vineyards, Inc.	WVVI	Nasdaq	11/19/04	4,580,883	SEC	Cost or Expense		
VirtGame Corporation	VTGI	OTC	11/22/04	33,472,827	Company	Revenue		
CKE Restaurants, Inc.	CKR	NYSE	11/23/04	71,417,000	Company and Auditor	Cost or Expense	Restructuring, Assets or Inventory	
Houston Exploration Company	THX	NYSE	11/23/04	28,486,000	Company	Reclassification		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
PDC Innovative Industries, Inc.	PDCN	OTC	11/23/04	58,930,000	SEC	Acquisition or Merger		
Aspen Technology, Inc	AZPNE	Nasdaq	11/24/04	42,153,000	Company	Revenue		
UGI Corporation	UGI	NYSE	11/29/04	52,600,000	Company	Cost or Expense		
Inverness Medical Innovations, Inc.	IMA	Amex	12/02/04	20,942,000	Unknown	Cost or Expense		
Pegasus Communications Corporation	PGTVE	Nasdaq	12/02/04	12,323,000	Company	Restructuring, Assets or Inventory		
Bindview Corporation	BVEWE	Nasdaq	12/06/04	47,889,000	Company	Revenue		
McRae Industries, Inc.	MRIA	Amex	12/07/04	2,768,499	Company	Restructuring, Assets or Inventory		
King Pharmaceuticals, Inc.	KG	NYSE	12/08/04	241,803,000	Company and Auditor	Cost or Expense		
ViryaNet, Ltd.	VRYA	Nasdaq	12/09/04	4,981,749	Company and Auditor	Revenue		
Analogic Corporation	ALOGE	Nasdaq	12/13/04	13,464,000	Company	Revenue		
Carmike Cinemas, Inc.	CKECE	Nasdaq	12/14/04	12,601,000	Company	Cost or Expense	Reclassification	
Integrated Electrical Services, Inc.	IES	NYSE	12/14/04	38,665,537	Company	Revenue	Cost or Expense	Restructuring, Assets or Inventory
Peoples Energy Corporation	PGL	NYSE	12/14/04	37,993,000	Company	Other		
United Retail Group, Inc.	URGI	Nasdaq	12/14/04	12,869,947	Company and Auditor	Cost or Expense		
MFRI, Inc.	MFRI	Nasdaq	12/15/04	5,234,000	Company	Reclassification		
Darden Restaurants, Inc.	DRI	NYSE	12/16/04	163,400,000	Company and Auditor	Cost or Expense		
Federal National Mortgage Association	FNM	NYSE	12/16/04	970,000,000	Other	Securities Related		
Jack in the Box Inc.	JBX	NYSE	12/16/04	37,313,000	Company and Auditor	Cost or Expense		
Scientific Learning Corporation	SCILE	Nasdaq	12/17/04	16,408,039	Company and Auditor	Revenue		
ABM Industries Inc.	ABM	NYSE	12/20/04	49,785,000	Company	Other	Restructuring, Assets or Inventory	

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Asyst Technologies, Inc.	ASYTE	Nasdaq	12/20/04	47,553,000	Company	Cost or Expense	Revenue	
Flow International Corporation	FLOW	Nasdaq	12/20/04	15,950,000	Company	Reclassification	Securities Related	
Granite City Food & Brewery Ltd.	GCFB	Nasdaq	12/20/04	4,132,933	SEC	Securities Related		
Brinker International, Inc.	EAT	NYSE	12/22/04	96,471,000	Company and Auditor	Cost or Expense	Restructuring, Assets or Inventory	
Telephone and Data Systems, Inc.	TDS	Amex	12/22/04	57,823,000	Company	Reclassification		
United States Cellular Corporation	USM	Amex	12/22/04	87,125,000	Company	Reclassification		
Valley Commerce Bancorp	VCBP	OTC	12/22/04	2,110,206	Company	Restructuring, Assets or Inventory		
Alaska Air Group, Inc.	ALK	NYSE	12/23/04	26,859,000	Company	Revenue		
BakBone Software, Inc.	BKBOE	OTC	12/23/04	64,523,199	Company and Auditor	Securities Related		
Genius Products, Inc.	GNPI	OTC	12/23/04	28,000,009	Company	Revenue		
NATCO Group Inc.	NTG	NYSE	12/23/04	16,042,000	Company	Reclassification		
TeleTech Holdings Inc.	TTEC	Nasdaq	12/30/04	76,109,000	SEC	Cost or Expense		
Krispy Kreme Doughnuts, Inc.	KKD	NYSE	01/04/05	63,351,000	Company	Acquisition or Merger		
NDCHealth Corporation	NDC	NYSE	01/05/05	35,987,000	SEC	Restructuring, Assets or Inventory		
Savient Pharmaceuticals, Inc.	SVNT	Nasdaq	01/05/05	60,545,000	Company	Revenue		
Brocade Communications Systems, Inc.	BRCD	Nasdaq	01/06/05	271,767,000	Company	Securities Related		
PeopleSupport, Inc.	PSPT	Nasdaq	01/11/05	18,946,000	Company and Auditor	Cost or Expense		
Volt Information Sciences, Inc.	VOL	NYSE	01/11/05	15,291,000	Company	Revenue		
PEMSTAR, Inc.	PMTRE	Nasdaq	01/13/05	45,154,000	Company	Other		
Terex Corporation	TEX	NYSE	01/13/05	51,100,000	Company	Related Party Transaction		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Mitek Systems, Inc.	MITK	OTC	01/14/05	11,841,862	Company	Securities Related		
Embarcadero Technologies, Inc.	EMBTE	Nasdaq	01/18/05	25,982,000	Company	Revenue		
Ferro Corporation	FOE	NYSE	01/18/05	42,235,000	Company	Revenue		
Hollinger International, Inc.	HLR	NYSE	01/18/05	90,486,000	Unknown	Cost or Expense	Securities Related	
Cardinal Financial Corporation	CFNL	Nasdaq	01/19/05	18,830,000	Unknown	Acquisition or Merger		
Collectors Universe, Inc.	CLCT	Nasdaq	01/19/05	7,571,000	Company	Restructuring, Assets or Inventory		
PlanetLink Communications, Inc.	PLKC	OTC	01/19/05	209,369,558	Company	Other		
Rubio's Restaurants, Inc.	RUBO	Nasdaq	01/19/05	9,679,000	Company and Auditor	Cost or Expense		
Bandag, Inc.	BDG	NYSE	01/20/05	19,707,000	Company	Acquisition or Merger		
K-tel International, Inc.	KTEL	OTC	01/20/05	13,654,000	Unknown	Other		
Total Entertainment Restaurant Corporation	TENT	Nasdaq	01/24/05	10,392,639	Other	Cost or Expense		
Brocade Communications Systems, Inc.	BRCD	Nasdaq	01/25/05	271,767,000	Company	Securities Related		
ILOG S.A.	ILOG	Nasdaq	01/25/05	18,722,000	Company	Cost or Expense		
Northeast Utilities	NU	NYSE	01/25/05	129,278,505	Unknown	Securities Related		
Lone Star Steakhouse & Saloon, Inc.	STAR	Nasdaq	01/26/05	22,211,000	Unknown	Cost or Expense		
Comstock Resources, Inc.	CRK	NYSE	01/27/05	37,356,000	Company	Restructuring, Assets or Inventory		
Siebel Systems, Inc.	SEBL	Nasdaq	01/27/05	512,963,000	Company	Cost or Expense		
Wendy's International, Inc.	WEN	NYSE	01/27/05	114,596,000	Company and Auditor	Cost or Expense		
Ashland, Inc.	ASH	NYSE	01/28/05	74,000,000	Auditor	Cost or Expense		
Tripath Technology, Inc.	TRPH	Nasdaq	01/28/05	51,950,000	Company	Revenue		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Ceridian Corporation	CEN	NYSE	01/31/05	150,662,000	Company	Securities Related	Revenue	Cost or Expense
Champps Entertainment, Inc.	CMPP	Nasdaq	01/31/05	12,888,000	Company	Cost or Expense		
I/OMagic Corporation	IOMG	OTC	01/31/05	4,529,672	Company	Revenue		
MeadWestvaco Corporation	MWV	NYSE	01/31/05	205,900,000	Company	Cost or Expense		
Navistar International Corporation	NAV	NYSE	01/31/05	76,300,000	Company	Restructuring, Assets or Inventory		
The Pep Boys - Manny, Moe & Jack	PBY	NYSE	01/31/05	55,185,000	Company	Cost or Expense		
Visteon Corporation	VC	NYSE	01/31/05	125,600,000	Company	Cost or Expense	Restructuring, Assets or Inventory	Other
CEC Entertainment, Inc.	CEC	NYSE	02/01/05	37,451,000	Company	Cost or Expense		
Allis-Chalmers Energy, Inc.	ALY	Amex	02/03/05	17,789,000	Company	Acquisition or Merger		
Dot Hill Systems Corporation	HILL	Nasdaq	02/03/05	45,717,000	Company	Cost or Expense	Restructuring, Assets or Inventory	
Ingles Markets, Inc.	IMKT	Nasdaq	02/03/05	24,217,776	SEC	Cost or Expense		
Maxtor Corporation	MXO	NYSE	02/03/05	251,595,181	Company	Cost or Expense	Restructuring, Assets or Inventory	
Royal Dutch Petroleum Company	RD	NYSE	02/03/05	2,023,212,126	SEC	Restructuring, Assets or Inventory		
Shell Transport and Trading Company, PLC	SC	NYSE	02/03/05	9,624,902,724	SEC	Restructuring, Assets or Inventory		
Target Corporation	TGT	NYSE	02/03/05	885,553,006	Company and Auditor	Cost or Expense	Securities Related	
WebMethods, Inc.	WEBM	Nasdaq	02/03/05	53,103,000	Company	Revenue	Cost or Expense	
Hypercom Corporation	HYC	NYSE	02/04/05	52,391,115	Company	Cost or Expense		
UGI Corporation	UGI	NYSE	02/04/05	52,543,000	Company	Cost or Expense		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Flowserve Corporation	FLS	NYSE	02/07/05	55,700,000	Company	Cost or Expense		
UbiquiTel Inc.	UPCS	Nasdaq	02/07/05	98,644,000	Company	Cost or Expense		
BRE Properties, Inc.	BRE	NYSE	02/08/05	51,330,000	Company	Cost or Expense		
CECO Environmental Corp	CECE	Nasdaq	02/08/05	9,993,260	Company	Revenue		
Taubman Centers, Inc.	TCO	NYSE	02/08/05	49,791,718	Company	Cost or Expense		
UTStarcom, Inc.	UTSI	Nasdaq	02/08/05	132,949,000	Company	Cost or Expense		
Applebee's International, Inc.	APPB	Nasdaq	02/09/05	82,375,000	Company	Cost or Expense		
Big 5 Sporting Goods Corporation	BGFV	Nasdaq	02/09/05	22,792,000	Company	Cost or Expense		
Borders Group Inc	BGP	NYSE	02/09/05	77,900,000	Company	Cost or Expense		
CIGNA Corporation	CI	NYSE	02/09/05	132,726,000	Company	Securities Related		
URS Corporation	URS	NYSE	02/09/05	44,823,000	Company	Other		
H.B. Fuller Company	FUL	NYSE	02/10/05	28,962,240	Company	Other		
AnnTaylor Stores Corporation	ANN	NYSE	02/11/05	72,933,000	Company	Cost or Expense		
Buca, Inc.	BUCA	Nasdaq	02/11/05	20,180,235	Company	Cost or Expense		
Friedman Industries Inc.	FRD	Amex	02/11/05	7,736,885	Company	Restructuring, Assets or Inventory		
Kmart Holding Corporation	KMRT	Nasdaq	02/11/05	101,400,000	SEC	Securities Related		
Wild Oats Markets, Inc.	OATS	Nasdaq	02/11/05	28,554,000	Company	Other	Restructuring, Assets or Inventory	
Data I/O Corporation	DAIO	Nasdaq	02/14/05	8,550,000	Company	Restructuring, Assets or Inventory		
EPlus Inc.	PLUS	Nasdaq	02/14/05	9,433,250	Company	Cost or Expense		
MAIR Holdings, Inc.	MAIR	Nasdaq	02/14/05	21,050,000	Company	Cost or Expense		
Molex Inc.	MOLXE	Nasdaq	02/14/05	190,509,000	Company	Other	Cost or Expense	Restructuring, Assets or Inventory

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
OfficeMax, Inc.	OMX	NYSE	02/14/05	92,956,000	Company	Revenue		
Seacoast Banking Corporation	SBCF	Nasdaq	02/14/05	15,692,505	Auditor	Securities Related		
Abercrombie & Fitch Company	ANF	NYSE	02/15/05	95,110,000	Company	Cost or Expense		
American Petroleum Group, Inc.	AMPE	OTC	02/15/05	5,401,000	Company	Securities Related	Other	
Career Education Corporation	CECO	Nasdaq	02/15/05	105,195,000	Unknown	Revenue		
CFC International, Inc.	CFCI	Nasdaq	02/15/05	4,612,655	Company	Other		
Crown Castle International Corporation	CCI	NYSE	02/15/05	223,601,000	Company and Auditor	Cost or Expense		
Nordstrom, Inc.	JWN	NYSE	02/15/05	139,197,000	SEC	Cost or Expense		
Sears, Roebuck & Company	S	NYSE	02/15/05	216,700,000	SEC	Reclassification	Cost or Expense	
Benihana Inc.	BNHNA and BNHN	Nasdaq	02/16/05	10,188,000	SEC	Cost or Expense		
Datastream Systems, Inc.	DSTM	Nasdaq	02/16/05	20,153,000	Company	Revenue		
Starbucks Corporation	SBUX	Nasdaq	02/16/05	414,031,000	Company	Cost or Expense		
The Mills Corporation	MLS	NYSE	02/16/05	55,323,000	Company	Related Party Transaction	Cost or Expense	
Too, Inc.	TOO	NYSE	02/16/05	34,955,000	Company	Cost or Expense		
CBRL Group, Inc.	CBRL	Nasdaq	02/17/05	53,816,998	Company	Cost or Expense		
Denny's Corporation	DNYY	OTC	02/17/05	90,219,000	Company	Cost or Expense		
Design Within Reach, Inc.	DWRI	Nasdaq	02/17/05	14,706,000	Auditor	Restructuring, Assets or Inventory		
Motorcar Parts of America, Inc.	MPAA	OTC	02/17/05	8,599,969	SEC	Revenue	Cost or Expense	
Nextel Communications Inc.	NXTL	Nasdaq	02/17/05	1,139,000,000	Company	Cost or Expense		
INVESTools, Inc.	IED	Amex	02/18/05	44,971,000	Company and Auditor	Revenue		
Toys "R" Us, Inc.	TOY	NYSE	02/18/05	218,100,000	Company	Cost or Expense		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Wild Oats Markets, Inc.	OATS	Nasdaq	02/18/05	28,554,000	Company	Cost or Expense		
Systemax Inc.	SYX	NYSE	02/21/05	35,500,000	Company	Restructuring, Assets or Inventory		
A.C. Moore Arts & Crafts, Inc.	ACMR	Nasdaq	02/22/05	20,209,000	Company	Cost or Expense		
Ampex Corporation	AEXCA	OTC	02/22/05	3,901,223	SEC	Other		
Chiron Corporation	CHIR	Nasdaq	02/22/05	187,108,000	Company	Revenue	Cost or Expense	
Countrywide Financial Corporation	CFC	NYSE	02/22/05	610,676,000	Auditor	Securities Related		
Dominoís Pizza, Inc.	DPZ	NYSE	02/22/05	71,555,554	Company	Cost or Expense		
Glimcher Realty Trust	GRT	NYSE	02/22/05	39,703,000	Company	Revenue		
JAKKS Pacific, Inc.	JAKK	Nasdaq	02/22/05	32,256,000	SEC	Acquisition or Merger		
Kohl's Corporation	KSS	NYSE	02/22/05	344,773,000	Company	Cost or Expense		
RenaissanceRe Holdings Ltd	RNR	NYSE	02/22/05	71,950,688	Company	Revenue		
The Gymboree Corporation	GYMB	Nasdaq	02/22/05	31,391,000	Company	Cost or Expense		
Big Lots, Inc.	BLI	NYSE	02/23/05	114,801,000	Company	Cost or Expense		
Lowe's Companies, Inc.	LOW	NYSE	02/23/05	805,000,000	Company	Cost or Expense		
Pacific Sunwear of California Inc.	PSUN	Nasdaq	02/23/05	77,464,000	SEC	Cost or Expense		
Presidential Life Corporation	PLFE	Nasdaq	02/23/05	29,452,395	Company	Securities Related		
Synagro Technologies, Inc.	SYGR	Nasdaq	02/23/05	20,020,183	Company	Revenue		
The J. Jill Group, Inc.	JILL	Nasdaq	02/23/05	20,145,000	SEC	Cost or Expense		
Calpine Corporation	CPN	NYSE	02/24/05	447,599,000	Unknown	Other		
Industrial Distribution Group, Inc.	IDGR	Nasdaq	02/24/05	9,793,911	Company	Cost or Expense		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Internap Network Services Corporation	IIP	Amex	02/24/05	338,199,000	Company	Cost or Expense		
Limited Brands, Inc.	LTD	NYSE	02/24/05	417,234,000	Company	Cost or Expense		
The Dress Barn, Inc.	DBRN	Nasdaq	02/24/05	30,491,000	Company	Cost or Expense		
Bakers Footwear Group	BKRS	Nasdaq	02/25/05	5,147,601	Company	Cost or Expense		
CVS Corporation	CVS	NYSE	02/25/05	418,600,000	SEC	Cost or Expense		
SBA Communications Corporation	SBAC	Nasdaq	02/25/05	65,260,000	Company	Cost or Expense		
American Tower Corporation	AMT	NYSE	02/28/05	230,158,000	Company	Cost or Expense		
Brown Shoe Company, Inc.	BWS	NYSE	02/28/05	18,808,000	Company	Cost or Expense		
Build-A-Bear Workshop, Inc.	BBW	NYSE	02/28/05	20,123,927	Company	Cost or Expense		
Calton, Inc.	CTON	OTC	02/28/05	9,373,000	Company	Other		
CAS Medical Systems, Inc.	CAMY	OTC	02/28/05	11,435,494	Company	Cost or Expense		
GulfWest Energy Inc.	GULF	OTC	02/28/05	31,618,275	Company	Securities Related		
Macrovision Corporation	MVSN	Nasdaq	02/28/05	51,341,000	Company	Cost or Expense		
Midwest Banc Holdings, Inc.	MBHI	Nasdaq	02/28/05	18,439,000	Auditor	Securities Related		
Providian Financial Corporation	PVN	NYSE	02/28/05	340,436,000	Company	Securities Related		
Tractor Supply Company	TSCO	Nasdaq	02/28/05	40,914,000	SEC	Cost or Expense		
Willbros Group Inc.	WG	NYSE	02/28/05	21,250,257	Company	Cost or Expense	Related Party Transaction	Other
Curtiss-Wright Corporation	CW	NYSE	03/01/05	12,673,912	Company	Cost or Expense		
Halliburton Company	HAL	NYSE	03/01/05	510,000,000	Company	Cost or Expense		
Nektar Therapeutics	NKTR	Nasdaq	03/01/05	84,708,000	Company	Reclassification		
Payless ShoeSource, Inc.	PSS	NYSE	03/01/05	68,020,000	Company	Cost or Expense		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Red Robin Gourmet Burgers, Inc.	RRGB	Nasdaq	03/01/05	16,406,000	Company	Cost or Expense		
Savannah Electric Power Co	SZH	NYSE	03/01/05	10,844,635	Unknown	Revenue		
Talk America Holdings, Inc.	TALK	Nasdaq	03/01/05	27,813,000	SEC	Reclassification	Restructuring, Assets or Inventory	
American Eagle Outfitters, Inc	AEOS	Nasdaq	03/02/05	156,109,000	Company	Cost or Expense		
Collins Industries, Inc.	COLL	Nasdaq	03/02/05	6,178,537	Unknown	Cost or Expense		
Global Signal Inc.	GSL	NYSE	03/02/05	53,935,000	Company	Cost or Expense		
Hot Topic, Inc.	HOTT	Nasdaq	03/02/05	47,875,000	Company	Cost or Expense		
Jo-Ann Stores, Inc.	JAS	NYSE	03/02/05	22,887,000	Company	Cost or Expense		
Main Street Restaurant Group Inc.	MAIN	Nasdaq	03/02/05	14,856,000	Company	Cost or Expense		
New World Restaurant Group, Inc.	NWRG	OTC	03/02/05	9,842,414	Company	Cost or Expense		
Regal Entertainment Group	RGC	NYSE	03/02/05	149,220,000	Unknown	Revenue		
Shoe Pavilion, Inc.	SHOE	Nasdaq	03/02/05	6,909,000	Company	Cost or Expense		
SpectraSite, Inc.	SSI	NYSE	03/02/05	51,957,000	Company	Cost or Expense		
Charlotte Russe Holding, Inc.	CHIC	Nasdaq	03/03/05	21,985,105	Company	Cost or Expense		
Deutsche Telekom AG	DT	NYSE	03/03/05	4,172,000,000	Company	Cost or Expense		
Dollar General Corporation	DG	NYSE	03/03/05	332,068,000	Company	Cost or Expense		
EGL, Inc.	EAGL	Nasdaq	03/03/05	52,595,000	Company	Cost or Expense		
Friendly Ice Cream Corporation	FRN	Amex	03/03/05	7,637,000	Company	Cost or Expense		
Hercules Inc.	HPC	NYSE	03/03/05	109,000,000	Company	Cost or Expense		
Pride International, Inc.	PDE	NYSE	03/03/05	158,648,000	Company	Cost or Expense	Reclassification	
Ross Stores, Inc.	ROST	Nasdaq	03/03/05	148,464,000	Company	Cost or Expense		
Saks, Inc.	SKS	NYSE	03/03/05	143,739,000	Company	Revenue	Cost or Expense	

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
SCO Group, Inc.	SCOX	Nasdaq	03/03/05	17,751,000	Company	Securities Related		
Terex Corporation	TEX	NYSE	03/03/05	51,100,000	Company	Restructuring, Assets or Inventory		
The Buckle, Inc.	BKE	NYSE	03/03/05	21,508,000	Company	Cost or Expense		
The Children's Place Retail Stores, Inc.	PLCE	Nasdaq	03/03/05	28,611,000	Unknown	Cost or Expense		
The Warnaco Group, Inc.	WRNC	Nasdaq	03/03/05	46,422,928	Company	Cost or Expense		
Crown Resources Corporation	CRCE	OTC	03/04/05	45,264,000	Company	Securities Related		
Delphi Corporation	DPH	NYSE	03/04/05	555,242,000	Company	Restructuring, Assets or Inventory	Cost or Expense	
Duquesne Light Holdings, Inc.	DQE	NYSE	03/04/05	78,400,000	SEC	Reclassification		
Office Depot, Inc.	ODP	NYSE	03/04/05	315,625,000	Company	Cost or Expense		
The Cheesecake Factory Inc.	CAKE	Nasdaq	03/04/05	79,925,000	Company	Cost or Expense		
Buffalo Wild Wings, Inc.	BWLD	Nasdaq	03/07/05	8,603,000	Company	Cost or Expense		
Citrix Systems, Inc.	CTXS	Nasdaq	03/07/05	174,734,000	Unknown	Securities Related		
Computer Network Technology Corp	CMNT	Nasdaq	03/07/05	27,981,000	Company	Restructuring, Assets or Inventory		
NII Holdings, Inc.	NIHD	Nasdaq	03/07/05	85,815,000	Company	Cost or Expense	Restructuring, Assets or Inventory	
The Kroger Company	KR	NYSE	03/07/05	736,000,000	Company	Cost or Expense		
Advent Software, Inc.	ADVS	Nasdaq	03/08/05	32,661,000	Company	Cost or Expense		
America West Holdings Corporation	AWA	NYSE	03/08/05	62,372,000	Company	Securities Related		
Harold's Stores, Inc.	HLD	Amex	03/08/05	17,644,000	Company	Cost or Expense		
MBIA, Inc.	MBI	NYSE	03/08/05	140,442,217	Company	Securities Related		
BJ's Restaurants, Inc.	BJRI	Nasdaq	03/09/05	21,666,000	Unknown	Cost or Expense		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Blockbuster, Inc.	BBI	NYSE	03/09/05	183,700,000	Company	Cost or Expense		
Books-A-Million, Inc.	BAMM	Nasdaq	03/09/05	16,922,000	Company	Cost or Expense		
Coldwater Creek Inc.	CWTR	Nasdaq	03/09/05	60,495,000	Company	Cost or Expense		
Gander Mountain Company	GMTN	Nasdaq	03/09/05	14,235,000	SEC	Cost or Expense		
Interlink Electronics, Inc.	LINK	Nasdaq	03/09/05	13,692,000	Company	Revenue	Restructuring, Assets or Inventory	
7-Eleven, Inc.	SE	NYSE	03/10/05	130,510,000	Company	Cost or Expense		
Credit Acceptance Corporation	CACC	Nasdaq	03/10/05	39,457,287	Company	Cost or Expense		
Linens'n Things, Inc.	LIN	NYSE	03/10/05	45,685,000	Company	Cost or Expense	Reclassification	
Marlin Business Services Corporation	MRLN	Nasdaq	03/10/05	11,842,236	Company	Revenue		
Nabi Biopharmaceuticals	NABI	Nasdaq	03/10/05	59,530,000	Company	Restructuring, Assets or Inventory		
Ramco-Gershenson Properties Trust	RPT	NYSE	03/10/05	16,877,000	Company	Cost or Expense		
Sipex Corporation	SIPX	Nasdaq	03/10/05	33,707,000	Company	Revenue		
Stage Stores, Incorporated	STGS	Nasdaq	03/10/05	18,311,000	Company	Cost or Expense		
The Sports Authority, Inc.	TSA	NYSE	03/10/05	26,412,279	Company	Cost or Expense		
AirNet Communications Corporation	ANCC	Nasdaq	03/11/05	12,476,113	Company	Securities Related		
Flagstar Bancorp, Inc.	FBC	NYSE	03/11/05	63,899,000	Company	Securities Related	Revenue	
Nextel Partners, Inc.	NXTP	Nasdaq	03/11/05	304,985,000	Company	Cost or Expense		
North American Scientific Inc.	NASI	Nasdaq	03/11/05	16,256,775	Company	Acquisition or Merger		
Service Corporation International	SCI	NYSE	03/11/05	317,751,000	Company	Revenue	Cost or Expense	
The Phoenix Companies, Inc.	PNX	NYSE	03/11/05	100,800,000	Unknown	Securities Related		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
USEC, Inc.	USU	NYSE	03/11/05	86,000,000	Company	Revenue	Cost or Expense	
Baxter International Inc.	BAX	NYSE	03/14/05	623,000,000	Company	Cost or Expense		
Chordiant Software, Inc.	CHRD	Nasdaq	03/14/05	74,745,000	Company	Other		
Coeur d'Alene Mines Corporation	CDE	NYSE	03/14/05	239,985,000	Company	Securities Related		
Countrywide Financial Corporation	CFC	NYSE	03/14/05	610,676,000	Company	Securities Related		
IWO Holdings, Inc.	IWHD	OTC	03/14/05	5,000,005	Company	Cost or Expense		
Pulitzer Inc.	PTZ	NYSE	03/14/05	22,138,000	Company	Reclassification		
United Rentals, Inc.	URI	NYSE	03/14/05	109,792,632	Company	Cost or Expense		
AMCOL International Corporation	ACO	NYSE	03/15/05	30,769,482	Company	Cost or Expense	Other	
Aspen Technology, Inc	AZPNE	Nasdaq	03/15/05	42,639,000	Company	Revenue		
Autobytel, Inc.	ABTLE	Nasdaq	03/15/05	41,905,848	Company	Revenue	Cost or Expense	
Cache, Inc.	CACH	Nasdaq	03/15/05	16,004,000	Company	Cost or Expense		
Cato Corporation	CTR	NYSE	03/15/05	21,195,426	Company	Cost or Expense		
CharterMac	CHC	Amex	03/15/05	55,147,000	Unknown	Acquisition or Merger		
Clean Harbors, Inc.	CLHB	Nasdaq	03/15/05	18,072,000	Company	Cost or Expense		
Covansys Corporation	CVNS	Nasdaq	03/15/05	29,971,000	Company	Cost or Expense		
Edge Petroleum	EPEX	Nasdaq	03/15/05	17,692,122	Company	Cost or Expense		
Fiberstars, Inc.	FBST	Nasdaq	03/15/05	7,269,000	Unknown	Securities Related		
Harris & Harris Group, Inc.	TINY	Nasdaq	03/15/05	17,248,845	Company	Other		
Retail Ventures Inc.	RVI	NYSE	03/15/05	36,164,000	Company	Cost or Expense		
United Mobile Homes Inc.	UMH	Amex	03/15/05	9,248,171	Company	Securities Related		
WatchGuard Technologies, Inc.	WGRD	Nasdaq	03/15/05	33,717,000	Company and Auditor	Reclassification	Cost or Expense	Revenue

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Zi Corporation	ZICA	Nasdaq	03/15/05	41,373,309	Company	Securities Related		
Alcan Inc.	AL	NYSE	03/16/05	370,037,313	Company	Acquisition or Merger		
Allied Defense Group, Inc.	ADG	Amex	03/16/05	5,609,351	Auditor	Securities Related		
Apex Silver Mines Ltd.	SIL	Amex	03/16/05	47,681,043	Company	Cost or Expense	Restructuring, Assets or Inventory	
Bowne & Company, Inc.	BNE	NYSE	03/16/05	35,355,150	Company	Cost or Expense		
Eastman Kodak Company	EK	NYSE	03/16/05	286,800,000	Company	Cost or Expense		
El Paso Corporation	EP	NYSE	03/16/05	639,000,000	Company and Auditor	Restructuring, Assets or Inventory		
Fossil, Inc.	FOSL	Nasdaq	03/16/05	74,462,000	Company	Cost or Expense		
General Motors Corporation	GM	NYSE	03/16/05	567,000,000	Company	Restructuring, Assets or Inventory	Cost or Expense	Revenue
Goody's Family Clothing Inc.	GDYS	Nasdaq	03/16/05	32,917,000	Unknown	Cost or Expense		
Grant Prideco, Inc.	GRP	NYSE	03/16/05	126,091,000	Company	Revenue		
Luby's Inc.	LUB	NYSE	03/16/05	26,671,000	Company	Cost or Expense		
Outback Steakhouse, Inc.	OSI	NYSE	03/16/05	77,604,000	Company	Cost or Expense	Reclassification	
S&K Famous Brands, Inc.	SKFB	Nasdaq	03/16/05	2,657,000	Company	Cost or Expense		
Sterling Bancorp	STL	NYSE	03/16/05	18,926,688	Unknown	Cost or Expense	Other	
Visteon Corporation	VC	NYSE	03/16/05	125,600,000	Company	Cost or Expense		
Brigham Exploration Company	BEXP	Nasdaq	03/17/05	43,166,000	Company and Auditor	Cost or Expense		
Cost Plus, Inc.	CPWM	Nasdaq	03/17/05	21,914,000	Company	Cost or Expense		
Interpool, Inc.	IPX	NYSE	03/17/05	33,193,000	Company and Auditor	Securities Related		
Kirkland's Inc.	KIRK	Nasdaq	03/17/05	19,290,000	Company	Cost or Expense		
P.F. Chang's China Bistro, Inc.	PFCB	Nasdaq	03/17/05	26,575,000	Company and Auditor	Cost or Expense		
Rite Aid Corporation	RAD	NYSE	03/17/05	634,062,000	Company	Cost or Expense		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
The AES Corporation	AES	NYSE	03/17/05	660,000,000	Company	Cost or Expense	Reclassification	Other
ViryaNet, Ltd.	VRYA	Nasdaq	03/17/05	4,888,062	Company	Revenue		
California Pizza Kitchen, Inc.	CPKI	Nasdaq	03/18/05	19,596,000	Company	Cost or Expense		
The Oilgear Company	OLGR	Nasdaq	03/18/05	2,018,501	Company	Other		
World Fuel Services Corporation	INT	NYSE	03/18/05	23,454,000	Company	Revenue	Cost or Expense	
Infodata Systems Inc.	INFD	OTC	03/21/05	5,303,000	Company	Revenue		
New Brunswick Scientific Company, Inc.	NBSC	Nasdaq	03/21/05	8,990,000	Unknown	Securities Related		
Walgreen Company	WAG	NYSE	03/21/05	1,029,600,000	Company	Cost or Expense		
Checkers Drive-In Restaurants, Inc.	CHKR	Nasdaq	03/22/05	12,266,000	Company	Cost or Expense		
Family Dollar Stores, Inc.	FDO	NYSE	03/22/05	168,361,000	Company	Cost or Expense		
Fred's Inc.	FRED	Nasdaq	03/22/05	39,532,000	Company	Cost or Expense		
The Bombay Company, Inc.	BBA	NYSE	03/22/05	35,939,000	Company	Cost or Expense		
Empire Financial Holding Company	EFH	Amex	03/23/05	3,945,922	Company	Securities Related		
NetSol Technologies, Inc.	NTWK	Nasdaq	03/23/05	15,642,430	Company	Restructuring, Assets or Inventory	Cost or Expense	
The Finish Line, Inc.	FINL	Nasdaq	03/23/05	49,903,000	Company	Cost or Expense		
ConAgra Foods, Inc.	CAG	NYSE	03/24/05	520,200,000	Company	Cost or Expense		
Genesco Inc.	GCO	NYSE	03/24/05	26,377,000	Company	Cost or Expense		
Solectron Corporation	SLR	NYSE	03/24/05	977,100,000	Company	Cost or Expense		
Worldwide Restaurant Concepts, Inc.	SZ	NYSE	03/24/05	27,648,000	Company	Cost or Expense		
First Industrial Realty Trust, Inc.	FR	NYSE	03/28/05	42,466,000	Company	Cost or Expense		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Larrea Biosciences Corporation	LRRA	OTC	03/28/05	19,483,415	Unknown	Acquisition or Merger		
McCormick & Schmick's Seafood Restaurants, Inc.	MSSR	Nasdaq	03/28/05	13,959,000	Company	Cost or Expense		
Penton Media, Inc.	PTON	OTC	03/28/05	34,489,000	Unknown	Cost or Expense	Other	
The Rowe Companies	ROW	Amex	03/28/05	13,274,000	Company	Cost or Expense		
Heritage Bankshares, Inc.	HBKS	OTC	03/29/05	1,766,778	Unknown	Securities Related		
Lingo Media Inc.	LNGMF	OTC	03/29/05	23,992,239	Company	Revenue		
CSK Auto Corporation	CAO	NYSE	03/30/05	46,002,000	Company	Cost or Expense		
Nara Bancorp, Inc.	NARA	Nasdaq	03/30/05	24,669,721	Company	Related Party Transaction		
Navigant International, Inc.	FLYR	Nasdaq	03/30/05	19,840,000	Company	Acquisition or Merger	Cost or Expense	
Protein Polymer Technologies, Inc.	PPTI	OTC	03/30/05	40,294,220	Auditor	Securities Related		
Steelcase Inc.	SCS	NYSE	03/30/05	148,200,000	Company	Cost or Expense	Securities Related	
Allied Defense Group, Inc.	ADG	Amex	03/31/05	5,609,351	Auditor	Securities Related		
Dick's Sporting Goods, Inc.	DKS	NYSE	03/31/05	49,054,000	Company	Cost or Expense		
Elamex, S.A. de C.V.	ELAM	Nasdaq	03/31/05	7,502,561	Unknown	Restructuring, Assets or Inventory		
Grill Concepts, Inc.	GRIL	Nasdaq	03/31/05	5,608,541	Company	Revenue	Cost or Expense	
Origen Financial, Inc.	ORGN	Nasdaq	03/31/05	25,016,254	Auditor	Restructuring, Assets or Inventory		
Pemco Aviation Group, Inc.	PAGI	Nasdaq	03/31/05	4,411,000	Company	Cost or Expense		
Burke Mills, Inc.	BMLS	OTC	04/01/05	2,741,000	Company	Cost or Expense		
Dave & Busterís, Inc.	DAB	NYSE	04/01/05	16,540,000	Company	Cost or Expense		
Diedrich Coffee, Inc.	DDRX	Nasdaq	04/01/05	5,368,000	Company	Cost or Expense		
National R.V. Holdings, Inc.	NVH	NYSE	04/01/05	10,339,000	SEC	Cost or Expense	Revenue	

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Star Buffet, Inc.	STRZ	Nasdaq	04/01/05	2,950,000	Company	Cost or Expense		
Back Yard Burgers, Inc.	BYBI	Nasdaq	04/04/05	5,096,000	Company	Cost or Expense		
Christopher & Banks Corporation	CBK	NYSE	04/04/05	36,825,000	Company	Cost or Expense	Reclassification	
Foamex International, Inc.	FMXI	Nasdaq	04/04/05	24,444,000	Company	Cost or Expense		
Burlington Coat Factory	BCF	NYSE	04/05/05	44,750,045	Company	Cost or Expense		
RADVISION Ltd.	RVSN	Nasdaq	04/06/05	21,399,000	Company	Cost or Expense		
Signet Group plc	SIG	NYSE	04/06/05	1,737,600,000	Company	Revenue	Cost or Expense	
El Paso Corporation	EP	NYSE	04/07/05	639,000,000	Unknown	Cost or Expense		
Interleukin Genetics, Inc.	ILGN	OTC	04/07/05	23,482,642	Company	Securities Related	Cost or Expense	
NetGuru, Inc.	NGRU	Nasdaq	04/07/05	18,857,866	Company	Securities Related	Reclassification	
99 Cents Only Stores	NDN	NYSE	04/08/05	71,016,000	Company	Cost or Expense		
Richardson Electronics, Ltd.	RELL	Nasdaq	04/08/05	17,299,000	Company	Other		
Sharper Image Corporation	SHRP	Nasdaq	04/08/05	16,290,060	Company	Cost or Expense		
Internet Initiative Japan Inc.	IIJI	Nasdaq	04/10/05	76,624,000	SEC	Securities Related		
Ruby Tuesday, Inc.	RI	NYSE	04/11/05	65,063,000	Company	Cost or Expense		
Conversion Services International, Inc.	CSII	OTC	04/12/05	772,974,953	SEC	Acquisition or Merger		
American Home Mortgage Investment Corporation	AHM	NYSE	04/13/05	40,886,000	Company	Revenue		
Bluebook International, Inc.	BBKH	OTC	04/13/05	8,760,221	Company	Cost or Expense		
Distribucion y Servicio D&S S.A.	DYS	NYSE	04/13/05	6,520,000,000	SEC	Other		
Gottschalks, Inc.	GOT	NYSE	04/13/05	13,352,000	Company	Cost or Expense		
Regis Corporation	RGS	NYSE	04/13/05	44,770,000	Company	Cost or Expense		
The Children's Place Retail Stores, Inc.	PLCE	Nasdaq	04/13/05	28,611,000	Company	Cost or Expense		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
CKE Restaurants, Inc.	CKR	NYSE	04/14/05	73,693,000	Company	Cost or Expense		
Dollar Tree Stores, Inc.	DLTR	Nasdaq	04/14/05	111,802,000	SEC	Cost or Expense		
The Menís Wearhouse, Inc.	MW	NYSE	04/14/05	37,223,000	Company	Cost or Expense		
Vimpel-Communications	VIP	NYSE	04/14/05	204,090,000	Company	Cost or Expense		
AaiPharma, Inc.	AAII	Nasdaq	04/15/05	28,565,000	Company	Restructuring, Assets or Inventory		
Apogee Technology, Inc.	ATA	Amex	04/15/05	11,838,332	Auditor	Revenue		
Global Matrechs, Inc.	GMTH	OTC	04/15/05	16,790,165	Company	Securities Related		
MarkWest Hydrocarbon, Inc.	MWP	Amex	04/15/05	10,740,000	Company	Related Party Transaction		
CSK Auto Corporation	CAO	NYSE	04/18/05	45,494,000	Company	Cost or Expense		
Doral Financial Corporation	DRL	NYSE	04/19/05	111,070,048	Company	Securities Related		
Taser International, Inc.	TASR	Nasdaq	04/19/05	63,951,739	Company	Cost or Expense		
The Neiman Marcus Group, Inc.	NMG	NYSE	04/19/05	49,695,000	Company	Cost or Expense		
BearingPoint, Inc.	BE	NYSE	04/20/05	197,039,303	Company	Revenue	Cost or Expense	
Ethan Allen Interiors Inc	ETH	NYSE	04/20/05	36,148,000	Company	Cost or Expense		
Bradley Pharmaceuticals, Inc.	BDY	NYSE	04/21/05	18,410,000	Auditor	Revenue		
Deb Shops, Inc.	DEBS	Nasdaq	04/21/05	13,753,000	Company	Cost or Expense	Securities Related	
R&G Financial Corporation	RGF	NYSE	04/25/05	51,364,805	Company and Auditor	Securities Related		
The Wet Seal, Inc.	WTSLA	Nasdaq	04/25/05	36,672,903	Company	Cost or Expense		
Coherent, Inc.	COHR	Nasdaq	04/26/05	31,112,000	Company	Cost or Expense		
Interleukin Genetics, Inc.	ILGN	OTC	04/26/05	23,482,642	Company	Securities Related	Cost or Expense	
Kelly Services, Inc.	KELYA	Nasdaq	04/26/05	35,934,000	Company	Cost or Expense		
SonicWALL, Inc.	SNWL	Nasdaq	04/26/05	67,998,000	Company	Cost or Expense		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Airspan Networks, Inc.	AIRN	Nasdaq	04/27/05	37,880,759	Company	Securities Related		
American Water Star, Inc	AMW	Amex	04/27/05	77,020,086	Company	Securities Related		
Scor	SCO	NYSE	04/29/05	857,189,000	Company	Cost or Expense	Reclassification	
Superclick, Inc.	SPCK	OTC	04/29/05	25,226,574	SEC	Acquisition or Merger		
American International Group, Inc.	AIG	NYSE	05/01/05	2,624,000,000	Company	Revenue	Reclassification	Securities Related
Haverty Furniture Companies, Inc.	HVT	NYSE	05/02/05	22,913,000	Company and Auditor	Cost or Expense		
World Fuel Services Corporation	INT	NYSE	05/02/05	23,977,000	Company	Reclassification		
Carolina Group	LTR	NYSE	05/03/05	185,650,000	Unknown	Restructuring, Assets or Inventory		
CNA Financial Corporation	CNA	NYSE	05/03/05	256,000,000	Unknown	Restructuring, Assets or Inventory		
Macromedia, Inc.	MACR	Nasdaq	05/03/05	81,860,000	Company	Cost or Expense		
Maxtor Corporation	MXO	NYSE	05/04/05	251,595,181	Company	Cost or Expense		
Photon Dynamics, Inc.	PHTN	Nasdaq	05/04/05	16,984,000	Company	Revenue		
Radiation Therapy Services	RTSX	Nasdaq	05/04/05	23,630,000	Company	Cost or Expense		
Whole Foods Market, Inc.	WFMI	Nasdaq	05/04/05	65,899,000	SEC	Cost or Expense		
Cedar Fair, L.P.	FUN	NYSE	05/05/05	54,917,000	Company	Cost or Expense		
CellStar Corporation	CLSTE	Nasdaq	05/05/05	20,367,000	Company	Revenue		
Rent-Way, Inc.	RWY	NYSE	05/05/05	26,250,000	Company	Reclassification	Revenue	
W.P. Carey & Company LLC	WPC	NYSE	05/05/05	39,017,636	Company	Cost or Expense		
Brightpoint, Inc.	CELL	NYSE	05/06/05	18,230,000	Company	Revenue	Cost or Expense	
General Electric Company	GE	NYSE	05/06/05	10,650,000,000	Company	Securities Related		
MarkWest Energy Partners L.P.	MWE	Amex	05/06/05	10,677,000	Company	Cost or Expense		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Semco Energy, Inc.	SEN	NYSE	05/06/05	28,494,000	Company	Securities Related		
The Great Atlantic & Pacific Tea Company, Inc.	GAP	NYSE	05/06/05	39,810,889	Company and Auditor	Cost or Expense		
Leap Wireless International, Inc.	LEAP	OTC	05/09/05	60,242,000	Unknown	Cost or Expense	Revenue	
May Department Stores Company	MAY	NYSE	05/09/05	298,400,000	Company	Reclassification		
National Dentex Corporation	NADX	Nasdaq	05/09/05	5,558,070	Unknown	Restructuring, Assets or Inventory		
Oppenheimer Holdings Inc.	OPY	NYSE	05/09/05	20,193,798	Company	Cost or Expense		
Trikon Technologies, Inc.	TRKN	Nasdaq	05/09/05	15,755,000	Company	Revenue	Cost or Expense	
Central European Media Enterprises Ltd.	CETV	Nasdaq	05/10/05	35,145,000	Unknown	Securities Related		
Indus International Inc.	IINT	Nasdaq	05/10/05	58,816,000	Company and Auditor	Cost or Expense		
Outdoor Channel Holdings, Inc.	OUTD	Nasdaq	05/10/05	22,513,000	Company	Cost or Expense		
Amkor Technology, Inc.	AMKR	Nasdaq	05/11/05	176,371,000	Unknown	Reclassification		
Griffon Corporation	GFF	NYSE	05/11/05	31,410,000	Company	Restructuring, Assets or Inventory		
Neenah Paper	NP	NYSE	05/11/05	14,786,000	Unknown	Cost or Expense		
Systemax Inc.	SYX	NYSE	05/11/05	35,500,000	Unknown	Restructuring, Assets or Inventory		
Encore Clean Energy, Inc.	ECLN	OTC	05/12/05	12,749,397	Unknown	Cost or Expense		
SRS Labs, Inc.	SRSL	Nasdaq	05/12/05	14,881,495	Auditor	Cost or Expense		
Continucare Corporation	CNU	Amex	05/13/05	52,006,064	Unknown	Revenue		
World Health Alternatives, Inc.	WHAI	OTC	05/13/05	45,699,108	Company	Securities Related		
Balsam Ventures, Inc.	BLSV	OTC	05/16/05	25,500,000	Company and Auditor	Securities Related		
Brocade Communications Systems, Inc.	BRCD	Nasdaq	05/16/05	269,823,000	Company	Securities Related		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
GlobalNet Corporation	GLBTE	OTC	05/16/05	7,611,987,436	Unknown	Acquisition or Merger		
Sports Chalet, Inc.	SPCH	Nasdaq	05/16/05	7,048,155	Company	Cost or Expense		
Steak N Shake Company	SNS	NYSE	05/16/05	28,102,280	Company	Cost or Expense		
U.S. Energy Systems, Inc.	USEY	Nasdaq	05/16/05	17,091,000	Unknown	Securities Related		
International Assets Holding Corporation	IAAC	Nasdaq	05/17/05	8,013,195	Unknown	Securities Related	Cost or Expense	
Lumenis, Ltd.	LUME	OTC	05/17/05	37,277,000	Company and Auditor	Revenue		
Phoenix Footwear Group, Inc.	PXG	Amex	05/17/05	7,630,056	Auditor	Cost or Expense		
RAE Systems Inc.	RAE	Amex	05/17/05	57,649,477	Company and Auditor	Revenue		
Winnebago Industries, Inc.	WGO	NYSE	05/17/05	33,747,000	Company	Restructuring, Assets or Inventory		
National R.V. Holdings, Inc.	NVH	NYSE	05/18/05	10,339,000	Company	Cost or Expense		
Touchstone Applied Science Associates, Inc.	TASA	OTC	05/18/05	2,976,518	Company	Reclassification		
VCG Holding Corporation	PTT	Amex	05/18/05	8,428,010	Company	Restructuring, Assets or Inventory		
BIOLASE Technology, Inc.	BLTI	Nasdaq	05/19/05	22,969,000	Company	Cost or Expense		
Yak Communications Inc.	YAKC	Nasdaq	05/19/05	12,901,000	Unknown	Cost or Expense		
Carrier Access Corporation	CACS	Nasdaq	05/20/05	34,663,000	Company	Revenue		
Ligand Pharmaceuticals, Inc.	LGNDE	Nasdaq	05/20/05	74,036,753	Company	Revenue		
Zoltek Companies, Inc.	ZOLT	Nasdaq	05/20/05	20,810,000	Company	Securities Related		
Bioenvision, Inc.	BIVN	Nasdaq	05/23/05	34,042,391	Company	Cost or Expense		
Ballistic Recovery Systems, Inc.	BRSI	OTC	05/24/05	7,741,802	SEC	Securities Related		

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Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Maxtor Corporation	MXO	NYSE	05/24/05	251,595,181	Company	Cost or Expense	Restructuring, Assets or Inventory	
Monro Muffler Brake, Inc.	MNRO	Nasdaq	05/24/05	14,866,000	Unknown	Cost or Expense		
AMCON Distributing Company	DIT	Amex	05/25/05	549,264	SEC	Reclassification		
Longview Fibre Company	LFB	NYSE	05/25/05	51,077,000	Unknown	Restructuring, Assets or Inventory		
Computer Associates International, Inc.	CA	NYSE	05/26/05	611,000,000	SEC	Other		
Highwoods Properties, Inc.	HIW	NYSE	05/26/05	60,024,000	SEC	Cost or Expense		
BioSource International, Inc.	BIOIE	Nasdaq	05/27/05	9,812,000	Unknown	Cost or Expense		
Intricon Corporation	IIN	Amex	06/01/05	5,129,214	Company	IP R&D		
Mobile TeleSystems OJSC	MBT	NYSE	06/01/05	1,984,497,348	SEC	Cost or Expense		
Navarre Corporation	NAVR	Nasdaq	06/02/05	30,031,000	Company	Cost or Expense	Reclassification	
Metromedia International Group, Inc.	MTRM	OTC	06/03/05	94,035,000	Company	Restructuring, Assets or Inventory		
Saks, Inc.	SKS	NYSE	06/03/05	145,005,000	Company	Restructuring, Assets or Inventory		
Next Generation Media Corporation	NGMC	OTC	06/06/05	14,213,397	Unknown	Restructuring, Assets or Inventory		
OCA, Inc.	OCA	NYSE	06/07/05	50,145,000	Company	Revenue		
Stewart Enterprises, Inc.	STEI	Nasdaq	06/07/05	109,266,000	Company	Cost or Expense		
American Retirement Corporation	ACR	NYSE	06/08/05	32,331,000	Company and Auditor	Reclassification	Cost or Expense	
H&R Block, Inc.	HRB	NYSE	06/08/05	330,714,000	Company	Acquisition or Merger	Revenue	Cost or Expense
Vornado Realty Trust	VNO	NYSE	06/08/05	142,813,000	Company	Reclassification		

(Continued From Previous Page)

Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Rotech Healthcare, Inc.	ROHI	OTC	06/09/05	25,947,916	Company	Other		
The Children's Place Retail Stores, Inc.	PLCE	Nasdaq	06/09/05	28,611,000	Company	Securities Related	Cost or Expense	
Polo Ralph Lauren Corporation	RL	NYSE	06/10/05	105,491,000	SEC	Cost or Expense		
Superclick, Inc.	SPCK	OTC	06/13/05	25,684,684	SEC	Revenue	Acquisition or Merger	Securities Related
Commerce Energy Group, Inc.	EGR	Amex	06/14/05	30,946,000	Company	Cost or Expense		
Flamel Technologies S.A.	FLML	Nasdaq	06/15/05	23,559,000	Unknown	Securities Related		
Pomeroy IT Solutions, Inc.	PMRY	Nasdaq	06/15/05	12,656,000	Company	Cost or Expense		
Q.E.P. Company, Inc.	QEPC	Nasdaq	06/15/05	3,601,290	Company	Restructuring, Assets or Inventory	Other	
Security Capital Corporation	SCC	Amex	06/20/05	6,861,000	Unknown	Cost or Expense		
Vermont Pure Holdings Ltd.	VPS	Amex	06/21/05	21,641,358	SEC	Cost or Expense		
Falcon Products Inc.	FCPR	OTC	06/22/05	9,831,000	Company and Auditor	Restructuring, Assets or Inventory	Revenue	
Q Comm International Inc.	QMM	Amex	06/22/05	5,448,827	SEC	Revenue		
Video Without Boundaries, Inc.	VDWB	OTC	06/22/05	65,604,126	Unknown	Restructuring, Assets or Inventory	Cost or Expense	Revenue
TransTechnology Corporation	TTLG	OTC	06/23/05	6,729,000	Company	Reclassification		
Credit Acceptance Corporation	CACCE	Nasdaq	06/24/05	39,064,886	Auditor	Revenue		
The Sportsman's Guide, Inc.	SGDE	Nasdaq	06/24/05	8,175,000	SEC	Revenue		
Inverness Medical Innovations, Inc.	IMA	Amex	06/28/05	24,627,000	Company	Revenue		
MicroIslet, Inc.	MII	Amex	06/28/05	39,943,912	Company	Securities Related		
Anchor BanCorp Wisconsin, Inc.	ABCW	Nasdaq	06/29/05	22,221,209	Auditor	Revenue		
Asyst Technologies, Inc.	ASYT	Nasdaq	06/29/05	47,812,000	Company	Related Party Transaction		

(Continued From Previous Page)

Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Computer Associates International, Inc.	CA	NYSE	06/29/05	611,000,000	Company	Other		
CPAC, Inc.	CPAK	Nasdaq	06/30/05	4,946,774	Company	Restructuring, Assets or Inventory		
Austral Pacific Energy Ltd.	AEN	Amex	07/01/05	18,666,127	Auditor	Cost or Expense		
Koor Industries Ltd.	KOR	NYSE	07/01/05	15,716,725	Auditor	Reclassification	Cost or Expense	
The Shaw Group, Inc.	SGR	NYSE	07/06/05	69,792,000	Unknown	Cost or Expense		
IKON Office Solutions	IKN	NYSE	07/08/05	157,973,000	Company	Revenue	Other	
American Software, Inc.	AMSWA	Nasdaq	07/12/05	25,064,000	Company	Cost or Expense		
AdZone Research, Inc.	ADZR	OTC	07/13/05	102,941,956	Company	Securities Related		
Willis Lease Finance Corporation	WLFC	Nasdaq	07/13/05	9,097,000	Unknown	Reclassification		
Iteris, Inc.	ITI	Amex	07/14/05	28,106,000	Unknown	Cost or Expense		
Precision Auto Care, Inc.	PACI	OTC	07/14/05	29,838,969	SEC	Reclassification		
Rentech, Inc.	RTK	Amex	07/15/05	92,918,545	Unknown	Reclassification		
Slade's Ferry Bancorp	SFBC	Nasdaq	07/19/05	4,145,566	Unknown	Cost or Expense		
Continental Airlines, Inc.	CAL	NYSE	07/20/05	81,900,000	Company	Cost or Expense		
Scholastic Corporation	SCHL	Nasdaq	07/20/05	41,000,000	Company	Cost or Expense		
Ace Ltd.	ACE	NYSE	07/21/05	284,777,017	Company	Other		
SVB Financial Group	SIVB	Nasdaq	07/21/05	38,474,000	Company	Securities Related		
Twin Disc, Inc.	TWIN	Nasdaq	07/21/05	2,908,000	Company and Auditor	Revenue	Restructuring, Assets or Inventory	
Apogee Technology, Inc.	ATA	Amex	07/22/05	11,838,332	Company	Revenue		
Delta Mutual, Inc.	DLTM	OTC	07/22/05	25,037,746	Unknown	Securities Related		
Velocity Asset Management, Inc.	VCYA	OTC	07/22/05	20,059,181	Company	Securities Related		

(Continued From Previous Page)

Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
TBC Corporation	TBCC	Nasdaq	07/25/05	23,418,000	Company	Cost or Expense		
The BISYS Group, Inc.	BSG	NYSE	07/25/05	120,561,000	Unknown	Acquisition or Merger	Revenue	Cost or Expense
Griffin Land & Nurseries, Inc.	GRIF	Nasdaq	07/26/05	5,176,000	Company	Acquisition or Merger		
Diebold, Inc.	DBD	NYSE	07/27/05	70,812,000	Company	Revenue		
The AES Corporation	AES	NYSE	07/27/05	677,000,000	Company	Acquisition or Merger	Cost or Expense	Other
i2 Technologies, Inc.	ITWO	Nasdaq	07/28/05	25,958,000	Company	Securities Related		
Mercury Interactive Corporation	MERQ	Nasdaq	07/28/05	99,428,000	SEC	Securities Related		
TBS International Ltd.	TBSI	Nasdaq	07/28/05	28,088,329	Company	Securities Related		
The Pantry, Inc.	PTRY	Nasdaq	07/28/05	21,930,000	Company and Auditor	Cost or Expense		
Uranium Resources, Inc.	URIX	OTC	07/28/05	151,618,292	Company	Securities Related		
TransCanada Corporation	TRP	NYSE	07/29/05	486,200,000	Unknown	Acquisition or Merger		
AEW Real Estate Income Fund	RIF	Amex	08/01/05	3,832,999	Unknown	Reclassification		
Molson Coors Brewing Company	TAP	NYSE	08/02/05	85,900,000	Unknown	Cost or Expense		
Pericom Semiconductor Corporation	PSEM	Nasdaq	08/02/05	27,188,000	Unknown	Cost or Expense		
Birch Mountain Resources Ltd.	BMD	Amex	08/03/05	56,596,951	Unknown	Cost or Expense		
Centennial Communications Corporation	CYCL	Nasdaq	08/03/05	106,876,000	Company	Cost or Expense		
Glowpoint, Inc.	GLOW	Nasdaq	08/03/05	45,966,000	Auditor	Cost or Expense		
Graphic Packaging Corporation	GPK	NYSE	08/03/05	202,400,000	Unknown	Cost or Expense		
Input/Output, Inc.	IO	NYSE	08/03/05	80,646,000	Company	Cost or Expense		
MatrixOne, Inc.	MONEE	Nasdaq	08/03/05	51,238,000	Company	Revenue		
Array BioPharma Inc.	ARRY	Nasdaq	08/04/05	38,498,215	Company	Cost or Expense		
Desert Community Bank	DCBK	Nasdaq	08/04/05	2,960,000	Company	Other	Securities Related	

(Continued From Previous Page)

Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Allis-Chalmers Energy, Inc.	ALY	Amex	08/05/05	16,601,000	Company	Securities Related		
Anchor Glass Container Corporation	AGCC	Nasdaq	08/05/05	24,673,838	Company	Revenue		
Ault Inc.	AULT	Nasdaq	08/05/05	4,831,546	Company	Restructuring, Assets or Inventory	Related Party Transaction	
Deltic Timber Corporation	DEL	NYSE	08/05/05	12,257,000	Company	Restructuring, Assets or Inventory		
Allied Defense Group, Inc.	ADG	Amex	08/08/05	5,780,911	Auditor	Securities Related		
Kintera, Inc.	KNTA	Nasdaq	08/08/05	30,670,318	Unknown	Cost or Expense		
LCC International, Inc.	LCCI	Nasdaq	08/08/05	24,578,000	Company	Revenue		
American Access Technologies Inc.	AATK	Nasdaq	08/09/05	7,401,593	Company	Restructuring, Assets or Inventory		
Beckman Coulter, Inc.	BEC	NYSE	08/09/05	64,610,000	Company	Cost or Expense		
DST Systems, Inc.	DST	NYSE	08/09/05	78,500,000	Unknown	Cost or Expense		
Glenborough Realty Trust Inc.	GLB	NYSE	08/09/05	36,003,636	Company	Securities Related		
NN, Inc.	NNBR	Nasdaq	08/09/05	17,521,762	Company	Revenue		
NYFIX, Inc.	NYFX	Nasdaq	08/09/05	32,426,000	Company	Securities Related		
Savient Pharmaceuticals, Inc.	SVNT	Nasdaq	08/09/05	60,934,000	Company	Revenue		
Associated Banc-Corp	ASBC	Nasdaq	08/10/05	129,346,000	Company	Securities Related		
MarketAxess Holdings, Inc.	MKTX	Nasdaq	08/10/05	35,508,128	Company	Cost or Expense		
Michael Baker Corporation	BKR	Amex	08/10/05	8,726,788	Company	Cost or Expense		
Polymer Group, Inc.	POLGA	OTC	08/10/05	12,497,354	Company	Securities Related		
The GEO Group, Inc.	GGI	NYSE	08/10/05	10,006,000	Company	Revenue		
Arizona Land Income Corporation	AZL	Amex	08/15/05	1,851,025	Company	Revenue		

(Continued From Previous Page)

Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Online Resources, Corporation	ORCC	Nasdaq	08/15/05	27,321,956	Company	Other		
SoftBrands, Inc.	SFBD	OTC	08/15/05	40,030,000	Company	Cost or Expense		
Enzon Pharmaceuticals, Inc.	ENZN	Nasdaq	08/16/05	43,486,000	Unknown	Securities Related		
Newtek Business Services, Inc.	NKBS	Nasdaq	08/16/05	34,453,748	Company	Other		
ClearOne Communications, Inc.	CLRO	OTC	08/18/05	12,332,106	SEC	Revenue	Cost or Expense	Restructuring, Assets or Inventory
Beijing Med-Pharm Corporation	BJGP	OTC	08/19/05	17,680,916	Company	Revenue		
iMergent, Inc.	IIG	Amex	08/19/05	12,132,134	Company	Revenue		
SearchHelp, Inc.	SHLP	OTC	08/19/05	33,585,033	Unknown	Other		
TB Wood's Corporation	TBWC	Nasdaq	08/19/05	5,189,000	SEC	Cost or Expense		
World Health Alternatives, Inc.	WHAI	OTC	08/19/05	45,699,108	Company	Securities Related	Cost or Expense	Other
Tandy Brands Accessories, Inc.	TBAC	Nasdaq	08/22/05	6,683,000	Auditor	Cost or Expense		
Corinthian Colleges, Inc.	COCO	Nasdaq	08/23/05	92,870,000	Company	Revenue		
Global-Tech Appliances Inc.	GAI	NYSE	08/26/05	12,153,000	Company	Securities Related	Reclassification	
KANA Software, Inc.	KANAE	Nasdaq	08/26/05	29,254,000	Unknown	Revenue		
Sycamore Networks, Inc.	SCMRE	Nasdaq	08/26/05	275,023,000	Company	Securities Related		
Immucor, Inc.	BLUD	Nasdaq	08/29/05	47,737,982	Unknown	Cost or Expense		
Service Corporation International	SCI	NYSE	08/29/05	297,421,000	Company	Revenue		
Cap Rock Energy Corporation	RKE	Amex	08/30/05	1,696,120	Company	Cost or Expense		
Cardinal Health, Inc.	CAH	NYSE	08/30/05	431,400,000	SEC	Revenue		
Hollinger International, Inc.	HLR	NYSE	09/01/05	90,878,000	Company	Restructuring, Assets or Inventory	Other	

(Continued From Previous Page)

Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Teletouch Communications, Inc.	TLL	Amex	09/02/05	4,880,558	SEC	Securities Related		
AuthentiDate Holding Corporation	ADAT	Nasdaq	09/07/05	34,399,161	SEC	Reclassification		
SWS Group, Inc.	SWS	NYSE	09/07/05	17,517,023	Company	Securities Related		
Fountain Powerboats, Inc.	FPB	Amex	09/08/05	4,849,888	Company	Revenue		
Stewart Enterprises, Inc.	STEI	Nasdaq	09/12/05	109,266,000	SEC	Other		
Excelligence Learning Corporation	LRNS	Nasdaq	09/13/05	9,376,253	Company	Cost or Expense		
Sun Microsystems, Inc.	SUNW	Nasdaq	09/13/05	3,407,000	Company	Cost or Expense		
Dana Corporation	DCN	NYSE	09/15/05	151,000,000	Company	Revenue		
Interpublic Group of Companies, Inc.	IPG	NYSE	09/15/05	425,300,000	Company	Revenue	Acquisition or Merger	
OneSource Technologies, Inc	OSRC	OTC	09/15/05	51,253,830	Company	Revenue	Cost or Expense	Restructuring, Assets or Inventory
Steakhouse Partners, Inc.	STKP	OTC	09/15/05	5,873,915	Company	Securities Related		
Urologix, Inc.	ULGX	Nasdaq	09/16/05	14,404,000	Company	Cost or Expense		
Flow International Corporation	FLOW	Nasdaq	09/20/05	36,012,000	Company	Securities Related		
Dragon Pharmaceutical Inc.	DRUG	OTC	09/21/05	62,878,004	Unknown	Restructuring, Assets or Inventory		
IDT Corporation	IDT	NYSE	09/27/05	98,161,000	Company	Cost or Expense		
Manor Care, Inc.	HCR	NYSE	09/27/05	83,651,000	Company	Securities Related	Cost or Expense	
August Technology Corporation	AUGT	Nasdaq	09/28/05	18,567,000	Company	Revenue		
City Network, Inc.	CSN	Amex	09/28/05	27,500,000	Auditor	Cost or Expense		
Central Parking Corporation	CPC	NYSE	09/29/05	36,762,000	Unknown	Other		
Diedrich Coffee, Inc.	DDRX	Nasdaq	09/29/05	5,287,000	Unknown	Cost or Expense		
Tommy Hilfiger Corporation	TOM	NYSE	09/30/05	92,783,000	Unknown	Cost or Expense		

(Continued From Previous Page)

Company Name	Ticker	Market	Date	Shares	Prompter	Reason 1	Reason 2	Reason 3
Warwick Valley Telephone Company	WWVY	Nasdaq	09/30/05	5,351,780	Company	Restructuring, Assets or Inventory		
Total 1,390								

Source: GAO.

Comparison of Our Restatement Database to Those of Glass, Lewis & Co. LLC and the Huron Consulting Group

A number of other research studies have suggested that a significant number of companies continue to announce restatements of their financial statements as a result of financial reporting fraud, accounting errors, and the increased disclosure and internal control requirements introduced by the Sarbanes-Oxley Act of 2002. To provide a better understanding of companies announcing restatements of previous results, we analyzed Lexis-Nexis press releases and news articles, related SEC filings, and company press releases to determine the total number of restatement announcements, restating companies, and the reasons for announcements made from July 2002 through September 2005.[1] See appendix I for a detailed discussion of our scope and methodology. This appendix provides a comparison of our database with those that Glass Lewis and the Huron Consulting Group (HCG) produced and discusses some of the studies' limitations.

Our Methodology Focused on Determining the Impact of Restatement Announcements on Market Capitalization

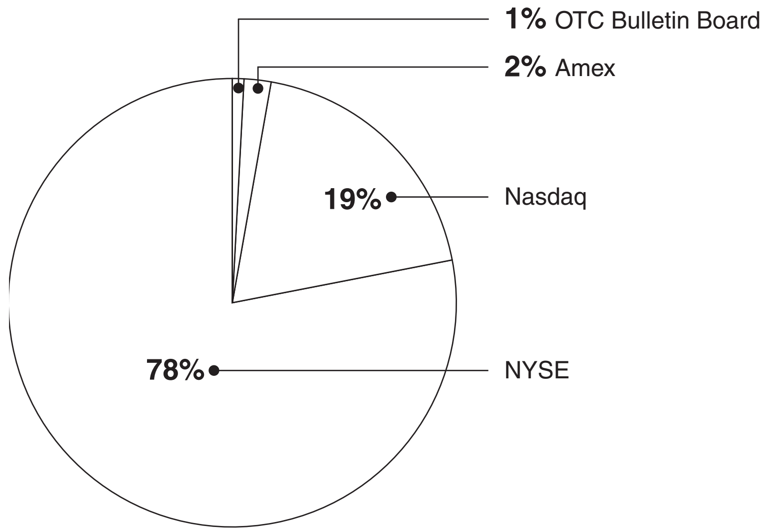
We identified restatements announced from July 1, 2002, through September 30, 2005, using the Lexis-Nexis online information service to search for press releases and other media coverage on restatements. Because the focus of our research was on the impact on market capitalization due to restatement announcements, we concentrated on publicly listed companies trading on the major securities markets—NYSE, Nasdaq, and Amex. As figure 10 shows, companies trading on the major securities markets represented approximately 98–99 percent of total market capitalization.

Other securities markets accounted for the remaining 1–2 percent of market capitalization. For example, OTC Bulletin Board makes up a little more than 1 percent of the total market capitalization of all publicly traded companies. It should be noted that figure 12 does not include the Pink Sheets because we could not find reliable market capitalization data for companies traded on this market. However, the aggregate market capitalization of these companies is widely held to be very small and many of the companies trading on this venue are not registered with SEC, and therefore would not meet our criteria for inclusion. Companies that trade on the OTC Bulletin Board and Pink Sheets generally are very small and therefore have limited or no analyst coverage. As a result, our methodology did not capture many restatements announced by these companies, as they

[1] A follow-up GAO report will update this database from October 1, 2005, through June 30, 2006.

may not always have been announced in the business press and therefore archived by Lexis-Nexis.

Figure 10: Total Market Capitalization by Trading Market, 2005



Source: SEC analysis of Center for Research in Security Prices data.

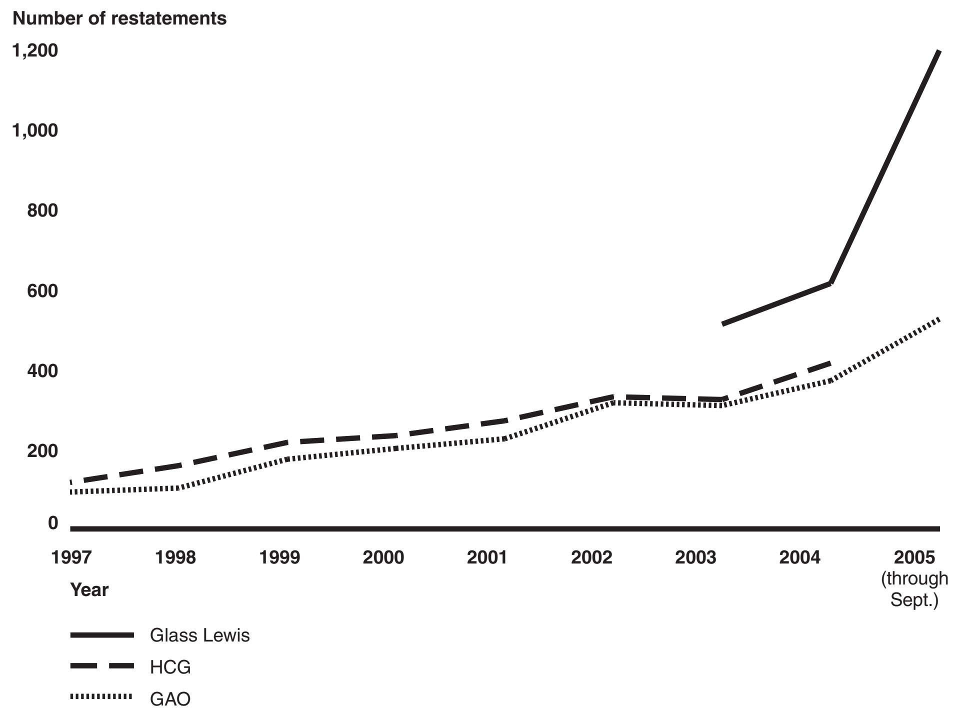
Comparison with Outside Studies Suggested That Our Database Was a Comprehensive Listing of Publicly-Listed Companies, but Did Not Capture a Number of the Smallest Publicly-Traded Companies

While several researchers have constructed and maintained their own databases of financial statement restatements, these lists generally are proprietary and not publicly available. We were able to evaluate the completeness of our listing by comparing descriptive statistics from our database with propriety information provided by HCG and Glass Lewis.[2] Although there were differences in the search methodologies, construction criteria, and types of companies included, each study found similar trends and reached similar conclusions (see fig. 11).

[2]Audit Analytics, an on line market intelligence service maintained by Ives Group Incorporated also provides, among other things, a database of restatement filings. However, at the time we were completing our audit work, the database was being populated and was not yet comprehensive for restatements occurring prior to August 2004.

However, the uniqueness of our announcement database rendered it difficult to make strict, year-to-year comparisons of companies and dates. For example, restating companies were tracked in both the HCG and Glass Lewis databases based on the filing date of the actual amended restatements, whereas our listing was based on when the restatement was announced. As a result, a company that announced the intention to restate in 2003, but did not file the amended return until 2004, would be captured differently. More importantly, HCG restatement numbers were based primarily on a search of amended annual (SEC Form 10-K/A) and quarterly (SEC Form 10-Q/A) filings, while our total restatement numbers were based primarily on the announcement of the restatement in business and financial press—when the markets are likely to receive and react to the information. The Glass Lewis search methodology combines elements of both our techniques and HCG techniques, including a search of SEC filings (including Forms 10-K and 10-Q) and also a search of information sources similar to Lexis-Nexis (e.g., Capital IQ and the *Wall Street Journal*) to capture restatements that were not included on an amended filing. As a result, Glass Lewis captured a larger number of restatements for the years in which they collected this data.

Figure 11: Number of Restatements, by Research Study



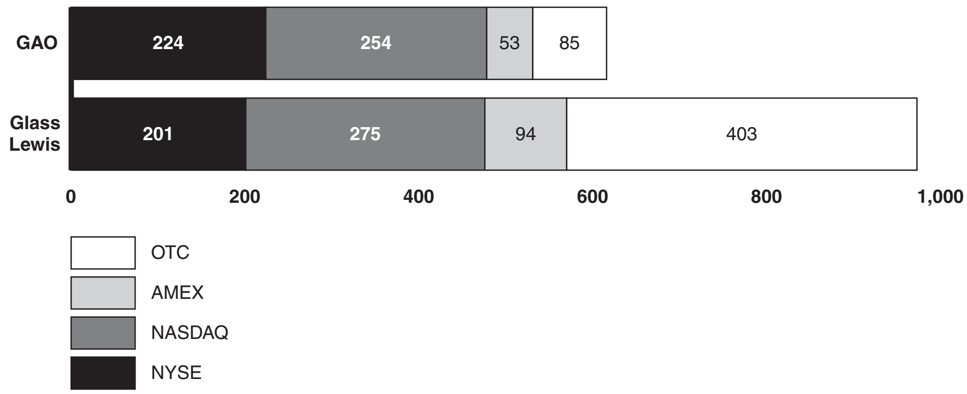
Sources: GAO, SEC filings, and selected studies.

Notes: Our numbers for 2005 include only restatements from January through September. Our numbers were based on restatement announcement dates, while the HCG and Glass Lewis numbers were based on restatement filings. Glass Lewis numbers exclude their data on foreign foreign companies.

Comparison of our database of restating companies for 2003 and 2004 with Glass Lewis' database of actual restatement filings suggests that our database provides a comprehensive list of companies listed on the major U.S. securities markets. As figure 12 shows, both databases contain similar number of NYSE- and Nasdaq-listed restatements. NYSE and Nasdaq companies make up 97 percent of the total market capitalization of all publicly traded companies.[3] However, a comparison of our database with Glass Lewis' database also shows that we do not include a large number of small, OTC-traded companies with limited analyst and press coverage. To a smaller extent, our capture rate of Amex-listed companies also reflected that Amex lists a relatively higher proportion of smaller companies than NYSE. Although we did not capture these companies, the impact of the related losses in market capitalization due to restatements is likely not significant. Collectively, Amex and OTC Bulletin Board companies make up 3 percent of the total market capitalization of publicly traded companies. Nevertheless, users of this report should note that our database was constructed using a methodology that reflects our focus on the impact on market capitalization, and that our figures did not reflect a number of smaller public companies that restated over the 1997–2005 period.

[3]The number of NYSE-listed companies in our database appeared to be slightly larger, but two methodological differences most likely accounted for the difference: (1) Glass Lewis numbers presented here do not include a number of companies classified by the consulting firm as foreign companies and (2) Glass Lewis data reflected where the company traded when it filed its restatement, not when it was announced. As a result, a NYSE-listed company that announced a restatement, was delisted, and began trading on the Pink Sheets or OTC Bulletin Board before it filed its amended return, would be captured as a NYSE-listed company in our database, but an OTC traded company in the Glass Lewis database. In contrast, the number of Nasdaq-listed companies in our database appeared to be slightly smaller. This is likely because our methodology may miss some small companies listed on the Nasdaq Capital Market, which make up a very small percentage of the total market capitalization of Nasdaq companies.

Figure 12: Number of Companies Restating, 2003–2004, GAO versus Glass Lewis



Sources: GAO; Glass Lewis.

Notes: Companies issuing multiple restatements were counted only once per year. Glass Lewis dates were based on restatement filings, while our dates were based on the date of restatement announcements. Glass Lewis numbers exclude their data on foreign companies.

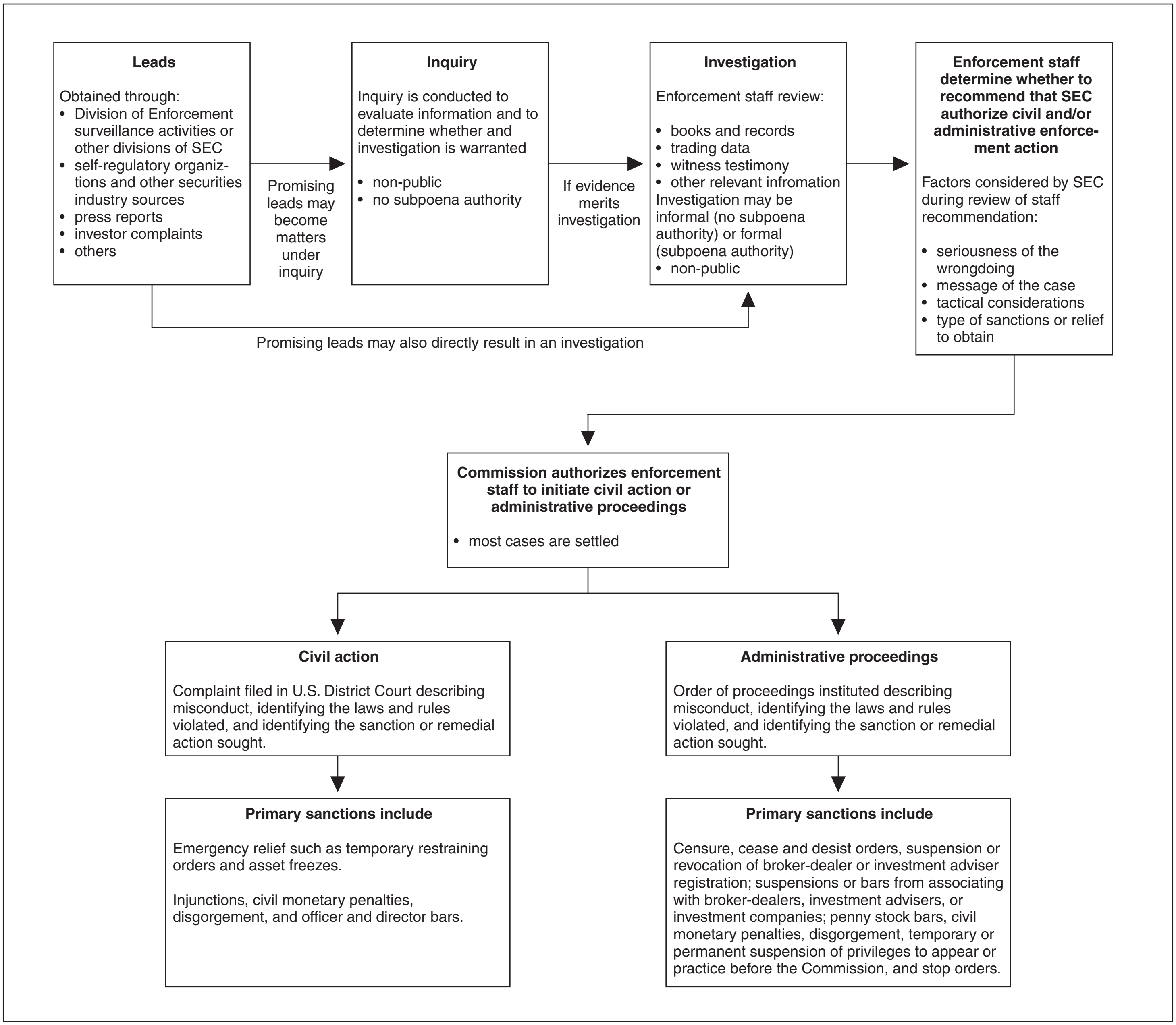
SEC Enforcement Process

SEC investigates possible violations of securities laws, including those related to accounting issues. As figure 13 illustrates, if the evidence gathered merits further inquiry, SEC will prompt an informal investigation or request that SEC issue a formal order of investigation. Investigations can lead to SEC-prompted administrative or federal civil court actions. Depending on the type of proceedings, SEC can seek sanctions that include injunctions, civil money penalties, disgorgement,[1] cease-and-desist orders, suspensions of registration, bars from appearing before the Commission, and officer and director bars. After an investigation is completed, SEC may institute either type of proceeding against a person or entity that it believes has violated federal securities laws.[2] Because SEC has only civil enforcement authority, it may also refer appropriate cases to the Department of Justice (DOJ) for criminal investigation and prosecution. According to SEC, most enforcement actions are settled, with respondents generally consenting to the entry of civil judicial or administrative orders without admitting or denying the allegations against them.

[1]A disgorgement sanction requires the return of illegal profits. See GAO, *SEC Enforcement: More Actions Needed to Improve Oversight of Disgorgement Collections*, GAO-02-771 (Washington, D.C.: July 12, 2002) for disgorgement collection information.

[2]SEC can also initiate contempt proceedings and issue reports of investigation when appropriate.

Figure 13: Flowchart of SEC's Enforcement Process



Source: GAO.

Case Study Overview

Our objective in reviewing individual restatements was to provide detailed information on selected topics for six companies.[1] The purpose of this appendix is to explain how each case study is structured and what information is being provided. Specifically, each of the cases discussed in appendixes IX–XIV provides information on (1) the company's operations; (2) the chronology of the restatement, including who initiated the restatement; (3) its independent auditor; (4) the market's reaction to the restatement; (5) the analysts' recommendations; (6) credit ratings and credit rating agency actions; and (7) what legal and regulatory actions were taken against the company, its executives, directors, independent auditors, or others. The six companies are listed in table 8.

Table 8: Six Case Studies of Public Companies That Announced Restatements from July 2002 through September 2005

Appendix	Company	Industry
IX	American International Group Inc.	Insurance
X	Dynacq Healthcare, Inc.	Healthcare
XI	Federal National Mortgage Corporation (Fannie Mae)	Housing finance
XII	Qwest Communications International, Inc.	Telecommunications
XIII	Starbucks Corporation	Retail
XIV	Sterling Bancshares, Inc.	Banking

Source: GAO.

Our analysis was based on only publicly available information, including company press releases and filings with SEC such as Forms 10-K, 10-Q, and 8-K; SEC press releases, complaints, and settlement agreements; public DOJ documents; analysts' recommendations; credit agency ratings; historical company rating information maintained by research sources; newspaper articles; and congressional testimonies. Although we did not interview company officials to obtain information about the restatements, we requested comments on the case studies from each of the six companies and incorporated any technical comments they had, as appropriate.

[1]For an explanation of how we selected the six companies, see appendix I (Objectives, Scope and Methodology).

Business Overview

Each case begins with an overview of the business in which the company engages, and generally provides information on its size (total revenue and number of employees).

Restatement Data

Each of the companies restated their financial statements at least once from July 2002 through September 2005. This section discusses the nature of the misstated information and the resulting restatement decision by the companies' management. We include previously reported or announced financial results, and the revised or restated financial data, for selected information, such as revenue and net income (or losses). We also identify those companies that have announced a restatement, but have not yet filed the restated financial statements with SEC.

Accounting/Audit Firm

This section provides information on who the independent auditor was during the restatement period and whether the restating company changed auditor before, during, or after the restatement. We also provide information about civil and criminal actions taken against the auditors.

Stock Prices

To illustrate the impact of a restatement announcement on a company's stock prices, we provide selected historical closing stock price information for each company. We also discuss how stock prices were affected in the days surrounding the restatement announcement and discuss other events that also positively or adversely affected the companies' stock price. In many of the cases, the company had lost a significant amount of its stock price before the restatement announcement; often they had missed an earnings target or announced an internal investigation.

Securities Analysts' Recommendations

Given the criticism that many securities analysts have faced in 2002 about their optimistic ratings of companies in the face of adverse financial results and condition, we were asked once again to focus on the role played by analysts in recommending securities. Therefore, in this section, we provide historical information on securities analysts' ratings in the months leading up to–and after–financial statement restatements, and other announcements about the financial condition of the covered (researched) company. We found no single authoritative source for historical analyst recommendations and relied on a variety of sources for this data, such as Yahoo! Finance.

Analysts use different rating systems and a variety of terms, including strong buy, buy, near term or long-term accumulate, near term or long term over-perform or under-perform, neutral, hold, reduce, sell, strong sell. Critics often point to the large disparity between analysts' buy recommendations and sell recommendations. However, the terms have been criticized as being misleading because "hold" may mean that investors should sell the stock versus holding it. Although we do not attempt to determine the definition of each term for each firm, we provide the recommendations because they illustrate the range of rating systems that analysts use. We generally focused on changes in ratings around certain key dates to provide some indication of what signals analysts were sending the markets.

Credit Rating Agency Actions

Along with analysts, credit ratings agencies have been questioned in the past about the quality of the information they provided, and this scrutiny heightened after the rapid failure of Enron Corporation. To determine the information credit rating agencies were providing to the market about the condition of these companies, we collected credit rating information on companies when such information was available. In this section, we again focus on changes in ratings around certain key dates, such as the restatement announcement date, the actual restatement date, announcements of internal investigations, and bankruptcy filings.

Legal and Regulatory Actions Taken

To determine the legal and regulatory actions taken, we searched for evidence of any shareholder actions taken and whether SEC and/or DOJ had taken any action in connection with the restatement of a company's financial results. We found that many of the cases resulted in shareholder lawsuits and that SEC, and in some cases the DOJ, had taken action against the company, its officials, and its independent auditor.

American International Group, Inc. Case Study

Business Overview

American International Group, Inc. (AIG), a Delaware corporation, is a holding company, which, through its subsidiaries, is engaged in a broad range of insurance and insurance-related activities in the United States and abroad. AIG's primary activities include both general and life insurance operations. Other significant activities include financial services, retirement services, and asset management. For the year that ended December 31, 2004, AIG had total (revised) revenues of almost $98 billion and approximately 92,000 employees.

Restatement Data

On February 14, 2005, AIG announced that it had received subpoenas from the Office of the Attorney General for the State of New York (NYSOAG) and SEC. Both entities were conducting investigations into AIG's use of nontraditional insurance products, other assumed reinsurance transactions, and AIG's accounting for these transactions.[1] (For more detailed information on legal and regulatory actions affecting AIG, please see the last section of this app.)

Furthermore, on March 14, 2005, AIG's chairman and CEO retired and on March 21, 2005, its vice chairman and CFO were fired.

On March 30, 2005, AIG announced that the filing of its 2004 Form 10-K (annual report) would be delayed beyond the already extended due date of March 31, 2005, to provide AIG, its Board of Directors, and its new management adequate time to complete their extensive review of books and records. The internal review resulted from the pending NYSOAG and SEC investigations. At that time, AIG was not able to determine whether adjustments already identified through the review would require restatements of prior period results or adjustments to fourth quarter 2004 published, unaudited information.

On May 1, 2005, AIG announced in a press release that, as a result of its internal review of its books and records conducted in conjunction with its 2004 annual audit, it had decided (in consultation with

[1]Reinsurance is insurance for insurers. In contrast to insurance, reinsurance is not sold as a standard product. Each contract is separately negotiated. Use of certain finite risk contracts becomes improper or illegal when there is no actual transfer of risk and there are side agreements that differ from the terms of the written contract. See GAO, *Definitions of Insurance and Related Information*, GAO-06-424R (Washington, D.C.: Feb. 23, 2006).

PricewaterhouseCoopers LLP (PwC), its independent auditors) to restate its financial statements for the years ended December 31, 2000–2003; the first three quarters of 2003 and 2004; and the fourth quarter of 2003. AIG noted that its prior financial statements for those periods—and previously announced unaudited financial results for the year and quarter ended December 31, 2004—should not be relied upon. The press release noted that the company planned to file its restated financials on Form 10-K for the year ended December 31, 2004, no later than May 31, 2005.

As a result of the internal review, AIG concluded that consolidated shareholders' equity at December 31, 2004, would be reduced by about $2.3 billion due to the following adjustments: corrections of accounting errors totaling about $1.1 billion and/or fourth quarter changes in estimates totaling about $1.2 billion for tax accruals, deferred acquisition costs, and other contingencies and allowances. These adjustments would lead to a reduction of about 2.7 percent in AIG's unaudited consolidated shareholders' equity of $82.87 billion at year-end 2004, which was previously disclosed in the company's February 9, 2005, earnings release. Also, AIG determined that it had incorrectly accounted for certain derivatives under the Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standard No. 133—Accounting for Derivatives and Hedging Activities; this would lead to an increased adjustment of about $1 billion to consolidated shareholders' equity at December 31, 2004.

On May 31, 2005, AIG filed its 2004 Form 10-K with SEC. In that filing, AIG indicated that it had restated its financial statements for the years 2003, 2002, 2001, and 2000. It also restated previously reported estimates of results for the fourth quarter of 2004. The restatements, according to the Form 10-K, resulted from certain accounting adjustments made after an internal review of AIG's operations during 2000–2004. Table 9 shows the effects of the adjustments on AIG's major balance sheet and income statement items.

Table 9: Selected Financial Data for AIG, 2000–2004

(Dollars in millions; negative values in parentheses)

	Fiscal years				
Affected financial data	**2000**	**2001**	**2002**	**2003**	**2004**
Total assets, as reported	$426,671	$493,061	$561,229	$678,346	$804,607
Adjustment	(2,820)	(614)	327	(4,193)	(5,947)
Total assets, as restated	423,851	492,447	561,556	674,153	798,660
Net income, as reported	6,639	5,363	5,519	9,274	11,048
Adjustment	(498)	(1,191)	347	(1,265)	(1,317)
Net income, as restated	$6,141	$4,172	$5,866	$8,009	$9,731

Source: SEC filing.

AIG had accounted for various reinsurance transactions and associated cash flows as either revenues or expenses when the transactions involved insufficient transfer of insurance risk to the assuming reinsurer. When there is insufficient risk transfer, such cash flows are accounted for as either deposit assets or liabilities (and not as revenues or expense). AIG's internal review determined that its insurance loss reserves had been misstated as a result of unsupported adjustments to incurred, but not reported, reserves. AIG made other adjustments based on its reclassifying of capital gains to net investment income, conversion of underwriting losses to capital losses, and its accounting for derivatives. In November 2005, AIG announced that it again would restate previously reported results, primarily to correct errors relating to accounting for derivatives and hedged items.

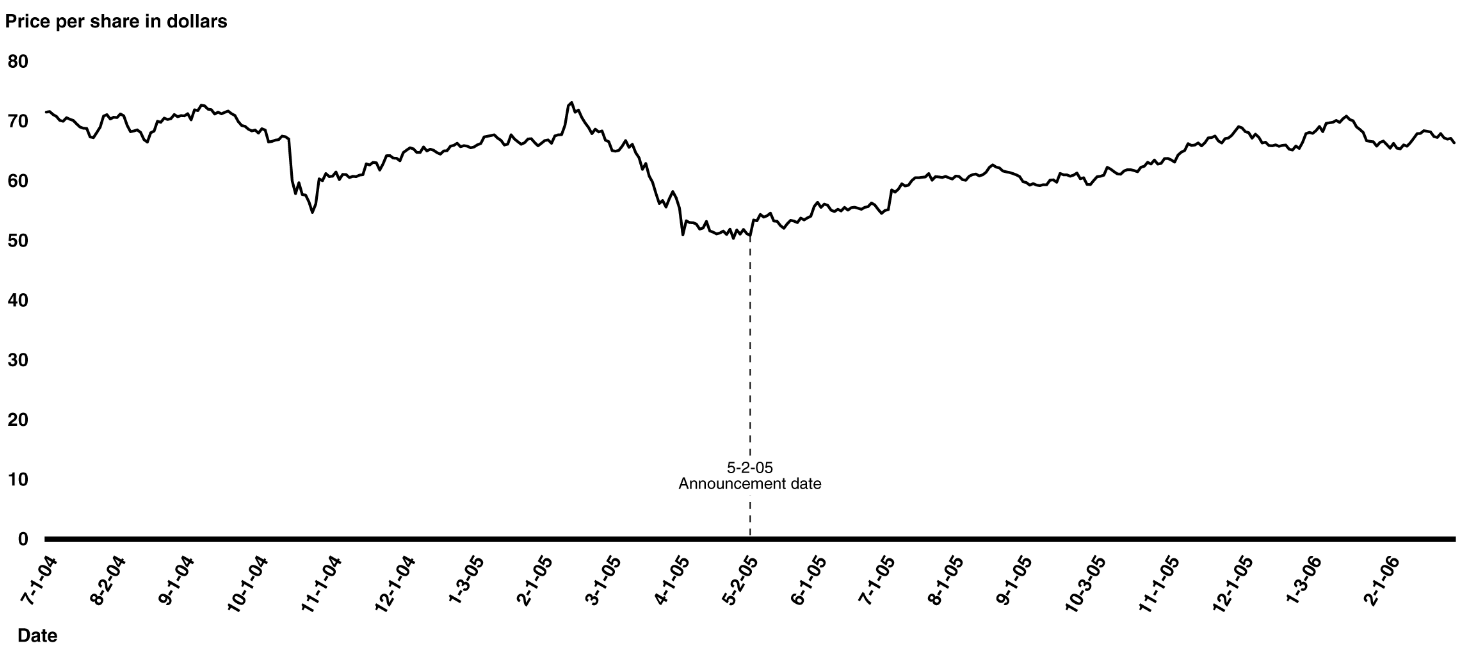
Accounting/Audit Firm

PwC, AIG's independent auditor, audited AIG's financial statements for fiscal years 2000–2004. In AIG's 2004 Form 10-K, which was issued in May 2005, PwC agreed with AIG management's assessment that the company did not maintain effective internal control over financial reporting as of December 31, 2004.

Stock Prices

AIG's stock trades on the NYSE under the ticker symbol AIG. From February through May 2005, the price of company stock was affected more by the February 14, 2005, announcement of the subpoenas it received from NYSOAG and SEC than by the March 30, 2005, announcement of the delay in submitting and the possible restatement of its financial statements; or the May 31, 2005, filing of the restated financial statements. On February 11, 2005, the last trading day before the date the subpoenas were announced, AIG's stock closed at $73.12. On February 14, the date the subpoenas were announced, AIG's stock closed at $71.49. Soon after, AIG's stock price began a downward trend that lasted through the March 30, 2005, announcement of the delay in AIG's filing with SEC of its Form 10-K for 2004. The closing stock price reached a low of $50.35 on April 22, 2005, after which it exhibited a generally upward trend through January 2006. On January 11, 2006, AIG's stock closed at $70.83. The trends in AIG's stock price are shown in figure 14.

Figure 14: Daily Stock Prices for AIG, July 1, 2004–February 28, 2006



Source: Nasdaq.

Note: The restatement announcement actually occurred on a May 1, 2005 (a Sunday).

Securities Analysts' Recommendations

Recommendations of six securities research analysts from October 2004 through June 2005 showed no set pattern surrounding the news, of the legal proceedings and restatements involving AIG. For example, in October 2004, shortly before the legal proceedings by NYSOAG became news two research firms upgraded AIG while another firm downgraded AIG. In January 2005, before the news of the subpoenas, that same firm downgraded AIG. In mid-March 2005, about a month after news of the subpoenas, another research firm downgraded AIG. During April 1–6, 2005, shortly after news of the filing delay, two research firms downgraded AIG and two other research firms upgraded AIG. In June 2005, after AIG's 2005 Form 10-K was issued, one firm upgraded AIG. A February 2006 article in the financial press reported that AIG would pay in excess of $1.6 billion to settle legal claims against it; despite the news, the majority of analysts following AIG's stock still rated it favorably.

Credit Rating Agency Actions

From March through early June 2005, the major rating agencies downgraded AIG's ratings. Standard & Poor's lowered AIG's long-term senior debt rating and placed a negative credit watch on the ratings.[2] Moody's Investors Service Inc. (Moody's) lowered AIG's long-term senior debt rating and placed the ratings on review for a possible downgrade. Fitch Ratings downgraded the long-term senior debt ratings of AIG and placed the ratings on a negative watch.

According to AIG's 2004 annual report, these rating actions have affected and will continue to affect AIG's business and results of operations. For example, the annual report noted the following:

- The downgrades and any future downgrades in AIG's debt ratings, will increase AIG's borrowing costs and therefore adversely affect AIG's profitability.

- The downgrade in AIG's long-term senior debt ratings will adversely affect the AIG Financial Products (AIGFP) unit's ability to compete for certain business. Credit ratings are very important in the derivative and structured transaction marketplaces, where AIG's ratings historically provided AIG a competitive advantage. The downgrades will reduce this advantage because specialized financial transactions generally are

[2] A negative watch means that the rating may be lowered.

conducted only by triple-A rated financial institutions. Counterparties may be unwilling to transact business with AIGFP except on a secured basis. This could require AIGFP to post more collateral to counterparties in the future.

Legal and Regulatory Actions Taken

In February 2005, AIG received subpoenas from NYSOAG and SEC relating to investigations into the use of nontraditional insurance products, certain assumed reinsurance transactions, and AIG's accounting for such transactions. DOJ and the New York State insurance regulator also were investigating AIG on related issues. On February 9, 2006, AIG agreed to settle charges that it committed securities fraud and other violations of the law. The settlement was part of a global resolution of federal and state actions under which AIG would pay over $1.6 billion to resolve the claims related to improper insurance accounting, bid rigging, and other practices involving workers' compensation funds.

Specifically, SEC's complaint alleged that in December 2000 and March 2001, AIG entered into two "sham" reinsurance transactions with Gen Re Corporation (Gen Re) that had no economic substance, but were designed to allow AIG to improperly add a total of $500 million in phony loss reserves to its balance sheet in the fourth quarter of 2000 and the first quarter of 2001. AIG allegedly initiated the transactions to quell analysts' criticism of AIG for a prior reduction in reserves. In addition, the complaint alleges that in 2000, AIG structured a sham transaction with Capco Reinsurance Company, Ltd. (Capco) to conceal approximately $200 million in underwriting losses in its general insurance business by improperly converting them to capital (or investment) losses to make those losses less embarrassing to AIG. The complaint further alleges that in 1991, AIG established Union Excess Reinsurance Company Ltd. (Union Excess), an offshore reinsurer, to which it ultimately ceded approximately 50 reinsurance contracts for its own benefit. According to the complaint, although AIG controlled Union Excess, it improperly failed to consolidate Union Excess's financial results with its own, and in fact took steps to conceal its control over Union Excess from its auditors and regulators. As a result of these actions and other accounting improprieties, SEC alleged that AIG fraudulently improved its financial results. SEC's complaint further alleges that AIG, directly or indirectly, singly or in concert, engaged in acts, practices, and courses of business that constitute violations of Sections 17(a)(l), l7(a)(2), and 17(a)(3) of the Securities Act of 1933 (Securities Act); Sections 10(b), 13(a), 13(b)(2)(A), 13(b)(2)(B), and

13(b)(5) of the Securities Exchange Act of 1934 (Exchange Act); and Rules 10b-5(a), 10b-5(b), 10b-5(c), 12b- 20, 13a-1,13a-13, and 13b2-1.

In settling its case, AIG agreed, without admitting or denying the allegations of the complaint, to the entry of a court order enjoining it from violating the antifraud, books and records, internal controls, and periodic reporting provisions of the federal securities laws. The order also requires that AIG pay a civil penalty of $100 million and disgorge ill-gotten gains of $700 million, all of which the Commission will seek to distribute to injured investors. AIG also has agreed to certain undertakings designed to assure the Commission that future transactions will be properly accounted for and that senior AIG officers and executives receive adequate training concerning their obligations under the federal securities laws. AIG's remedial measures include (1) appointing a new CEO and CFO; (2) putting forth a statement of tone and philosophy committed to achieving transparency and clear communication with all stakeholders through effective corporate governance, a strong control environment, high ethical standards and financial reporting integrity; (3) establishing a regulatory, compliance, and legal committee to provide oversight of AIG's compliance with applicable laws and regulations; and (4) enhancing its "Code of Conduct" for employees and mandating that all employees complete special formal ethics training. This proposed settlement is subject to court approval.

According to SEC's press release, the settlement takes into consideration AIG's cooperation during the investigation and its remediation efforts in response to material weaknesses identified by its internal review. From the outset of the investigation, AIG gave complete cooperation to the investigation by the Commission's staff. Among other things, AIG (1) promptly provided information regarding any relevant facts and documents uncovered in its internal review; (2) provided the staff with regular updates on the status of the internal review; and (3) sent a clear message to its employees that they should cooperate in the staff's investigation by terminating those employees, including members of AIG's former senior management, who chose not to cooperate in the staff's investigation.

In June 2005, SEC also charged a Gen Re executive with aiding and abetting AIG in committing securities fraud. In its complaint, SEC alleged that John Houldsworth, a former senior executive of Gen Re, helped AIG structure two sham reinsurance transactions (see above). SEC's complaint charges this executive with aiding and abetting the violations by AIG and others of Sections 10(b), 13(a), 13(b)(2) and 13 (b)(5); and Rules 10b-5, 12b-20, 13a-1, 13a-13 and 13b2-1 of the Exchange Act. Mr. Houldsworth, in addition to undertaking to cooperate fully with SEC, consented to the entry of a partial final judgment permanently enjoining him from future violations of these provisions, barring him from serving as an officer or director of a public company, and deferring the determination of civil penalties and disgorgement to a later date. In settling the charges, he also consented to SEC's order that suspends him from practicing as an accountant. Other remedial sanctions are still to be determined. In addition, Mr. Houldsworth agreed to SEC's administrative order, based on the injunction, barring him from appearing or practicing before SEC as an accountant, under Rule 102(e) of SEC's Rules of Practice.

In February 2006, SEC filed an enforcement action against other former senior executives of Gen Re and AIG for helping AIG mislead investors through the use of fraudulent reinsurance transactions. Four of the former executives, Ronald Ferguson, Elizabeth Monrad, Robert Graham, and Christopher Garand, were with Gen Re; the fifth, Christian Milton, was with AIG. The complaint alleges that the defendants and others aided and abetted AIG's violations of the antifraud provisions, and other provisions, of the federal securities laws, by helping AIG structure two sham reinsurance transactions (see above). Messrs. Ferguson, Graham, and Garand; Ms. Monrad; and others at Gen Re worked with Mr. Milton and others at AIG to fashion two sham reinsurance contracts between Cologne Re Dublin (a Gen Re subsidiary in Dublin, Ireland) and an AIG subsidiary.

The complaint makes allegations regarding conversations among the defendants and the existence of other evidence reflecting the planning and implementation of the sham transaction. The complaint charges that the defendants understood from the beginning that they were structuring a sham transaction involving the creation of phony documents for the purpose of providing apparent support for false accounting entries AIG made on its books. The defendants, and others at Gen Re and AIG, allegedly knew that AIG accounted for the sham transactions as if they were real reinsurance contracts that transferred risk from Gen Re to AIG, when all parties involved knew that was not true. As a result of AIG's accounting treatment for these transactions, the company's financial results showed false increases in reserves that AIG touted in the company's quarterly earnings releases for the fourth quarter of 2000 and the first quarter of 2001. According to the complaint, without the phony loss reserves, AIG's financial results in both quarters would have shown further declines in its loss reserves.

SEC's complaint charges Messrs. Ferguson, Graham, and Garand; and Ms. Monrad, with aiding and abetting AIG's violations of Sections 10(b), 13 (a), 13(b)(2) and 13(b)(5); and Rules 10b-5, 12b-20, 13a-1, 13a-13 and 13b2-1 of the Exchange Act. The complaint seeks permanent injunctive relief, disgorgement of ill-gotten gains, if any, plus prejudgment interest, civil money penalties, and orders barring each defendant from acting as an officer or director of any public company. In connection with the same conduct alleged in SEC's complaint, DOJ has filed federal criminal charges against Messrs. Ferguson, Graham, and Milton; and Ms. Monrad, in the U.S. District Court for the Eastern District of Virginia.

In a separate matter, NYSOAG and the Superintendent of Insurance of the State of New York are suing former AIG executives Mr. Greenberg, former CEO, and Mr. Smith, former CFO, for directing and approving various fraudulent business practices, including the sham reinsurance transactions with Gen Re. The lawsuit, filed on May 26, 2005, in State Supreme Court in Manhattan attributes the misconduct at AIG directly to Mr. Greenberg and alleges that he directed others at AIG to develop and implement the schemes underlying various misleading transactions. The lawsuit, among other judgments, seeks to enjoin the defendants from future violations of New York State laws, disgorge all gains, and pay all restitution and damages caused directly or indirectly by the fraudulent and deceptive acts.

Dynacq Healthcare, Inc. Case Study

Business Overview

Dynacq Healthcare, Inc. (Dynacq) is a holding company. Through its subsidiaries, the company develops and manages general acute hospitals that provide specialized general surgeries. Dynacq's hospitals include operating rooms, pre- and post-operative space, intensive care units, nursing units, and modern diagnostic facilities. Dynacq's facilities are designed to handle complex orthopedic and general surgeries, such as spine and bariatric surgeries. Dynacq was incorporated in Nevada in June 1989. In November 2003, the company reincorporated in Delaware and changed its name from Dynacq International, Inc. to Dynacq Healthcare, Inc. For the fiscal year ended August 31, 2005, Dynacq had total revenues of $55.3 million and approximately 302 employees.

Restatement Data

On April 6, 2004, Dynacq issued a press release announcing that, in connection with an ongoing review by SEC of the company's periodic reports, it would restate its financial statements for the fiscal years ended August 31, 2001, and 2002. According to its press release, these restatements would reclassify certain accounts receivable to long-term status, to the extent that cash collections were expected more than 12 months after such dates. The restatements also would correct an error in the application of an accounting principle related to income tax effect of the exercise of stock options, where the income tax benefit of $794,000 from the exercise stock options was treated as a tax benefit rather than as an increase in stockholders' equity, during the fiscal year ending in 2001. Dynacq also said that it corrected this error in the fiscal year ending August 31, 2002, where the tax provision was increased by $794,000, with a corresponding increase to stockholders' equity. Dynacq further noted that the restatement would increase the income tax provision for the fiscal year ending August 31, 2001, by $794,000, and reduce the income tax provision for the fiscal year ending August 31, 2002, by the same amount, and that there would be no cumulative effect on retained earnings as of August 31, 2002.

On July 14, 2004, Dynacq announced that it had substantially completed the reaudit and restatements for the fiscal years ending August 31, 2001, and 2002, the restatements of the company's selected financial information for fiscal years 1999 and 2000, and the audit of its financial statements for fiscal year 2003. See table 10.

Table 10: Selected Financial Data for Dynacq, Fiscal Years 1999–2002

(Dollars in millions)

	Fiscal years		
Affected financial data	**2000**	**2001**	**2002**
Additional paid-in capital, as reported	$4.3	$6.7	$9.8
Additional paid-in capital, as restated	5.4	11	13.7
Retained earnings, as reported	11.4	22.4	37.9
Retained earnings, as restated	12.6	20.4	35.2
Net income, as reported	N/A	11.1	15.4
Net income, as restated	N/A	$7.7	$14.8

Source: SEC filings.

Note: N/A means not applicable.

Accounting/Audit Firm

As of May 31, 2002, Ernst & Young, LLP (E&Y) was the company's independent auditor. On December 15, 2003, E&Y orally communicated to certain officers of Dynacq its concerns relating to the company's disclosure controls, accounting controls, and controls over safeguarding of assets. On December 17, 2003, E&Y notified Dynacq that it resigned as the company's independent auditor effective immediately. E&Y also orally informed Dynacq that the company lacked the internal controls necessary to develop reliable financial statements.

In a letter dated December 23, 2003, E&Y advised the Board of Directors of its conclusion that material weakness in internal controls had come to its attention during the course of performing its audit of the company's financial statements for the fiscal year ending August 31, 2003. Specifically, E&Y noted inadequate communication lines and internal controls relating to the authorization, recognition, capture, and review of transactions, facts, circumstances, and events that may have a material impact on the company's financial reporting process. E&Y further noted a lack of supervision, review, and quality control related to the accounting for income taxes, including the preparation of the federal income tax provision in accordance with Statement of Financial Accounting Standards No 109, Accounting for Income Taxes.

On January 19, 2004, the audit committee of the Board of Directors of the company engaged Killman, Murrell & Company, P.C. as the company's new independent accountant for the fiscal year ending August 31, 2003.

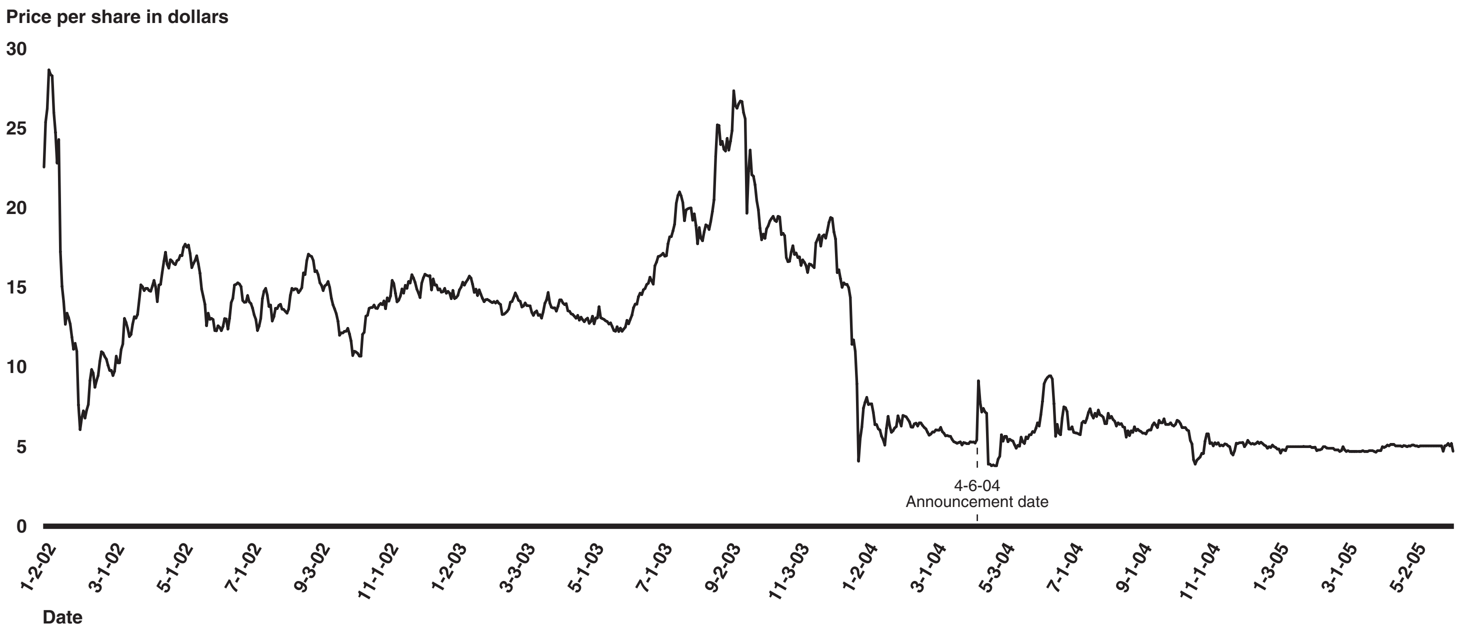
Stock Prices

Dynacq's stock trades on Nasdaq under the ticker symbol DYII. The stock peaked at more than $ 29 per share on January 7, 2002, and closed at less than half that price by year's end (see fig. 15). On December 18, 2003, the day Dynacq issued announcements regarding delays in filing its annual report on Form 10-K as a result of the sudden resignation of its independent auditor E&Y, its stock closed at $8.95—down from $10.99 the day before. The following day, December 19, 2003, the stock closed at $4.09, a decline of almost 63 percent, but it traded at less than $8 per share for the remainder of 2003. Then on March 26, 2004, the stock fell slightly to $5.19, down from $5.23 the previous day, as the company announced that it would not be releasing its financial results for the quarter ending February 2004 by April 2004, the normal filing date for the report.

The restatement announced on April 6, 2004, had apparently no immediate impact on the stock price, as the market had already received bad news from the company on February 4, 2004, when it released preliminary financial estimates. In the preliminary estimates issued, the company indicated that net patient service revenue, net income, and fully diluted earnings per share for the fiscal quarter ended November 30, 2003, decreased in excess of 50 percent from the previous comparable quarter. However, on April 15, 2004, when Dynacq announced that the Nasdaq Listing Qualifications Panel had notified the company that its stock would be delisted from the Nasdaq as of the opening of business on Friday, April 16, 2004, its stock decreased to $3.90 down from $7.10 the day before—a decline of 45 percent. Finally, on Friday April 16, 2004, the day the stock was set to be delisted, it closed at $3.33.

Following the delisting, Dynacq common stock was quoted on the Pink Sheets for unsolicited trading and from November 10, 2004, to May 2, 2005, it was quoted on the OTC Bulletin Board under the symbol "DYII.OB" as well as on the Pink Sheets. On May 3, 2005, the company's common stock was relisted on the Nasdaq Capital Market System and continues to trade under the symbol "DYII".

Figure 15: Daily Stock Prices for Dynacq, January 2, 2002–May 31, 2005



Source: Nasdaq.

Securities Analysts' Recommendations

Based on historical analyst research we were able to find, one brokerage firm covered Dynacq at the time of the restatement. However, the firm did not make an investment recommendation because of too much uncertainty about the company's long-term viability. In the fall of 2004, the firm stopped covering Dynacq.

Credit Rating Agency Actions

No credit rating agency information was available.

Legal and Regulatory Actions Taken

Eight lawsuits were filed in the U.S District Court for the Southern District of Texas (Houston Division) from December 24, 2003, through January 26, 2004, alleging federal securities law causes of action against the company and various current and former officers and directors. The cases were filed as class actions brought on behalf of persons who purchased shares of company common stock in the open market, generally from January 14, 2003, through December 18, 2003. Under the procedures of the Private Securities Litigation Reform Act, certain plaintiffs have filed motions asking to consolidate these actions and be designated as lead plaintiff. The court consolidated the actions and appointed a lead plaintiff in the matter. An amended complaint was filed on June 30, 2004, asserting a class period of November 27, 2002, to December 19, 2003, and naming additional defendants, including E&Y. The amended complaint sought certification as a class action and alleged that the defendants violated Sections 10(b), 20(a), 20(A), and Rule 10b-5 under the Securities Exchange Act of 1934, by (1) publishing materially misleading financial statements that did not comply with GAAP; (2) making materially false or misleading statements or omissions regarding revenues and receivables, operations and financial results; and (3) engaging in an intentional fraudulent scheme aimed at inflating the value of Dynacq's stock. According to Dynacq, the company planned to vigorously defend the allegations and would file a motion to dismiss all or some of the claims. The company further noted it could not predict the ultimate outcome of the lawsuit, or whether the lawsuit would have a material adverse effect on the company's financial condition.

On December 18, 2003, Dynacq received a notice of an informal investigation from SEC's Fort Worth, Texas, District Office requesting its voluntary assistance in providing information regarding reporting of its financial statements, recognition of costs and revenue, accounts receivable, allowances for doubtful accounts, and its internal controls. The company said that it had been cooperating fully with the continuing informal SEC investigation. As of July 2006, no additional action has been taken by SEC against the company or any of its officials.

Federal National Mortgage Association (Fannie Mae) Case Study

Business Overview

The Federal National Mortgage Association (Fannie Mae) is a government-sponsored company that buys residential mortgage loans from lenders and packages them into securities. They retain some of those securities and sell others to investors. Its customers are primary mortgage lenders including mortgage companies, savings and loan associations, savings banks, commercial banks, credit unions, and state and local housing finance agencies. It provides liquidity in the secondary mortgage market through its Credit Guaranty business and through its Portfolio Investment business. The Portfolio Investment business has two principal components, a mortgage portfolio and liquid investments. To manage the credit risk of their mortgages, the Credit Guaranty business uses credit enhancements, active management of the mortgage credit book of business, and loan management. It also shares mortgage credit risk with third parties. Fannie Mae has not filed annual or quarterly financial statements since August 9, 2004. For the 6 months ending June 30, 2004, interest income (revenue) decreased 4 percent to $24.4 billion. Net income from continuing operations totaled $3.012 billion for the 6 months ended June 30, 2004.

Restatement Data

On October 29, 2003, Fannie Mae announced that it would file a revised Form 8-K with SEC correcting certain “computational errors” made primarily in the implementation of Financial Accounting Standard No. 149—an amendment to Financial Accounting Standard 133 on Derivative Instruments and Hedging activities. Correction of these errors had no impact on Fannie Mae’s income statement, but did result in increases to several balance sheet items, including unrealized gains on securities, accumulated other comprehensive income, and total stockholder’s equity as of September 30, 2003. The company discovered these errors during the course of a standard review in preparation of their form 10-Q for the third quarter of 2003. Fannie Mae’s regulator, the Office of Federal Housing Enterprise Oversight (OFEHO), issued a statement saying the error underscored the need for a special review that they were about to begin into the accounting policies, practices, and internal controls of the company.

On September 22, 2004, OFHEO made public a report that was highly critical of accounting methods at Fannie Mae. OFHEO charged Fannie Mae with not following generally accepted accounting practices in two critical areas: (1) amortization of discounts, premiums, and fees involved in the purchase of home mortgages, and (2) accounting for financial derivatives contracts. According to OFHEO, management intentionally developed accounting policies and selected and applied accounting methods to inappropriately reduce earnings volatility and to provide themselves with inordinate flexibility in determining the amount of income and expense recognized in any accounting period. In this regard, the amortization policies that management developed, and the methods they applied, created a "cookie jar" reserve. In 1998, management inappropriately deferred $200 million of estimated amortization expense, which allowed for Fannie Mae to pay out the maximum in bonus awards to Fannie Mae executives. According to OFHEO, these deviations from standard accounting rules—Statement of Financial Accounting Standards (SFAS) 91 "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases" and SFAS 133 "Accounting for Derivative Instruments and Hedging Activities" respectively—allowed Fannie Mae to reduce volatility in reported earnings, present investors with an artificial picture of steadily growing profits, and in one case, to meet financial performance targets that triggered the payment of bonuses to Fannie Mae's senior executives. That same day, Fannie Mae acknowledged that OFHEO's review found serious accounting problems and earnings manipulation, and disclosed the existence of a SEC investigation into the company's accounting. The following week a criminal investigation by DOJ was made public.

On October 6, 2004, Fannie Mae's CEO and chairman, and CFO, defended the company's accounting in sworn testimony at a congressional hearing, stating that allegations of accounting improprieties and management misdeeds were a matter of interpreting complex rules. A month later, on November 15, 2004, Fannie Mae missed an SEC deadline for filing its third-quarter financial results. Press sources indicated that its independent auditor, KPMG LLP (KPMG), refused to sign off on a review of the company's unaudited quarterly financial statements. The company acknowledged that some of its accounting practices did not comply with GAAP and announced it would show a net loss of $9 billion if SEC decided it had improperly accounted for derivatives.

On December 15, 2004, SEC's chief accountant announced that an agency review determined that Fannie Mae must restate earnings back to 2001 because it violated accounting rules for derivatives and certain prepaid loans. SEC became involved in Fannie Mae's financial reporting after its CEO—motivated by a report issued by the company's regulator, which highlighted irregularities in its accounting policies—requested that the Commission render an opinion about the company's historical financial statements. Shortly after SEC's December announcement, the company's

CEO and CFO resigned. Estimates suggested that earnings since 2001 will be revised downwards by as much as $12 billion, but the formal restatement of earnings is not expected before late 2006.

Almost two years after SEC's determination, Fannie Mae is in the final stages of completing its restatement—an undertaking that cost the company $800 million in 2005 alone. Fannie Mae has filed neither annual nor quarterly reports since August 9, 2004. The restated financial statements are expected to be filed with SEC in late 2006.

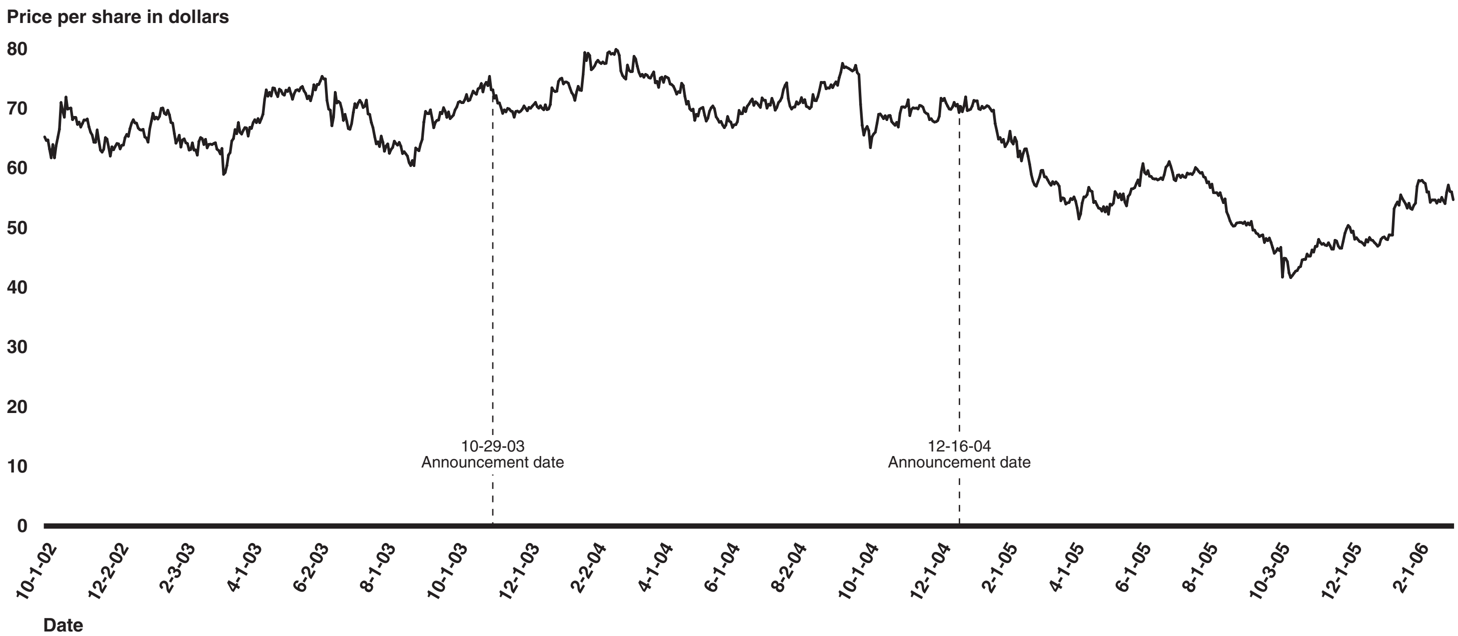
Accounting/Audit Firm

In November of 2004, Fannie Mae's independent auditor, KPMG, advised the firm that it would be unable to complete its review of Fannie Mae's interim unaudited financial statements for the quarter ended September 30, 2004. Press sources stated that the public accounting firm had refused to sign off on the statements. As a result, Fannie Mae announced that it would not be able to file its Form 10-Q for the September 30, 2004, in a timely fashion. A month later, KPMG alerted Fannie Mae that there existed strong indicators of material weakness in the company's internal control of financial reporting. Fannie Mae switched auditors and engaged Deloitte & Touche LLP on January 28, 2005, to be the company's independent auditor.

Stock Prices

Fannie Mae's stock is traded on the NYSE under the ticker symbol FNM. Fannie Mae's stock traded at $75 around the time it announced computational errors in October of 2003 and remained stable during the days before and after the company's announcement. On September 22, 2004—the day Fannie Mae announced that OFHEO's review found serious accounting problems and earnings manipulation—the company's share price dropped 7 percent, from $75.65 per share to $70.69. About a week later, on September 30, 2004—the day the press announced that an investigation into the company's accounting practice by DOJ had been confirmed—the company's share price fell again, to $63.05. By December of 2004, the company's stock rebounded. The day before Fannie Mae's restatement announcement, December 15, 2004, the share price was $70.69. On December 16, 2004, the day the company officially announced it would have to restate, the share price dropped slightly to $69.30. On June 1, 2006, the company's share price was $51.44—down 27 percent since December of 2004, when the company formally announced that it would have to restate four years of earnings (see fig. 16).

Figure 16: Daily Stock Prices for Fannie Mae, October 1, 2002–February 28, 2006



Source: Nasdaq.

Fannie Mae has not filed annual or quarterly reports since August 9, 2004, nor has it filed restated financial statements for 2001 through 2004. However, the company's stock continues to be listed and traded on the NYSE. Under its listing standards, the NYSE may initiate suspension and delisting proceedings when a company, such as Fannie Mae, fails to file its financial statements in a timely manner. In certain very limited circumstances, however, NYSE, at its sole discretion, may determine to allow a company to continue listing if it has not timely filed. At the time this report was published, Fannie Mae's stock continued to be listed and traded on the NYSE.

Security Analysts' Recommendations

In September of 2004, after OFHEO made public a report that was highly critical of accounting methods at Fannie Mae, securities analysts at four firms downgraded the company's rating. About a year later, in November of 2005, one firm upgraded Fannie Mae's rating, and in January of 2006 another firm downgraded Fannie Mae once again. Ratings for the company in 2006 have followed no particular trend, with one firm upgrading Fannie

Mae's rating in May 2006 and another firm downgrading the company's rating in June of 2006.

Credit Rating Agency Actions

Two major credit rating agencies, Standard & Poor's and Moody's rate Fannie Mae. On September 28, 2004, the same month OFEHO's review exposed Fannie Mae's accounting problems, Moody's revised the ratings outlooks for Fannie Mae's subordinated debt and preferred stock to negative, and affirmed senior debt at Aaa with a stable outlook. On December 23, 2004, approximately a week after the company announced that it would have to restate, Moody's affirmed Fannie Mae's rating with a stable outlook, placed their financial strength rating under review, and maintained a negative rating outlook for their subordinated debt and preferred stock. On August 11, 2005, Moody's affirmed Fannie Mae's senior debt and downgraded their financial strength ratings. It continued to review Fannie Mae's subordinated debt and preferred stock ratings for a possible downgrade. On December 15, 2005, Moody's confirmed Fannie Mae's subordinated debt, preferred stock, and senior debt, and affirmed their financial strength rating.

Standard & Poor's current "risk to the government" rating for Fannie Mae is AA- and on CreditWatch Negative.[1] The rating has remained on CreditWatch Negative since September 23, 2004. Moody's current "Bank Financial Strength Rating" for Fannie Mae is B+ with a stable outlook.

Legal and Regulatory Actions Taken

As a result of the findings of OFHEO's special examination report issued in September of 2004, and as part of its continuous supervisory program, OFHEO directed Fannie Mae to take a number of actions. OFHEO's primary remedial actions include increasing its capital levels, changing its corporate governance structure, and restating past financial statements.

In an agreement with Fannie Mae's Board of Directors reached in September 2004, OFHEO directed Fannie Mae to maintain an additional 30 percent of capital above the minimum capital requirement to compensate for the additional risk and challenges facing the enterprise. In addition to the capital requirements, OFHEO directed the Board of Directors of Fannie Mae to make significant changes to its corporate governance structure.

[1]A negative watch means that the credit rating may be lowered.

Those changes include, but are not limited to, separating the chairman of the board and CEO positions, creating a new independent Office of Compliance and Ethics to conduct internal investigations, and creating a Compliance Committee of the Board of Directors to monitor and coordinate compliance with the Fannie Mae's agreements with OFHEO.

To address accounting problems, OFHEO directed Fannie Mae to restate inappropriate past financial statements, to meet all applicable legal and regulatory requirements (including having the new financial statements reaudited by Fannie Mae's new external auditor), and to cease engaging inappropriate hedge accounting. OFHEO also directed Fannie Mae to implement an appropriate policy for SFAS 91 and develop and implement a plan to address the deficiencies in the accounting systems for Fannie Mae's portfolio.

On December 15, 2004, the chief accountant of SEC announced that the agency's review of Fannie Mae's historical financial statements found that the accounting policies of Fannie Mae for both FAS 91 and FAS 133 departed from GAAP in material respects, and advised Fannie Mae to restate its financial statements for the years 2001 through 2004. In a follow-up announcement that occurred on May 23, 2006, SEC and OFHEO informed the public that Fannie Mae agreed to settle charges relating to the misstatement of its financial statements from 1998 through 2004, and that Fannie Mae had entered into a consent decree with OFHEO and consented to the entry of judgment in our action, which included injunction from violations of the antifraud, books and records, internal controls provisions of the federal securities laws and a $400 million civil penalty. Fannie Mae has agreed, without admitting or denying these allegations, to a fraud injunction for violations of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5, and to an injunction for violations of Section 17(a)(2) and (3) of the Securities Act of 1933. As a result of the violations described in the Commission's complaint, Fannie Mae expects to restate its historical financial statements for the years ended December 31, 2003, and 2002; and for the quarters ended June 30, 2004, and March 31, 2004.

OFHEO's special examination of Fannie Mae's accounting policies is ongoing, and SEC and the U.S. Attorney's Office for the District of Columbia also continue to investigate matters related to the misstatement of the company's financial statements. In addition, a number of lawsuits have been filed against Fannie Mae and certain current and former officers and directors of the company relating to the company's restatement. These lawsuits are currently pending in the U.S. District Court for the District of

Columbia and fall within three primary categories: a consolidated shareholder class action and related opt-out lawsuits, a consolidated shareholder derivative lawsuit, and a class action lawsuit based on the Employee Retirement Income Security Act of 1974 (ERISA).

The consolidated shareholder class action and two related opt-out lawsuits generally allege that Fannie Mae and certain former officers and directors made false and misleading statements in violation of the federal securities laws in connection with certain accounting policies and practices. In addition, the opt-out lawsuits assert various federal and state securities law and common law claims against Fannie Mae and certain current and former officers and directors based upon the same alleged conduct, and also assert insider trading claims against certain former officers. The opt-out cases were filed by institutional investors seeking to proceed independently of the putative class of shareholders in the consolidated shareholder class action.

The consolidated shareholder derivative lawsuit asserts claims, purportedly on behalf of Fannie Mae against certain current and former officers and directors. Generally, the complaint alleges that the defendants breached their fiduciary duties to Fannie Mae and that the company was harmed as a result. The company's and the other defendant's motions to dismiss the consolidated shareholder derivative lawsuit are pending.

The ERISA-based class action lawsuit alleges that Fannie Mae, and certain current and former officers and directors, violated ERISA. The plaintiffs in the ERISA-based lawsuit purport to represent a class of participants in Fannie Mae's Employee Stock Ownership Plan. Their claims are also based on alleged breaches of fiduciary duty based on the accounting matters discussed in OFHEO's interim report. A motion to dismiss that lawsuit is pending.

Qwest Communications International, Inc. Case Study

Business Overview

Qwest Communications International, Inc. (Qwest) is a developer and operator of telecommunications networks and facilities. It provides local, long distance, wireless, and data services within its 14-state local service area. It also provides long distance services, broadband, data, voice, and video communications outside its local service area. The company has about 41,000 employees and is headquartered in Denver, Colorado. For the years ending December 31 2004, and 2005, Qwest had total revenues of $13.8 billion and $13.9 billion, respectively.

Restatement Data

On April 3, 2002, SEC issued an order of investigation of the company that made formal an informal investigation begun on March 8, 2002. The investigation included an inquiry into several specifically identified Qwest accounting practices and transactions. On July 28, 2002, Qwest announced that, based on analysis to that date, the company had determined (1) it had incorrectly applied accounting polices with respect to certain optical capacity asset sale transactions in 1999, 2000, and 2001; (2) further adjustments were required to account for certain sales of equipment in 2000 and 2001 that the company had previously determined had been recorded in error; and (3) that in a limited number of transactions, it did not properly account for certain expenses incurred for services from telecommunications providers in 2000 and 2001. The company expected to restate its financial statements for these periods after it completed its analysis of its accounting policies and practices.

In a press release on September 22, 2002, Qwest, in restating its 2000 and 2001 financial statements, announced it would reverse $950 million in revenues and related costs associated with exchanges of optical capacity assets previously recognized. On October 28, 2002, Qwest announced the $950 million in revenues being reversed would be spilt into $265 million and $685 million in 2000 and 2001, respectively. In addition, the company announced that the $531 million previously recognized on sales of optical capacity assets for cash ($200 million in 2000 and $331 million in 2001) should be deferred. Finally, the company was taking a $10.8 billion asset impairment charge, where approximately $8.1 billion was a write-down of telephone network, global fiber optic broadband network, and other related assets, and approximately $2.7 billion was a reduction in the carrying value of intangible assets related to customer lists and product technology associated with the company's inter-exchange carrier business. On February 11, 2003, Qwest announced additional results of its internal review of the 2001 and 2000 financial statements, and further announced that its board of directors expanded the review to include an assessment of internal controls, as well as accounting policies, practices, and procedures. In connection with this review, the company discovered additional restatement entries to the 2001 and 2000 financial statements involving revenue and expense recognition and cost accrual issues for 2001 and 2000, among other things. In a SEC Form 10-K filing on November 8, 2004, Qwest presented its restated financial statements for the years ending December 31, 2000, and December 31, 2001. Table 11 summarizes the revenue, net income (or loss), and total asset changes for 2000 and 2001.

Table 11: Selected Financial Data for Qwest, 2000 and 2001

(Dollars in millions; negative values in parentheses)

	Fiscal years	
Affected financial data	**2000**	**2001**
Revenue, as reported	$16,610	$19,695
Revenue, as restated	14,148	16,524
Net income (loss), as reported	(81)	(4,023)
Net income, as restated	(1,037)	(5,603)
Total assets, as reported	**$73,501**	**$73,781**
Total assets, as restated	**$72,816**	**$72,166**

Source: SEC filings.

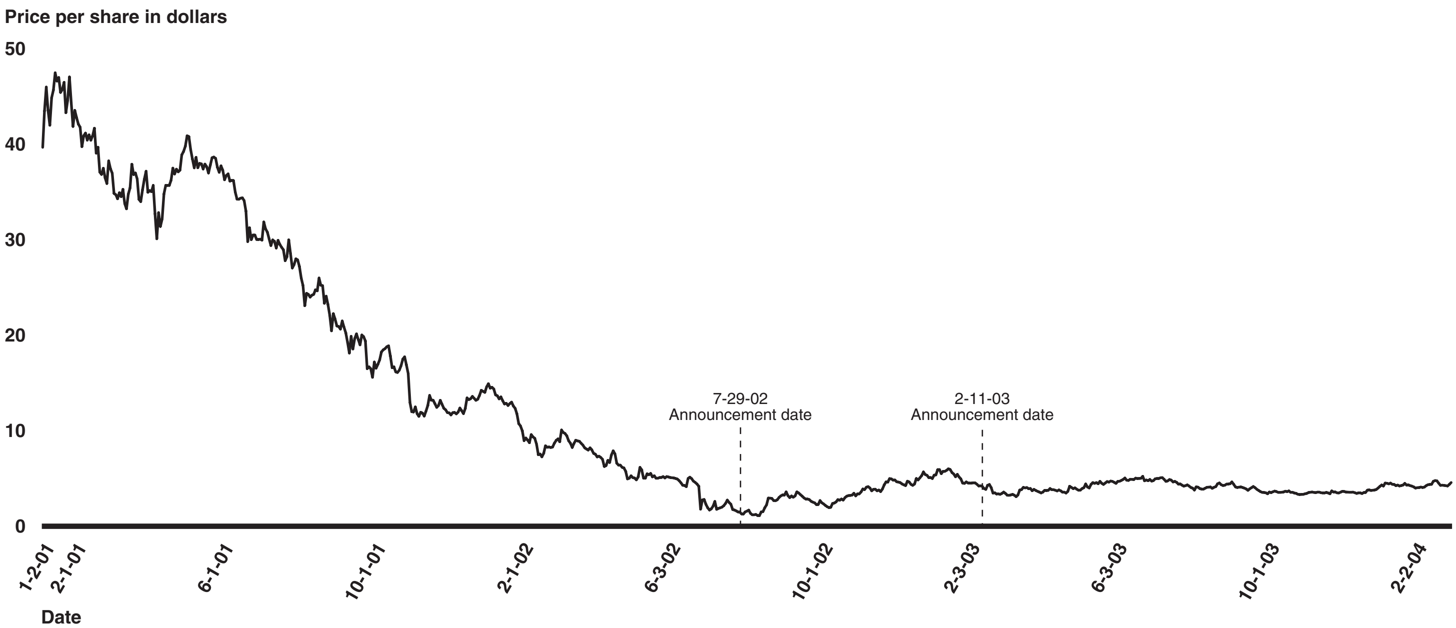
Accounting/Audit Firm

Arthur Andersen LLP (Arthur Andersen) was the company's auditor and wrote unqualified opinions for the company during the periods that were eventually restated (2000 and 2001). On May 29, 2002, Qwest's Board of Directors decided not to re-engage Arthur Andersen as Qwest's independent auditor for 2002 and instead engaged KPMG LLP. KPMG has continued to be the independent auditor through the fiscal year ending December 31, 2005. In 1999, 2000, and 2001, Arthur Andersen signed the audit reports for Qwest, with unqualified opinions.

Stock Prices

Qwest trades on the NYSE under the ticker symbol Q. Starting in the second quarter of 2001, Qwest's stock generally trended downward, from a price of roughly $35. The stock hit a low of near $11 in the middle of the fourth quarter of 2001. The stock rallied to more than $14 in January of 2002, then fell below $10, and leveled off near $7 in early April. At the time of the announcement of a formal SEC investigation into its accounting practices on April 3, 2002, the stock price fell sharply from $7.63 to hit a yearly low of $1.11 in August of 2002—a decrease of around 85 percent. From this bottom the stock price rallied until in hit a yearly high in 2003 of $6.02. From this high, the stock has varied from $2.69 to $7.09 (see fig. 17).

Figure 17: Daily Stock Prices for Qwest, January 2, 2001February 28, 2004



Source: Nasdaq.

Securities Analysts' Recommendations

Based on historical securities analysts' recommendations that we were able to identify around the time SEC began it formal investigation, we found information on five firms that researched the company. In April 2002, when SEC began its formal investigation into Qwest's accounting practices, five securities firms had initial ratings on Qwest. Two of the five were buy ratings—one was a strong buy, one was a long-term buy, and the fifth was market outperform. On April 19, 2002, all five lowered their ratings. Two went from buy to hold, one went from strong buy to buy, one went from long-term buy to long term neutral, and the fifth went from market outperform to market perform. After July 28, 2002, when Qwest announced that it would it would restate its earnings for 2000 and 2001, three firms lowered their ratings between July 29 and August 8, 2002.

Credit Rating Agency Actions

Moody's Investors Service, Inc. (Moody's), Standard and Poor's (S&P), and Fitch Ratings (Fitch) rated Qwest's long-term debt. During 2002 when the SEC investigation began, the three agencies lowered Qwest's credit ratings on multiple occasions. For instance, from December 2001 to December 2002, Moody's downgraded Qwest's rating from A2 to Ba, S&P downgraded from BBB+ to B-, and Fitch lowered its ratings from A to B. Moody's Ba rating indicates a security has speculative elements. Similarly, for S&P, any rating below BBB indicates that the security is speculative in nature. According to S&P, a B- rating indicates that the issuer currently has the capacity to meet financial commitments on the obligation but adverse business, financial, or economic conditions likely would impair its capacity or willingness to meet financial commitments on the obligations. Finally, any Fitch rating below BBB is considered speculative in nature, and a B rating is highly speculative, meaning that significant credit risk is present.

Legal and Regulatory Actions Taken

On October 21, 2004, Qwest entered a settlement with SEC, concluding a formal investigation concerning Qwest's accounting and disclosures, among other subjects, that began in April 2002. In connection with this settlement, SEC filed a complaint against Qwest in federal district court in Denver, Colorado. The complaint alleged that between 1999 and 2002 Qwest fraudulently recognized more than $3.8 billion in revenue and excluded $231 million in expenses as part of a multifaceted fraudulent scheme to meet optimistic and unsupportable earnings projections. Without admitting or denying the allegations in the complaint, Qwest consented to the entry of a judgment by the court.[1]

The final judgment, which was entered on November 4, 2004, enjoins Qwest from future violations of certain provisions of the securities laws and requires Qwest to pay a civil penalty of $250 million and a $1 disgorgement. This penalty amount is to be distributed to defrauded investors pursuant to the Fair Funds provision of the Sarbanes Oxley Act of 2002, which allows SEC to place civil penalties and disgorgements levied

[1]This summary does not include other pending actions, including actions filed by the retirement plans in states such as California, Illinois, and Louisiana.

on a company that commits fraud into a fund on behalf of harmed shareholders. In addition, Qwest is required to maintain a Chief Compliance Officer, who is to report to a committee of outside directors and who is responsible for ensuring that the company conducts its business in compliance with federal securities laws.

On July 9, 2002, the U.S. Attorney's Office for the District of Colorado informed Qwest of a criminal investigation thought to relate to various matters that SEC was investigating.

Twelve putative actions filed since July 2001 on behalf of purchasers of Qwest's publicly traded securities between May 24, 1999, and February 14, 2002, were consolidated into a consolidated securities action pending in federal district court in Colorado. Named in this action were Qwest, its former chairman and CEO, former CFOs, other former officers and current directors, and Arthur Andersen. The consolidated action alleged from May 24, 1999, to February 14, 2002, the putative class period, that

- Qwest and certain of the individual defendants made materially false statements regarding the results of the firm's operations in violation of Section 10(b) of the Exchange Act,
- certain of the individual defendants were liable as control persons under Section 20(a) of the Exchange Act, and during the earlier stated period, and
- certain individual defendants sold some of their shares of common stock in violation of section 20A of the Exchange Act.

The suit also alleges that the financial results during the putative class period and statements regarding those results were false and misleading due to the alleged (1) overstatement of revenue, (2) understatement of costs, (3) manipulation of employee benefits to increase profitability, and (4) misstatement of certain assets and liabilities. In addition, the suit alleges that Qwest and certain individual defendants violated Section 11 of the Securities Act and that certain individual defendants were liable as control persons under Section 15 of the Securities Act by preparing and disseminating false registration statements. The plaintiffs are seeking unspecified compensatory damages and other relief. According to the plaintiffs' lead counsel, the plaintiffs are seeking damages worth billions of dollars.

On October 22, 2001, a purported derivative lawsuit was filed in the U. S. District Court for the District of Colorado. The complaint, as amended, named as defendants certain of Qwest's present and former directors and certain former officers and named Qwest as a nominal defendant. This derivative lawsuit, referred to by Qwest as the Federal Derivative Litigation, was based on the allegations made in the consolidated securities action. The suit alleges that board members intentionally or negligently breached their fiduciary duties to the firm by causing or permitting the firm to commit alleged securities violations, thus causing the firm to be sued for such violations, subjecting the firm to adverse publicity, and increasing the cost of raising capital and impairing earnings. This derivative complaint further alleges that certain directors sold shares between April 26, 2001, and May 15, 2001, using nonpublic information about the firm. In connection with the settlement of the Colorado Derivative Litigation (defined below), the Federal Derivative Litigation was dismissed with prejudice by agreement.

On March 6, 2002, and November 22, 2002, a purported derivative lawsuit was filed in the Colorado District Court for the City and County of Denver, naming as defendants certain of Qwest’s current and former officers and directors and Anschutz Company and naming Qwest a nominal defendant (referred to as the Colorado Derivative Litigation). This complaint was based on the allegations made in the consolidated securities action and alleged that various individual defendants breached their legal duties to Qwest by engaging in self-dealing, failing to oversee compliance with laws that prohibit insider trading and self-dealing, and causing or permitting Qwest to commit alleged securities laws violations—causing Qwest to be sued for such violations and subjecting Qwest to adverse publicity and thereby increasing its cost of raising capital and impairing earnings. The two purported derivative actions were consolidated on February 17, 2004.

On October 30, 2002, two purported derivative lawsuits, which initially were filed in the Court of Chancery of the State of Delaware in August 2002, naming certain of Qwest’s current and former officers and directors and naming Qwest as a nominal defendant, were consolidated (referred to as the Delaware Derivative Litigation). The plaintiffs alleged that the individual defendants (1) breached their fiduciary duties by allegedly engaging in illegal insider trading in Qwest’s stock; (2) failed to ensure compliance with federal and state disclosure, anti-fraud and insider trading laws within Qwest; (3) appropriated corporate opportunities, wasted corporate assets and self-dealt in connection with investments in initial public offering securities through Qwest’s investment bankers; and (4) improperly awarded severance payments to Qwest's former Chief Executive Officer, Joseph P. Nacchio, and Qwest's former Chief Financial Officer, Robert S. Woodruff. The plaintiffs sought recovery of incentive compensation allegedly wrongfully paid to certain defendants, all severance payments made to Nacchio and Woodruff, disgorgement, contribution and indemnification, repayment of compensation, injunctive relief, and all costs including legal and accounting fees.

The Denver District Court entered an Order and Final Judgment effective June 15, 2004, approving the proposed settlement among the parties to the Colorado Derivative Litigation and the Delaware Derivative Litigation. The settlement provided that upon dismissal with prejudice of the Delaware Derivative Litigation and the Federal Derivative Litigation, $25 million of the $200 million fund from the insurance settlement with certain Qwest insurance carriers would be designated for the exclusive use of Qwest to pay losses and Qwest would implement a number of corporate governance changes. The settlement also provided that the Denver District Court could enter awards of attorneys' fees and costs (in amounts not to exceed $7.625 million in the aggregate) to derivative plaintiffs' counsel from the $25 million. Pursuant to the settlement, by agreement the Delaware Derivative Litigation and the Federal Derivative Litigation have been dismissed with prejudice.

On March 15, 2005, in three separate but related civil actions, SEC charged Joseph P. Nacchio, former Co-Chairman and CEO of Qwest, and eight other former Qwest officers and employees, with fraud and other violations of federal securities laws. The defendants included former CFOs Robert S. Woodruff and Robin R. Szeliga, former Chief Operating Officer, Afshin Mohebbi, and former officers George M. Casey, and William L. Eleveth. The complaints sought injunctions, disgorgement of ill-gotten gains (plus prejudgment interest), and civil penalties against all of the defendants and officer/director bars against Nacchio, Woodruff, Mohebbi, Casey, Eleveth, and Szeliga. Two of the nine defendants consented to the entry of judgments against them without admitting or denying the allegations against them. The complaints allege that the defendants violated Section 17(a) of the Securities Act, and Sections 10(b) and 13(b)(5) of the Exchange Act, and Exchange Act Rules 10-b5 and 13b2-1; complaints also allege that the defendants aided and abetted Qwest’s violations of Sections 13(a) and 13(b)(2) of the Exchange Act and Exchange Act Rules 12-b-20, 13a-1, 13a-11, 13a-13. SEC complaints allege that Nacchio, Woodruff, Mohebbi, Casey, and Szeliga violated Exchange Act Rule 13b2-2, and that Mohebbi and Casey aided and abetted Qwest’s violations of Section 10(b) of the Exchange Act and Exchange Act Rule 10b-5. SEC has instituted numerous other civil and administrative actions against former officers and employees of Qwest and it subsidiaries, which are not summarized here.

Pursuant to an administrative order dated March 29, 2005, SEC instituted administrative proceedings against Mark Iwan, a Global Managing Partner for Arthur Anderson for Qwest. SEC found that he engaged in improper professional conduct within the meaning of Rule 102(e)(1)(ii) of SEC's Rules of Practice by engaging in repeated instances of unreasonable conduct, each resulting in a violation of applicable professional standards, which indicate a lack of competence to practice before SEC. In anticipation of the institution of these proceeding, Iwan submitted an offer of settlement that SEC accepted. SEC also denied him the privilege of appearing or practicing before SEC as an accountant, but stated that under certain conditions he might be reinstated to appear or practice before SEC.

Starbucks Corporation Case Study

Business Overview

Starbucks Corporation (Starbucks) sells coffee and tea beverages and products, along with a variety of complementary food items including a line of premium ice cream, coffee-related accessories and equipment, and a line of compact discs. The corporation sells these products primarily through approximately 6,000 company-operated retail stores, which accounted for 85 percent of total revenues in fiscal year 2005. Starbucks also sells coffee and tea products and licenses its trademark through other channels, such as grocery stores. The company's retail sales mix, by product type, during fiscal year 2005, was 77 percent beverages, 15 percent food, 4 percent whole bean coffees, and 4 percent coffee-making equipment and other merchandise. Based in Washington State, Starbucks has expanded internationally in recent years—primarily in Canada, the United Kingdom, Australia, and China—and has approximately 115,000 employees worldwide. For fiscal year 2005, the Company reported total net revenues of $6.4 billion and net earnings of almost $500 million.

The Company's business is subject to seasonal fluctuations. Significant portions of the corporation's net revenues and profits are realized during the first quarter of the fiscal year, which includes the December holiday season. The timing of the opening of new stores and the supply and price of coffee beans also has significant impact on the company's revenues and profits.

Restatement Data

In a February 7, 2005, letter to the American Institute of Certified Public Accountants, the chief accountant of SEC clarified SEC staff's interpretation of certain operating lease-related accounting issues and their application under GAAP. As a result of this clarification, Starbucks' management and audit committee agreed to evaluate the company's accounting practices for operating leases. On February 11, 2005, the due date for filing Form 10-Q, Starbucks filed for a 5-day extension. On February 16, 2005, Starbucks' management, audit committee, and external auditor announced that the company's then-current method of accounting for tenant improvement allowances and rent holidays was not in accordance with GAAP. Lease terms may allow for a period of free or reduced rents—typically known as rent holidays. On February 18, 2005, Starbucks filed a Form 10-K/A for fiscal year 2004, in which the company restated its consolidated financial statements for fiscal years 2002, 2003, and 2004. Starbucks also announced that the restatements would not affect its previously reported first quarter (per share) earnings for fiscal year 2005.

Starbucks does not franchise its product. The corporation operates the majority of its retail stores, typically in rented commercial space that has been renovated to reflect the personalities of the communities in which they are located. Starbucks had historically recognized rent holiday periods on a straight-line basis over the lease term commencing with the initial occupancy date, or the opening date for company-operated retail stores, rather than commencing with the date the company takes possession of the leased space for construction purposes. Starbucks also reviewed the FASB's Technical Bulletin No. 85-3, "Accounting for Operating Leases with Scheduled Rent Increases," for additional guidance. According to the company's Form 10-K/A, because Starbucks generally takes possession of a leased space 2 months prior to a store opening date in order to transform it into the Starbucks style, the company should have been recording additional deferred rent in "accrued occupancy costs" and "other long-term liabilities" and adjusted "retained earnings" on the consolidated statements of earnings for fiscal years 2002, 2003, and 2004. According to the company's Form 10-K/A, these accounting changes resulted in a reduction to retained earnings of $8.6 million as of the beginning of fiscal year 2002, and decreases to retained earnings of $1.3 million, $1.5 million, and $1.2 million for fiscal years 2002, 2003, and 2004, respectively. See table 12.

Table 12: Selected Reported Financial Data for Starbucks, 2002–2004

(Dollars in thousands)

	Fiscal years		
Affected financial data	**Ending Sept. 29, 2002**	**Ending Sept. 28, 2003**	**Ending Oct. 3, 2004**
Cost of sales including occupancy costs, as reported	$1,350,011	$1,685,928	$2,198,654
Cost of sales including occupancy costs, as restated	1,346,972	1,681,434	2,191,440
Depreciation and amortization expenses, as reported	205,557	237,807	280,024
Depreciation and amortization expenses, as restated	210,702	244,671	289,182
Net earnings, as reported	212,686	268,346	391,775
Net earnings, as restated	211,391	266,848	390,559

Source: SEC filing.

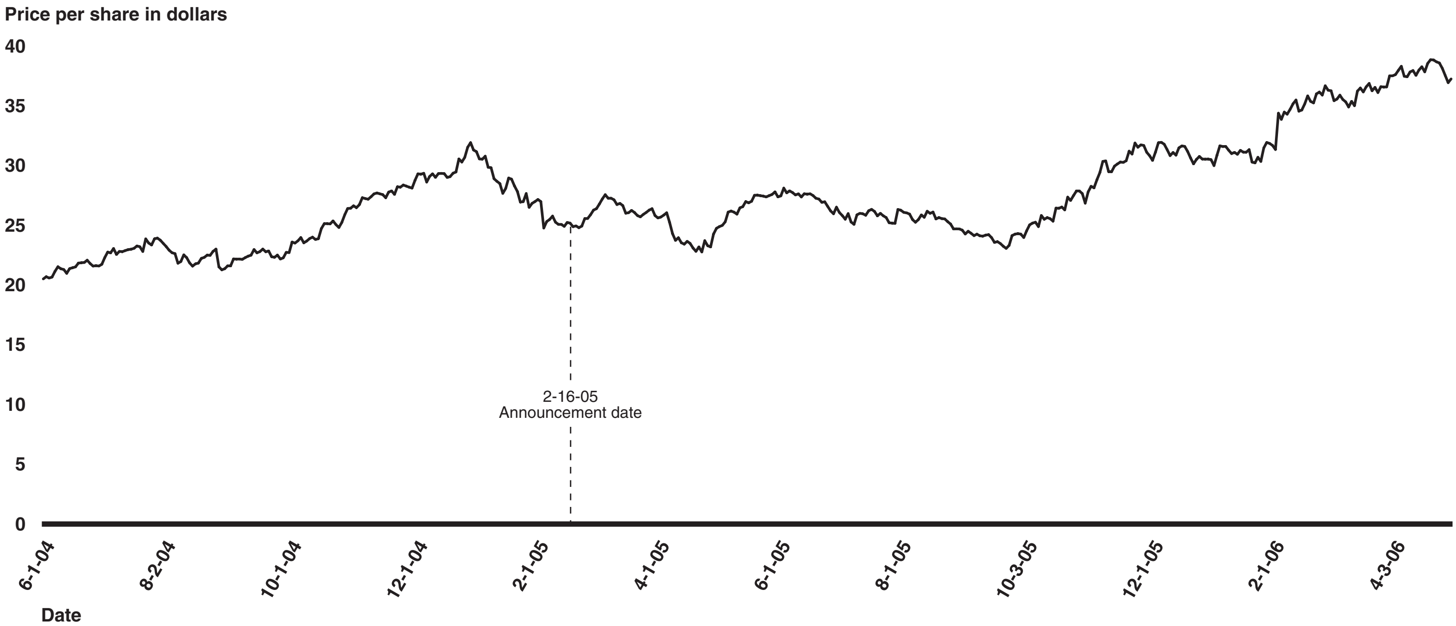
Accounting/Audit Firm

Deloitte and Touche LLP was the independent auditor for Starbucks during the relevant period.

Stock Prices

Starbucks is traded on the Nasdaq Stock Market under the symbol SBUX. Since going public in 1992, Starbuck's stock value has climbed steadily as the corporation expanded nationally and internationally. By 2002, Starbucks had split its stock four times. On December 29, 2004, the stock reached a high of $63.87, reflecting a profitable December holiday season. Starbucks' February 2005 announcement of its intention to restate its financial statement for fiscal years 2002–2004 did not adversely affect its stock value. On February 7, 2005, when SEC released its letter, Starbucks' stock traded at $51.07. On February 11, 2005, when Starbucks requested a filing extension with SEC, its stock value decreased to $49.68. With some fluctuations, the stock traded at $49.90 on February 18, 2005, when the company filed an amended Form 10-K that contained the restated consolidated balance sheets for 2003 and 2004, as well as its consolidated statements of earnings and cash flows for fiscal years 2002, 2003, and 2004. The Company's stock value remained briefly around $49 until February 25, 2005, when it increased to $51.24, and remained slightly above that level for the next month. On September 21, 2005, the company announced a two-for-one stock split (see fig. 18).

Figure 18: Daily Stock Prices for Starbucks, June 1, 2004–April 28, 2006



Source: Nasdaq.

Securities Analysts' Recommendations

Based on historical securities analysts' recommendations that we were able to identify, at least 10 research firms covered Starbucks during the relevant period. All maintained recommendations ranging from hold to buy. Analysts generally have rated Starbucks favorably. Data from 1998 show analysts generally recommending buying Starbuck's stock or holding it. On February 11, 2005, a few days before Starbuck's restatement announcement, one analyst recommended holding the stock. On February 18, 2005, when Starbucks filed its Form 10-K/A with the restated financial statements, another analyst noted that the stock was "in-line," which means the earnings adhered to the analyst's expectations. Over the next few months, several analysts upgraded their actions to outperform or buy.

Credit Rating Agency Actions

At the time of the relevant period, Starbucks was not rated by any credit rating agencies. According to one credit rating agency analyst, Starbucks was not rated because it did not have any public debt.

Legal and Regulatory Actions Taken

As of July 2006, there has been no civil or regulatory action taken with regard to Starbucks' restatement announcement.

Sterling Bancshares, Inc. Case Study

Business Overview

Sterling Bancshares, Inc. (Sterling Bancshares) provides financial services for small- to mid-sized businesses and consumers through 40 banking offices in the greater metropolitan areas of Houston, San Antonio, and Dallas, Texas.[1] It provides a wide range of commercial and consumer banking services, including demand, savings and time deposits; commercial, real estate, and consumer loans; merchant credit card services; letters of credit; and cash and asset management services. In addition, it facilitates sales of brokerage, mutual fund, alternative financing, and insurance products through third-party vendors. As of December 31, 2005, the company had total assets of $3.7 billion with a net income for the year of $36.2 million and just over 1,000 employees.

Restatement Data

Sterling Bancshares made one restatement announcement on October 21, 2003, in its announcement of quarterly results for the quarter ended September 30, 2003. Sterling Bancshares announced that upon the sale of its banking offices in Eagle Pass, Carrizo Springs, Crystal City, and Pearsall (South Texas offices) on July 15, 2002, and November 5, 2002, it initially determined that the sale of the offices met the accounting requirements for presentation as discontinued operations. However, after further consideration, the company determined that the sale of the South Texas offices did not meet the requirements for such presentation. The company's total net income, basic and diluted earnings per share and shareholders equity for this period was not affected by the restatement.

The company determined that it was necessary to amend its Form 10-Qs for the quarters ended March 31, 2003, and June 30, 2003, as well as its 2002 Form 10-K, so that the financial results and condition pertaining to these offices were not separately presented as discontinued operations. The company's October 2003 earning's release contained the restated financial information with respect to these prior periods in order to present the South Texas offices in continuing operations. The amendments to the March 31 and June 30 Forms 10-Q, and the Form 10-K for fiscal year 2002, were ultimately filed on November 14, 2003—the same date the quarterly report Form 10-Q for the period ended September 30, 2003, was filed.

[1]Sterling Bancshares was incorporated under the laws of the State of Texas in 1980 and became the parent bank holding company of Sterling Bank in 1981.

The company's consolidated income statement filed with the original Form 10-Q for the quarter ended March 31, 2003, included $9.2 million as income from continuing operations and $2.0 million as income from discontinued operations. As a result of including the South Texas offices in continued operations, the line item for income from discontinued operations was deleted from the restated income statement, and the amount presented as income from continuing operations increased by the $2.0 million that had initially been presented as income from discontinued operations. Additionally, the $16.2 million and $43.4 million included on the consolidated balance sheet filed with the original Form 10-Q as assets and liabilities of discontinued operations, respectively, were deleted, and such amounts were redistributed to the appropriate line items on the restated balance sheet.

Sterling Bancshares' consolidated income statement original Form 10-Q for the quarter ended June 30, 2003, included $6.2 million as income from continuing operations and $1.585 million as a loss from discontinued operations. Additionally, it included $98.8 million as assets related to discontinued operations and $172.7 million as liabilities related to discontinued operations. On the restated income statement, income from continuing operations decreased $35 thousand to $6.19 million while the loss from discontinued operations decreased $35 thousand to $1.550 million. Additionally, the restated assets related to discontinued operations decreased 43 percent, or $43 million, to $56.1 million. Liabilities related to discontinued operations decreased 81 percent, or $140 million, to $32 million.

The company's consolidated income statement filed with the original Form 10-K for the year ended December 31, 2002, included $36.7 million as income from continuing operations and a loss of $122 thousand from discontinued operations. Additionally, it included $42.8 million as assets related to discontinued operations and $140.3 million as liabilities related to discontinued operations. On the restated income statement, income from continuing operations decreased $122 thousand, to $36.5 million, while the restated income from discontinued operations increased $122 thousand. Additionally, the restated assets related to discontinued operations and liabilities related were eliminated. Table 13 summarizes the related financials.

Table 13: Selected Financial Data for Sterling Bancshares (Fiscal Year 2002, the First Two Quarters of Fiscal Year 2003)

(Dollars in thousands; negative values in parentheses)

Affected financial data	Fiscal year 2002	First quarter 2003	Second quarter 2003
Income for continuing operations, as reported	$36,673	$9,210	$6,226
Income for continuing operations, as restated	36,551	11,237	6,191
Income (loss) for discontinued operations, as reported	(122)	2,027	(1,585)
Income (loss) for discontinued operations, as restated	0	0	(1,550)
Asset related to discontinued operations, as reported	42,772	16,223	98,831
Asset related to discontinued operations, as restated	0	0	56,059
Liabilities related to discontinued operations, as reported	140,340	43,402	172,746
Liabilities related to discontinued operations, as restated	0	0	32,406

Source: SEC filings.

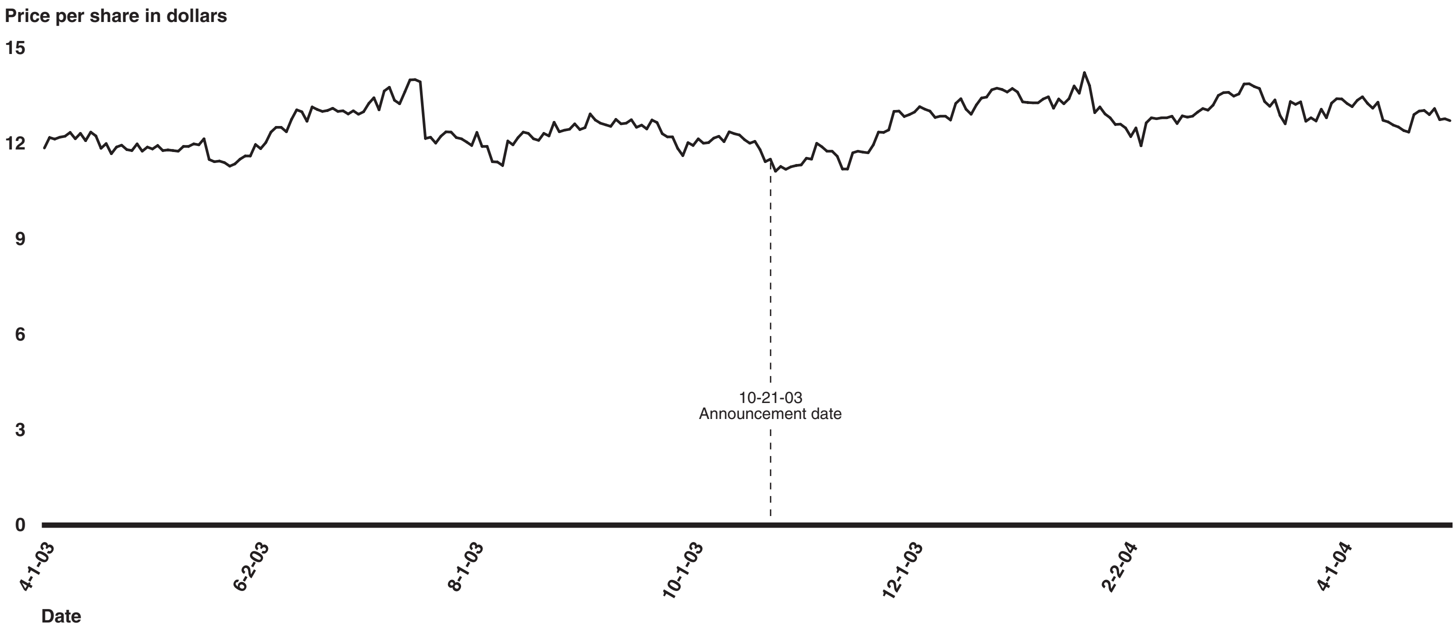
Independent Auditor

Deloitte & Touche LLP was the company's independent auditor during the restatement period.

Stock Prices

Sterling Bancshares stock is traded on the Nasdaq under the ticket symbol SBIB. On October 20, 2003, the date before the restatement announcement, the stock price closed at $11.42. On the day of the restatement, the stock price closed at $11.50. The following day, the stock price closed at $11.12. However, the stock had been decreasing since October 9, when its price was $12.36. The announcement of the restatement appeared to have little longer-term impact on the stock price, as it continued to trend upward over the next 3 months. The trends in Sterling Bancshares' stock price are shown in figure 19.

Figure 19: Daily Stock Prices for Sterling Bancshares, April 1, 2003–April 30, 2004



Source: Nasdaq.

Securities Analysts' Recommendations

Based on historical securities analyst rating information we identified, one analyst downgraded Sterling Bancshares stock from a buy to hold on October 22, 2003—the day after Sterling Bancshares' restatement.

Credit Rating Agency Actions

No credit rating agency information was available.

Legal and Regulatory Actions Taken

As of July 2006, there has been no legal or regulatory action taken with regard to Sterling Bancshares' restatement.

GAO Contact and Staff Acknowledgments

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In addition to the individuals named above, Daniel Blair and John Reilly, Jr. (Assistant Directors); Allison Abrams, Marianne Anderson, Heather Atkins, Angela Barnett, Martha Chow, M'Baye Diagne, Lawrance Evans, Jr.; Sonya Hockaday, Tiffani Humble, Joe Hunter, Debra Johnson, May Lee, Kimberly McGatlin, Andrew J. McIntosh, Marc Molino, Andrew Nelson, Charles Perdue, Robert Pollard, Omyra Ramsingh, Barbara Roesmann, John Saylor, Christopher Schmitt, Gloria Sutton, Kaya Leigh Taylor, Dave Tarosky, Richard Vagnoni, and Nicolas Zitelli made key contributions to this report.

Glossary

Asset write-down/write off	To charge an asset amount to an expense or loss in order to reduce the value of the asset and, therefore, earnings. Occurs when an asset was initially overvalued or loses value.
Derivative	A security whose value depends on the performance of underlying, previously issued securities. Used properly, these instruments can be useful in reducing financial risk. Examples include options, swaps, and warrants.
Goodwill	The excess of the purchase price over the fair market value of an asset. Goodwill arises when the price paid for a company exceeds that suggested by the value of its assets and liabilities.
Impairment	Generally refers to a reduction in a company's stated capital, however, impairment can be used in any context, e.g., "asset impairment" or "goodwill impairment." Impairment is usually the result of poorly estimated gains or losses.
Option	Contracts that give the holder the option, or right, to buy or sell the underlying financial security at a specified price—called the "strike" or "exercise" price—during a certain period of time or on a specific date. Options on individual stocks are called "stock options."
Round-trip transactions	A method used to inflate transaction volumes or revenue through the simultaneous purchase and sale of products between colluding companies.
Warrant	A security that gives the holder certain rights under certain conditions, both determined by the issuer of the warrant. For example, an exchange pprivilege may allow the holders to exchange one warrant plus $5 in cash for 100 shares of common stock in a corporation any time after some fixed date, and before some other designated date.

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