BUSINESS WIRE

Companies with the lowest earnings quality and poor corporate governance underperformed S&P 500 index by 11% in 2005, RateFinancials finds

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New York – Companies with the poorest earnings quality and corporate governance underperformed the S&P 500 Index by 11% in 2005, according to a study by RateFinancials Inc., a New York-based independent risk research firm that evaluates the financial reporting of publicly held companies.

Using the firm's propriety methodology, RateFinancials has identified more than 50 companies whose financial statements should give investors pause for concern. The companies range in size from automakers General Motors and Ford to Jupiter Media and Helen of Troy. The firm's ratings are heavily based on quality and transparency of earnings disclosures and corporate governance.

"We continue to establish a strong correlation between poor stock performance and companies with questionable earnings quality," said Victor Germack, founder and president of RateFinancials. "Investors who choose to ignore these warning signs have a high probability of sustaining losses."

Mr. Germack noted that an estimated 1,200 companies restated their earnings last year, nearly double the level of 2004. "Investors must be very careful in reviewing the reported financial information and question the results. Restatements usually lead to lower stock prices," he said.

Among the companies that RateFinancials previously issued warnings include Winn-Dixie Stores and Delta Air Lines, both of which filed for bankruptcy in 2005 and lost 92% and 89% of their market value, respectively. Calpine, another company RateFinancials flagged last year, also filed for bankruptcy and saw the value of its stock erode by 94%.

Mr. Germack noted that after RateFinancials made public its warnings about Calpine in 2004, the company issued a news release accusing his firm of "bias" and disseminating "significantly misleading information."

"There appears to be some anecdotal evidence that there might be an inverse relationship between companies that are most aggressive about attacking analysts who question their accounting practices and the actual quality of their earnings," Mr. Germack said. "Enron executives also were vociferous in their attacks of people who questioned that company's accounting."

Additional companies on RateFinancials' list that sustained significant stock value declines include: TRM Corp. (68%), Antigenics (53%), Helen of Troy (52%), General Motors (48%), Ford Motor Company (45%), Jupiter Media (38%), Avaya (38%), Identics (32%), Endwave (32%), and W.R. Grace (31%).

Companies with the poorest earnings quality on RateFinancials' watch list lost 8% of their market value in 2005, while the S&P 500 Index gained 3%. A previous RateFinancials study also found that companies with poor earnings quality, aggressive accounting and poor governance standards have lower equity returns and more volatility than companies with stronger practices in these two key areas.