STARKMAN & ASSOCIATES

P R E S S   R E L E A S E

Contact: Starkman & Associates
Kevin Foster
212/252-8545, ext. 18
kfoster@starkmanassociates.com
Paul Cordasco
212/252-8545, ext. 19
pcordasco@starkmanassociates.com

ONE-THIRD OF PUBLICLY-TRADED COMPANIES DO NOT ACCURATELY PORTRAY THEIR TRUE FINANCIAL CONDITION, STUDY FINDS

Pervasive Practices to Obfuscate Statements Include Off-Balance Sheet Financing, Unrealistic Pension Assumptions and Aggressive Revenue Recognition

NEW YORK, June 18, 2004 – An estimated one-third of the leading publicly-traded companies file financial statements that do not accurately represent their true financial condition, according to a study conducted by RateFinancials Inc., an independent research firm specializing in rating financial reporting.

A detailed analysis of financial filings of more than 120 companies in the S&P 500, representing close to 40 percent of the Index's market capitalization, revealed that obfuscating financial reporting remains a pervasive practice in corporate America. Indeed, RateFinancials deemed 32 percent of the companies it examined as having a "below average" or "poor" rating in the critical subcategory of "Areas of Financial Concern & Quality of Earnings," signaling an inordinately high risk of existing or future financial problems and low overall quality of reported earnings. Only 4 percent of the companies were rated "outstanding."

"Despite the provisions of Sarbanes-Oxley, investors cannot accurately evaluate the securities of a significant portion of companies in the S&P, based on their reported financial statements," said Victor Germack, founder and president of RateFinancials. "It's abundantly clear that companies continue to concoct creative – and not so creative – measures to make it difficult, if not impossible, to get a clear sense of their financial condition. We can predict with a high degree of certainty that the ominous trend of earnings surprises and restatements will continue for the foreseeable future and that investors should be wary when purchasing securities."

Among the more alarming trends uncovered by RateFinancials were:

- **Off-balance sheet financing:** 75 percent of companies used complex financing devices to shift long-term financial obligations off their balance sheet. When these obligations are added to balance sheet debt it substantially increases leverage and leads to dramatic swings in a firm's debt-to-equity ratio.

- **Unrealistic pension assumptions:** 64 percent made unreasonable assumptions and forecasts when calculating future pension liabilities. Although many companies run large long-term funding deficits within their pension plans, GAAP accounting allows companies to post net positive pension assets. This happens despite the obvious economic liabilities reflected by the plans' underfunded status.

- **Aggressive revenue recognition:** 28 percent used aggressive revenue recognition techniques. These methods often allow companies to post revenue from transactions well before goods and services have been provided or cash payment is expected.

In evaluating companies' financial reporting, RateFinancials uniformly examines a variety of critical measures including: quality of earnings, overall accounting polices, corporate governance, clarity and completeness of both footnotes and the management's discussion and analysis.

RateFinancials ranked only 47 percent of the financial statements it reviewed as being average or "acceptable," while 14 percent were rated "below average" and 1 percent were rated "poor." The firm rated only 35 percent as "superior" and 3 percent as "outstanding" for their financial statements.

Among the largest market capitalization companies whose filings were rated overall "below average" were: Archer Daniels Midland, Halliburton, Best Buy, Bristol Myers Squibb, Corning, Eastman Kodak, EDS, Gap, Janus Capital, Motorola, and the Walt Disney Company.

Companies rated "average or acceptable" included: Lowe's Companies, Boeing, Polo Ralph Lauren, Du Pont, Intel, EMC, Medtronic, Merrill Lynch and Alcoa.

Major companies whose financial statements were rated "outstanding" included: BMC Software, Family Dollar Stores and Microsoft.

The complete results from RateFinancials' latest research are available to the media upon request.

About RateFinancials

RateFinancials Inc. is a New-York based, independent research firm that rates and ranks the financial reporting of the largest U.S. public companies based on their SEC filings, such as 10-Ks, 10-Qs, 8-Ks and other filings. The firm's ratings focus on financial reporting, quality of earnings and corporate governance. RateFinancials does not usually speak with company management, as the firm believes the financial reports must speak for themselves. RateFinancials does not make earnings estimates or provide any investment recommendations. The firm was founded in 2002 by experienced investment bankers and equity research analysts, many of whom are Chartered Financial Analysts. For more information visit: www.ratefinancials.com.

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