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Shares of Companies with Poor Earnings Lag S&P 500

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New York – The stocks of companies with the poorest earnings quality and corporate governance underperformed the Standard & Poor’s 500 Index by 11 percent in 2005, an independent study showed.

An estimated 1,200 companies restated their earnings in 2005, nearly double the level of 2004, according to RateFinancials Inc., a New York-based risk research firm.

“Companies with the poorest earnings quality on RateFinancials’ watch list lost 8 percent of their market value in 2005, while the S&P 500 Index gained 3 percent,” RateFinancials said on Friday, in a statement summarizing the study’s findings.

The company has identified more than 50 companies whose financial statements should give investors “pause for concern.” The companies range in size from the two biggest U.S. auto makers General Motors Corp. and Ford Motor Co. to Helen of Troy Ltd., whose products include hair dryers, curling irons and foot baths.

“We continue to establish a strong correlation between poor stock performance and companies with questionable earnings quality,” Victor Germack, founder and president of RateFinancials, said in the statement. “Investors must be very careful in reviewing the reported financial information and question the results. Restatements usually lead to lower stock prices.”

Among the companies that RateFinancials issued warnings about in 2005 were Winn-Dixie Stores Inc. and Delta Air Lines. Both filed for bankruptcy last year, with Winn-Dixie Stores losing 92 percent of its market value, while Delta Air Lines shed 89 percent of its market value, RateFinancials noted.

“Calpine Corp., another company RateFinancials flagged last year, also filed for bankruptcy and saw the value of its stock erode by 94 percent,” RateFinancials said in its statement.