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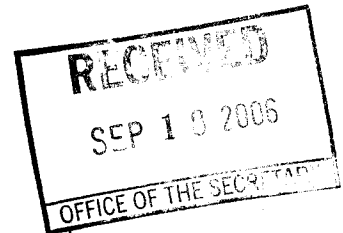
Moody's Investors Service

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September 14, 2006

Nancy M. Morris,
Secretary,
Securities and Exchange Commission,
100 F Street, NE,
Washington, DC 20549-1090.



RE: File Number S7-11-06 – Management's reports on internal control over financial reporting

Dear Ms Morris:

We appreciate this opportunity to comment on the Commission's Concept Release on management's reports on internal control over financial reporting.

We are writing from our perspective as a user of financial statements and internal control reports. Reporting on internal control has helped restore confidence in U.S. financial reporting. Further, Moody's has benefited from new information about control problems which has helped us assess the risk of misleading financial reporting. Our response to control problems has been measured, as we have tried to distinguish between situations that merited negative rating actions and those that did not. In the first year of internal control reports, we took negative rating action related to roughly 20 percent of the companies that reported control problems.

Our comments pertain to one question in the Concept Release, relating to the adequacy of guidance on the definition of "material weakness" (part of Question 25). For the reasons we discuss below we believe it is essential that the SEC and PCAOB clarify the definition.

Moody's has conducted an extensive study of material weaknesses reported by the companies we rate (please see the attachment). The research notes that, of the companies Moody's rates, 74 companies reported material weaknesses in internal control reports in the current year, but only 4 did not experience prior reporting errors (restatement, material audit adjustment, or fraud). Further, only 4 companies referred to fraud-related controls (including tone at the top) and in each case the companies had discovered instances of fraudulent reporting prior to reporting fraud-related control problems.


The data we compiled suggests management and auditors require evidence of error or fraud before they are willing to conclude that a control concern is a material weakness. Why are management and auditors so reluctant to cite a material weakness absent evidence of a past error? Concluding that a control issue is a material weakness involves considerable judgment, which is sure to be questioned when it involves controversial and unhappy news. We suspect that management, audit committees and auditors are asking for hard evidence to support a view that control problems are material weaknesses. We also suspect that the hardest evidence is when control breakdowns result in reporting errors. The data also questions whether management and auditors are sufficiently focused on controls over fraudulent reporting, the driving force behind Sarbanes-Oxley legislation and internal control reporting.

We had hoped that material weaknesses cited in internal control reports would provide insight into the risk of future errors in financial reporting, and provide management time to address control issues before they resulted in reporting failures. Unfortunately, reports citing material weaknesses currently appear to be lagging rather than leading indicators of financial reporting problems, undermining their usefulness to users of financial statements. Further, waiting for fraud to occur before management and auditors identify and flag weak tone at the top of a company obviously undermines the ability of control reviews to prevent fraudulent reporting.

We suggest that the definition of material weaknesses make clear that material weaknesses can exist without errors or fraud having occurred. The related guidance should require management and auditors to view material weaknesses as leading rather than solely lagging indicators of financial reporting risk.

Of course, we would be pleased to discuss our comments with members of the SEC staff or Commission should they desire further information.

Sincerely,


Gregory J. Jonas
Managing Director

Enclosure

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The Second Year of Section 404 Reporting on Internal Control

Delinquent Filers are most at Risk of Negative Rating Action

Summary

US public companies with calendar year ends recently filed, for the second year, management and auditor reports on internal control as required by Section 404 of the Sarbanes-Oxley Act of 2002 (404 reports). This Special Comment summarizes our experience and findings on the credit implications of these reports.

- We continue to believe that reporting on internal control has helped restore investor confidence in financial reporting. Creditors benefit from new information about control problems which helps them assess reporting risk and price and allocate capital. They also benefit from reduced risk of a bad investment to the extent that the focus on controls has reduced the risk of misleading reporting. We perceive that companies continue to strengthen accounting controls and invest in the infrastructure needed to support quality reporting, in large part because of reporting on controls.
- Of the companies we rate that are reporting for the second time, the number with control problems is down from 117 companies in the first year to 75 companies in the second year. On the one hand, it is logical to believe that companies and auditors surfaced most control problems during the first year of internal control reviews and that a significant number of these have been remediated. On the other hand, 75 is a surprisingly low number given the hundreds of public companies restating their financial statements for errors during 2005, suggesting a breakdown in their controls.
- Moody's reaction to control problems has been measured, as we have tried to distinguish between situations that merit negative rating action and those that do not. In the first year of internal control reports, we took rating action, in part because of control problems, in roughly 20 percent of the companies that reported control problems. In general, we are taking negative rating action when all of the following factors are present:
 - The company reports one or more material control weaknesses that we classify as pervasive
 - The company reports ongoing and uncertain problems with its reporting
 - The company's current rating does not yet fully reflect the uncertainty of possibly misleading financial reporting
- The most serious control problems reside in companies that are unable to complete their internal control reports and financial statements by the SEC's deadline (delinquent filers group). As ongoing and uncertain reporting problems are usually the cause of filing delays, delinquent filers often meet the three factors listed above. So, in the first year, we took negative rating actions related to the vast majority of delinquent filers. Rating actions on many of the current delinquent filers may be unnecessary as 20 of the 29 companies in this category were either delinquent or reported pervasive control problems in the previous year. Thus, their ratings already reflect at least some concern about their control problems.
- Reports citing material weaknesses have become lagging rather than leading indicators of financial reporting problems, undermining their usefulness to users of financial statements. The data suggests that management and auditors require evidence of a financial reporting error (either financial statement restatement or material audit adjustment) before they are willing to conclude that a control concern is a material weakness. Of the 74 companies reporting material weaknesses in internal control reports in the current year, only 4 companies did not experience a prior reporting error.



- Internal control reports citing controls related to preventing and detecting fraud remain rare. In the current year only four companies referred to tone at the top or other fraud-related controls and in each case the companies had discovered instances of fraudulent reporting or aggressive accounting prior to reporting fraud-related control problems. Waiting for fraud to occur before auditors identify and flag weak tone at the top of a company obviously undermines the ability of control reviews to prevent fraudulent reporting. It would help creditors were management, audit committees and auditors to devote more attention to controls that prevent and detect fraudulent reporting, and to not wait for disasters to occur before flagging control problems.

If increased scrutiny of controls is effective, then we can expect in 2006 a dramatic reduction in the number of companies restating their financial statements for errors and fraudulent reporting. That reduction would suggest that the investments in reporting infrastructure have surfaced the problems of the past, and creditors can enjoy the benefits of quality reporting on which the market depends. Conversely, continuing high levels of restatements would call into question the substance of regulation, control reporting and auditing.

Companies Reporting Material Weaknesses

Appendix 1 lists the companies we rate that have been delinquent filers or have reported material weaknesses in controls in the current year. Most of the companies on this list are calendar year-end filers, and are filing 404 reports for the second time. Many non-calendar year-end filers have filed only once thus far, but will do so again in the next few months.

Overall, there are 107 companies in Appendix 1, representing about 3 percent of the US companies we rate. This compares favorably to the 7 percent of all eligible US companies that have reported material weaknesses. Moody's rates companies that are, on average, larger than the typical public company. We suspect that larger companies maintain more sophisticated control systems and are less likely to suffer control problems.

To see the trend in the number of companies reporting control weaknesses, we need to consider only those companies that have reported for the second time (second time filers). Of the second time filers we rate, the number with material weaknesses is down from 117 companies in the first year to 75 companies in the second year. On the one hand, it's logical to believe that companies and auditors surfaced most control problems during the first year of internal control reviews and that a significant number of these have been remediated. On the other hand, 75 is a surprisingly low number given the hundreds of public companies restating their financial statements for errors during 2005. There are legitimate reasons why a company that restates for errors during a year can avoid reporting a material control weakness. For example, the company could have remediated the control problem by year-end, the point in time when management and auditors measure control effectiveness. However, the significant shortfall could also indicate that auditors are being lenient in flagging control problems.

Similar to last year's result, the companies reporting control problems are a diverse group, varying widely in industry, size and rating level. The 107 companies in Appendix 1 are dispersed across 68 specific industries and with little concentration in any one sector. Revenues vary widely ranging from \$10 million to over \$190 billion. Average revenue is about \$7 billion while median revenue is only about \$1.5 billion. Rating levels range from Aaa to C. However, the average rating for the group with control problems was B1, which is 4 notches below the average for all US companies we rate (Baa3).

Nature of Control Weaknesses

Moody's classifies material weaknesses in internal control as either Category A or B¹:

- *Category A:* Weaknesses that relate to controls over specific account balances or transaction-level processes. In most cases, we believe that the auditor can effectively "audit around" these material weaknesses by performing additional substantive procedures in the area where the weakness exists. We typically give companies reporting Category A material weaknesses the benefit of the doubt and do not take any related rating action based solely on the fact of the reported weakness, assuming management takes corrective action to address it in a timely manner.
- *Category B:* Weaknesses that relate to company-level controls, such as an ineffective control environment, weak overall financial reporting processes, or ineffective personnel. We question the ability of the auditor to effectively "audit around" a Category B material weakness. In these cases, we generally bring a company

1. See our Special Comment, *Section 404 Reports on Internal Control: Impact on Ratings Will Depend on Nature of Material Weakness Reported*, dated October 2004.

to rating committee to determine whether a rating action is needed. Category B weaknesses also include those companies that report several Category A weaknesses and those companies that have reported material control weaknesses for the second year running.

The following table summarizes companies we rate with material control weaknesses:

| | Current Year | Prior Year |
|--|--------------|------------|
| Delinquent filers | 29 | 21 |
| Category B weaknesses | 30 | 38 |
| Category A weaknesses | 16 | 58 |
| Companies that have only reported for one year under 404 | 32 | |
| Total companies reporting in the current year (Appendix 1) | 107 | |

Appendix 2 summarizes the nature of control weaknesses for each of the companies reporting control problems. Appendix 3 organizes this same data by type of weakness.

Delinquent filers

Although we track them in a separate category, delinquent filers demonstrate Category B control weaknesses. We believe that the inability to complete financial reporting on a timely basis is itself a company-level control weakness that generally merits rating committee consideration. Further, many delinquent filers disclose material weaknesses in advance of ultimately filing their financial statements that fall into the Category B group.

Surprisingly, the number of delinquent filers is up in the current year. The reason is that delinquent filers tend to experience control problems that persist. Of the 21 companies that were delinquent in the first year of 404 reporting, 11 remained delinquent in the second year.

Category B weaknesses

The most common types of Category B weaknesses relate to ineffective accounting personnel in company-wide functions and pervasive ineffective processes². Together, these two areas account for about 80 percent of the Category B weaknesses that companies reported (excluding delinquent filers).

Insufficient accounting skills and pervasive ineffective processes reflect an underinvestment in the infrastructure needed for quality reporting. In an effort to improve efficiency or take advantage of technology, some companies have apparently under-staffed their accounting functions in recent years. For complex or non-routine areas, they relied on their auditors for help, rather than building in-house competence. Section 404 reports are bringing attention to this problem, which has inspired companies to reinvest in the accounting functions.

Category A weaknesses

The most common types of Category A weaknesses relate to income taxes, accounts payable and accrued liabilities, revenues and related receivables, inventory, derivative instruments, leasing, and cash flow presentation. Taken together, these 7 areas represent over 80 percent of all Category A weaknesses, with the remainder spread across 12 other areas.

Problems with accounting for income taxes alone represented about a third of all Category A weaknesses. The topic is often complex, and some companies have traditionally relied on their auditors to advise and assist company personnel. However, recent regulations have discouraged auditor reliance, and some companies are struggling to build in-house competence.

Other frequent Category A weaknesses generally involve complex areas or areas involving estimates, judgments and non-routine transactions or events, increasing the risk of error. In contrast, leasing and cash flow statement issues mostly involved long-standing requirements that the SEC brought attention to that a number of companies and auditors had simply overlooked.

For second-year filers, the number of companies with Category A weaknesses declined significantly compared to the prior year. Part of the decline is due to 10 companies whose Category A weaknesses in the second year we deem to be Category B because these companies also reported control problems in the first year (repeat offenders). Part of the decline also reflects successful remediation of control problems by companies reporting Category A weaknesses in the first year of 404, as discussed further below. The rest of the decline could reflect a general improvement in process-specific controls that has occurred because of increased scrutiny in recent years. Or, it could be that management and

2. Two examples of these processes include ineffective quarterly book-closing process, and ineffective management monitoring of general accounting functions.

auditors are reluctant to classify as material weaknesses control problems that they did not flag in the previous year. The number of companies restating for errors in 2006 will help inform us whether control problems are really declining.

Impact of Control Weaknesses on Moody's Ratings

Moody's reaction to control problems has been measured, as we have tried to distinguish between situations that merit negative rating action from those that do not. In the first year of internal control reports, we took rating action, in part because of control problems, in about 20 percent of the companies that reported control problems.

In general, despite material weaknesses, we are finding that rating actions are not needed in many cases because:

- Control problems appear to be specific, localized and correctable within a short period (Category A weaknesses)
- The rating already reflects our impression of the control weakness

In general, we are taking negative rating action when all of the following factors are present:

- The company reports one or more material control weaknesses that we classify as pervasive (Category B)
- The company reports ongoing and uncertain problems with its reporting, such as delinquent filings, recurring restatements for errors, instances of aggressive accounting, ongoing internal or external investigations into the company's reporting, or ineffective remediation of lingering control problems
- The company's current rating does not yet reflect the uncertainty of possibly misleading financial reporting.

The most serious control problems reside in companies that are unable to complete their internal control reports and financial statements by the SEC's deadline (delinquent filers group). As ongoing and uncertain reporting problems are usually the cause of filing delays, delinquent filers often meet the three factors listed above. Further, delinquent filers often face loan covenant violations and lose access to the capital markets. As a result, in the first year, we took negative rating actions related to the vast majority of delinquent filers.

As listed in Appendix 1, in the current year, 33 companies were delinquent filers, 29 of which are second year filers. Delinquent status is not new news for 11 of the 29 companies, which were also delinquent in the prior year. Another 9 of the 29 delinquent filers reported pervasive material weaknesses in the prior year. So, for at least 20 of the 29 companies, our ratings already reflect at least some uncertainly resulting from pervasive control problems.

Appendix 5 lists 29 companies on which we took negative rating action in part because of concerns about weak accounting controls, during the period from April 2005 to April 2006. The Appendix quotes from the part of our research that refers to accounting controls. Our rating actions have ranged from a lower rating outlook to multi-notch downgrades. Consistent with our policy, we are convening rating committees to discuss any company that reports a Category B weakness, including delinquent filers. Additional rating actions are possible.

In most cases, the control problems cited in internal control reports do not impact the company's credit risk. However, creditors should be alert to delinquent filers and companies that report pervasive control problems coupled with ongoing and uncertain reporting problems, suggesting heightened risk for creditors.

Remediation of Control Problems

Appendix 4 indicates companies' relative success in remediating the control problems they reported in the first year of internal control reporting.

Delinquent filers have been largely unsuccessful in remediating problems. Of the companies that were delinquent in the first year of 404 reporting, 86 percent either remained delinquent or continued to report material control weaknesses in the second year. Of the 21 companies on the list, 11 are still delinquent. Only 3 companies cured both their delinquency and their control problems.

Why are delinquent company's control problems so persistent? The reason is that the problems causing the delinquency are severe and take time to resolve. Many of the companies didn't employ enough people with the right skills or have inadequate systems that can't produce reliable numbers. Many faced internal and external investigations that require huge amounts of time and are distracting.

Companies reporting Category B weaknesses in the first year have been moderately successful in remediating control problems. Of the 38 companies listed, 23 companies, or about 60 percent, reported no material weaknesses in the second year. However, the control problems of 9 of the 38 companies worsened in the second year as they became delinquent filers. The remaining 6 companies, although not delinquent, reported continuing control problems in the

second year. Thus, for a substantial minority of companies, the pervasive nature of Category B control weaknesses has proven difficult to remediate.

The good news is that companies reporting Category A weaknesses have been mostly successful in remediating their control problems. Of the 58 companies listed, 49 companies, or 84 percent, successfully remediated their control problems and reported no material weaknesses in the second year. We suspect that remediating Category A weaknesses is easier because of the specific and narrowly focused nature of these weaknesses.

Information Content in Internal Control Reports

We had hoped that the material weaknesses cited in internal control reports would provide insight into the risk of future errors in financial reporting, and provide management time to address control issues before they resulted in reporting failures. Unfortunately, this is not the case, as reports citing material weaknesses currently appear to be lagging rather than leading indicators of financial reporting problems, undermining their usefulness to users of financial statements.

The data suggests that management and auditors require evidence of a financial reporting problem (restatement for error or material audit adjustment) before they are willing to conclude that a control concern is a material weakness. That is, it appears that management and auditors are inferring the existence of control problems from financial reporting errors. Of the 74 companies reporting material weaknesses in internal control reports in the current year, only 4 did not experience a prior reporting problem³.

Why are management and auditors so reluctant to cite a material weakness absent evidence of a past error? Concluding that a control issue is a material weakness involves considerable judgment, which is sure to be questioned when it involves controversial and unhappy news. We suspect that management, audit committees and auditors are asking for hard evidence to support a view that control problems are material weaknesses. We also suspect that the hardest evidence available is when control breakdowns result in reporting errors.

Unfortunately, requiring proof of control problems results in reporting the fewest possible problems and disclosing them after accounting errors have occurred. We can only hope that underneath the radar screen of public reporting is genuine improvement in controls that will prevent future errors from occurring. Creditors would benefit were parties to the reporting process to adopt policies that result in more forward-looking disclosures about control weaknesses.

Despite the lagging nature of material weaknesses, there is sometimes new news and incremental value in internal control reports. This is particularly so for companies that cited control problems because of material audit adjustments surfaced in the audit process. Of the 74 companies reporting material weaknesses in internal control reports in the current year, 38 referred to audit adjustments. Users don't need internal control reports to learn about restatements of financial statements. However, absent internal control reports, users would not have known about the significant audit adjustments and the related control problems.

Internal control reports citing controls related to preventing and detecting fraud remain rare. In the current year only four companies referred to fraud-related controls (including tone at the top) and in each case the companies had discovered instances of fraudulent reporting prior to reporting fraud-related control problems. Is it logical to believe that so few companies have weaknesses in fraud prevention and detection controls? Waiting for fraud to occur before auditors identify and flag weak tone at the top of a company obviously undermines the ability of control reviews to prevent fraudulent reporting. The data question whether management and auditors are sufficiently focused on controls over fraudulent reporting, the driving force behind Sarbanes-Oxley legislation and internal control reporting.

Creditors would benefit were management, audit committees and auditors to devote more attention to controls that prevent and detect fraudulent reporting, and to not wait for disasters to occur before flagging these critical control problems.

3. The third column of Appendix 1 indicates for each company whether their reporting on controls referred to a restatement for errors or to audit adjustments.

Related Research

Special Comments:

[Section 404 Reports on Internal Control: Impact on Ratings Will Depend on Nature of Material Weaknesses Reported, October 2004 \(89482\)](#)

[Credit Implications for Companies that Fail to File Internal Control Reports on Time, March 2005 \(91799\)](#)

[Section 404 Reporting on Internal Control: Our Early Experience, April 2005 \(92048\)](#)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Appendix 1
Characteristics of Companies Reporting Control Weaknesses
in the Current Year As of April 1, 2006

| Company | Severity | Accompanying Reporting Problem ² | Industry | Revenue (MM) Most Recent Year Available |
|--|----------------|---|-----------------------------------|--|
| Delinquent Filers: | | | | |
| AES Corporation ⁵ | B ³ | Restatement | Independent Power Holding Company | \$9,486 |
| Billy Technologies Inc. ⁶ | B | Restatement, Adjustment | Casinos | \$484 |
| Bally Total Fitness Holding Corporation | B | Delinquent | Amusements | \$1,095 |
| Bausch & Lomb Incorporated | B | Restatement, Adjustment | Drugs/Cosmetics | \$2,232 |
| BearingPoint, Inc. | B | Restatement, Adjustment | Miscellaneous | \$3,376 |
| Bowne & Company, Inc. ⁵ | B | Delinquent | Management Services | \$899 |
| Carmike Cinemas, Inc. | B | Restatement, Adjustment | Motion Pictures | \$495 |
| Cray, Inc. ⁴ | B | Delinquent | Computers/Peripherals | \$149 |
| Dana Corp. ⁵ | B | Restatement, Adjustment | Automotive Parts | \$8,990 |
| Delphi Corporation | B | Delinquent | Automotive Parts | \$28,622 |
| Doral Financial Corporation | B | Delinquent | US Bank Holding Company | \$571 |
| Fannie Mae (Federal National Mortgage Association) | B | Restatement, Adjustment | Sovereign Related Financial Co. | \$53,768 |
| Dresser, Inc. | B | Delinquent | Oil | \$1,992 |
| Ferro Corporation ⁵ | B | Delinquent | Chemicals | \$1,844 |
| First Bancorp PR | B | Delinquent | US Bank Holding Company | \$676 |
| Flowserve Corporation | B | Restatement, Adjustment | Mechanical Components | \$2,638 |
| Healthtronics, Inc. ⁵ | B | Delinquent | Healthcare Services/Equipment | \$193 |
| Hertz Corporation ⁴ | B | Delinquent | Automotive | \$6,876 |
| Highwoods Properties, Inc. | B | Restatement, Adjustment | REIT | \$465 |
| Kansas City Southern ⁵ | B | Delinquent | Railroads | \$640 |
| Navistar Financial | B | Delinquent | Finance - Captive | \$239 |
| Noriel Networks Corporation ⁵ | B | Delinquent | Telecomm Equipment | \$8,828 |
| PHH Corp. | B | Delinquent | Mortgage Finance | \$2,973 |
| Pride International | B | Restatement | Oil Service | \$1,712 |
| Reynolds and Reynolds Company | B | Restatement | Automotives | \$982 |
| Saks, Inc. ⁴ | B | Restatement, Adjustment | Retail-Department Stores | \$6,437 |
| Sea Containers Ltd. | B | Restatement, Adjustment | Transportation Equipment Leasing | \$1,742 |
| Sirva, Inc. | B | Restatement, Adjustment | Trucking | \$3,470 |
| Telephone and Data Systems | B | Restatement | Telecommunications | \$2,301 |
| Terex Corporation | B | Delinquent | Industrial Machinery | \$5,020 |
| Thermax Holdings Corporation | B | Delinquent | Industrial Machinery | \$483 |
| United States Cellular Corporation | B | Restatement | Telecommunications | \$2,301 |
| Vesta Insurance Group | B | Delinquent | Insurance Holding Company | \$618 |

Appendix 1
Characteristics of Companies Reporting Control Weaknesses
in the Current Year As of April 1, 2006

| Company | Severity | Accompanying Reporting Problem? | Industry | Revenue (MM) |
|---|----------|---------------------------------|----------------------------------|--------------|
| Companies Reporting Material Weaknesses in Section 404 Reports: | | | | 2006 |
| Agilent Technologies, Inc. | A | Restatement | Electronics Components | \$5,139 |
| AirTran Holdings, Inc. | B | Adjustment | Airlines | \$1,451 |
| Alpharma, Inc. | B | Adjustment | Pharmaceuticals | \$554 |
| American International Group, Inc. | B | Restatement, Adjustment | Insurance: Property and Casualty | \$106,905 |
| Americredit Corp. | A | Restatement | Finance - Non Captive | \$1,451 |
| Ameritrade Corp. | A | Restatement | Finance - Non Captive | \$1,003 |
| Aspen Technology | B | Adjustment | Computers/Peripherals | \$270 |
| Bryhn, Inc. ⁴ | A | No | Consumer Products | \$1,586 |
| Central Parking Corp. | B | Adjustment | Miscellaneous | \$1,134 |
| Central Vermont Public Service | B | No | Integrated Electric Utility | \$311 |
| Ceridian Corporation | B | Adjustment | IT | \$1,459 |
| Chattam Inc. | A | Adjustment | Consumer Products | \$279 |
| Chesapeake Corp. | B | Restatement | Forest Products/Paper | \$1,042 |
| CKE Restaurants, Inc. ⁴ | A | Restatement | Restaurants / Fast Foods | \$1,520 |
| CNA Financial Corp. | B | Restatement | Retail-Specialty Stores | \$9,872 |
| Conagra Foods Inc. | A | Restatement | Food/Soft Drinks | \$14,567 |
| Constar International | B | Adjustment | Containers/Glass/Packaging | \$975 |
| CSK Auto Corporation ⁵ | B | Restatement, Adjustment | Retail- Specialty Stores | \$1,578 |
| Danka Business Systems PLC | B | Adjustment | Electrical Equipment | \$1,233 |
| Dollar General Corporation | A | Restatement | Retail-Discount Variety | \$7,661 |
| Dura Automotive | A | Adjustment | Automotive Parts | \$2,344 |
| Dynegy Incorporated | B | Restatement, Adjustment | Independent Power | \$2,313 |
| Eastman Kodak Company | B | Adjustment | Photo/Optical | \$14,268 |
| Epicor Software | B | Restatement | Software | \$289 |
| Exide Technologies | B | Adjustment | Automotive Parts | \$81 |
| GCI, Inc. | A | Adjustment | Telecommunications | \$443 |
| General Growth Properties | B | Other | REIT | \$3,073 |
| General Motors Corporation | B | Restatement, Adjustment | Automotive | \$192,604 |
| General Motors Acceptance Corporation | A | Restatement | Finance - Captive | \$19,207 |
| Genesco, Inc. ⁴ | A | Restatement | Apparel | \$1,113 |
| H&R Block, Inc. | A | Adjustment | Diversified Financial Services | \$4,420 |
| Ikon Office Solutions Inc. | A | Restatement | Industrial - Diversified | \$4,377 |
| Ingles Markets Inc. | B | Adjustment | Retail Grocery Chain | \$2,274 |
| Integrated Alarm Services Group, Inc. | B | Adjustment | Consumer/Electronics | \$99 |
| Interpool Inc. | B | Adjustment | Finance-Non-Captive | \$417 |
| Interpublic Group of Companies, Inc. | B | Restatement, Adjustment | Advertising | \$6,274 |
| Jo-Ann Stores, Inc. ⁴ | A | Restatement | Textiles | \$1,812 |
| Kallwood Co. ⁴ | A | Restatement | Apparel | \$2,052 |
| Kroger, Co. ⁴ | A | Restatement | Retail-Grocery Chain | \$56,434 |
| Leap Wireless | B | Restatement, Adjustment | Telecommunications | \$915 |
| Lennox International | A | Restatement | Appliances/Utensils | \$3,366 |
| Loews Corp. | A | Restatement | Tobacco | \$16,018 |
| Longview Fibre Co. | B | Adjustment | REIT | \$1,796 |
| Magellan Health Services | A | Restatement | Hospitals/Nursing | \$1,808 |
| Markwest Energy Partners | B | No | Energy Services | \$499 |
| Movie Gallery Inc. | B | Adjustment | Retail - Specialty Stores | \$692 |
| MTR Gaming Group | A | Adjustment | Casinos | \$358 |
| Navarre Corporation | B | Restatement | Electronics Distribution | \$597 |
| NDCHealth Corp. | B | Adjustment | Healthcare Services/Equipment | \$368 |
| Odyssey Re Holdings | A | Restatement, Adjustment | Insurance Holding Company | \$2,576 |

Appendix 1
Characteristics of Companies Reporting Control Weaknesses
in the Current Year¹ As of April 1, 2006

| Company | Severity | Accompanying Reporting Problem ² | Industry | Revenue (MM) |
|------------------------------------|----------|---|----------------------------|--------------|
| OM Group, Inc. | B | Restatement, Adjustment | Chemicals | \$1,250 |
| Oneok, Inc. | A | Adjustment | Gas Distribution | \$12,676 |
| Pantry Inc. | B | Restatement | Retail-Convenience Stores | \$4,429 |
| Paxon Communications Corporation | B | Other | Broadcasting | \$254 |
| Petco ⁵ | A | Other | Industrial - Miscellaneous | \$1,477 |
| Petsmart, Inc. ⁵ | A | Restatement | Retail-Specialty Stores | \$3,364 |
| Polo Ralph Lauren Corporation | A | Adjustment | Consumer Products | \$3,061 |
| Pope and Talbot, Inc. | B | Adjustment | Forest Products/Paper | \$849 |
| Popular Inc. | A | Restatement | US Bank Holding Company | \$2,666 |
| Progressive Gaming International | A | Restatement | Casinos | \$78 |
| Radiologix, Inc. | B | Restatement | Healthcare Services | \$251 |
| Residential Capital Corporation | A | Restatement | Mortgage Finance | \$4,235 |
| Ryerson Inc. | B | Restatement, Adjustment | Steel | \$3,302 |
| SFBC International | B | Adjustment | Research/Development | \$430 |
| South Financial Group | A | Other | US Bank Holding Company | \$754 |
| Stewart Enterprises Inc. | B | Restatement | Funeral Services | \$495 |
| Stillwater Mining | B | Adjustment | Metals/Mining | \$508 |
| Sun Microsystems | A | Adjustment | Computer/ Peripherals | \$11,070 |
| Susquehanna Bancshares | A | Restatement | US Bank Holding Company | \$387 |
| SVB Financial Group | B | Restatement | US Bank Holding Company | \$317 |
| TRM Corporation | B | Adjustment | Vending Machines | \$125 |
| United Rentals North America, Inc. | B | Restatement, Adjustment | Industrial Construction | \$3,094 |
| Visteon Corporation | B | Restatement, Adjustment | Automotive Parts | \$16,976 |
| Wynn Resorts LTD | A | No | Hotels | \$722 |

¹ Fiscal years ending 1/16/05 - 1/15/06

² Restatement = Restatement of previously filed financial statements, Adjustment = Financial statement adjustments proposed by management/auditor prior to release of financial statements, Other = Other Issue accompanying the control problem, Delinquent = Specific accompanying problems are likely

³ Material weakness with pervasive impacts, companies reporting control problems for two consecutive years, or delinquent filers.

⁴ Company's subsequent 10-K reported no control problems.

⁵ Company's subsequent 10-K reported control problems.

Appendix 2
Nature of Control Weakness Reported by Company
in the Current Year¹
As of April 1, 2006

| Company | Nature of Control Weakness |
|--|---|
| Delinquent Filers: | |
| AES Corporation | Characterization of material weakness not yet disclosed |
| Bally Technologies Inc. | Ineffective personnel Pervasive ineffective processes Revenues and related receivables Inventory accounting Income tax accounting |
| Bally Total Fitness Holding Corporation | Characterization of material weakness not yet disclosed |
| Bausch & Lomb Incorporated | Revenues and related receivables - significant |
| BearingPoint, Inc. | Characterization of material weakness not yet disclosed |
| Bowne & Company, Inc. | Characterization of material weakness not yet disclosed |
| Carmike Cinemas, Inc. | Characterization of material weakness not yet disclosed |
| Cray, Inc. | Characterization of material weakness not yet disclosed |
| Dana Corp. | Characterization of material weakness not yet disclosed |
| Delphi Corporation | Characterization of material weakness not yet disclosed |
| Doral Financial Corporation | Characterization of material weakness not yet disclosed |
| Dresser, Inc. | Characterization of material weakness not yet disclosed |
| Fannie Mae (Federal National Mortgage Association) | Pervasive ineffective processes Ineffective personnel Fraud detection controls - internal audit |
| Ferro Corporation | Characterization of material weakness not yet disclosed |
| First Bancorp PR | Characterization of material weakness not yet disclosed |
| Flowserve Corporation | Characterization of material weakness not yet disclosed |
| Healthtronics, Inc. | Characterization of material weakness not yet disclosed |
| Hertz Corporation | Characterization of material weakness not yet disclosed |
| Highwoods Properties, Inc. | Characterization of material weakness not yet disclosed |
| Kansas City Southern | Characterization of material weakness not yet disclosed |
| Navistar Financial | Characterization of material weakness not yet disclosed |
| Nortel Networks Corporation | Characterization of material weakness not yet disclosed |
| PHH Corp. | Characterization of material weakness not yet disclosed |
| Pride International | Characterization of material weakness not yet disclosed |
| Reynolds and Reynolds Company | Revenue recognition - significant |
| Saks, Inc. | Accounts payable and accrued liabilities Lease accounting |
| Sea Containers Ltd. | Characterization of material weakness not yet disclosed |
| Sirva, Inc. | Characterization of material weakness not yet disclosed |
| Telephone and Data Systems | Ineffective personnel Accounts payable and accrued liabilities Income tax accounting |
| Terex Corporation | Characterization of material weakness not yet disclosed |
| Thermadyne Holdings Corporation | Characterization of material weakness not yet disclosed |
| United States Cellular Corporation | Ineffective personnel Income tax accounting |
| Vesta Insurance Group | Characterization of material weakness not yet disclosed |
| Companies Reporting Material Weaknesses in Section 404 Reports: | |
| Agilent Technologies, Inc. | Income tax accounting |
| AirTran Holdings, Inc. | Ineffective personnel |
| Alpharma, Inc. | Income tax accounting |
| American International Group, Inc. | Ineffective processes Derivative accounting Income tax accounting |
| Americredit Corp. | Cash flow statement presentation |
| Ameritrade Corp. | Derivative accounting |
| Aspen Technology | Ineffective personnel Revenues and related receivables Pervasive ineffective processes Income tax accounting Cash accounting |

**Appendix 2
Nature of Control Weakness Reported by Company
in the Current Year¹
As of April 1, 2006**

| Company | Nature of Control Weakness |
|---------------------------------------|---|
| Blyth, Inc. | Income tax accounting |
| Central Parking Corp. | Tone at the top Ineffective personnel Pervasive ineffective processes Accounts payable and accrued liabilities Revenues and related receivables |
| Central Vermont Public Service | Pervasive ineffective processes |
| Ceridian Corporation | Ineffective personnel |
| Chatham, Inc. | Inventory accounting |
| Chesapeake Corp. | Income tax accounting |
| CKE Restaurants, Inc. | Fixed assets - other Lease accounting |
| CNA Financial Corp. | Discontinued operations accounting Cash flow statement presentation |
| Conagra Foods Inc. | Income tax accounting |
| Constar International | Ineffective personnel Income tax accounting Inventory accounting |
| CSK Auto Corporation | Lease accounting Accounts payable and accrued liabilities Inventory accounting Ineffective personnel |
| Danka Business Systems PLC | Technology and data access controls Revenues and related receivables Income tax accounting Inventory accounting Ineffective personnel |
| Dollar General Corporation | Lease accounting |
| Dura Automotive | Income tax accounting |
| Dynegy Incorporated | Income tax accounting |
| Eastman Kodak Company | Income tax accounting |
| Epicor Software | Revenues and related receivables - significant |
| Exide Technologies | Pervasive ineffective processes Income tax accounting |
| GCI, Inc. | Revenues and related receivables |
| General Growth Properties | Ineffective personnel Income tax accounting |
| General Motors Corporation | Cash flow statement presentation Impairment accounting |
| General Motors Acceptance Corporation | Cash flow statement presentation |
| Genesco, Inc. | Lease accounting |
| H&R Block, Inc. | Income tax accounting |
| Ikon Office Solutions Inc. | Revenues and related receivables |
| Ingles Markets Inc. | Pervasive ineffective processes Technology and data access controls |
| Integrated Alarm Services Group, Inc. | Revenues and related receivables - significant |
| Interpublic Group of Companies, Inc. | Tone at the top Fraud-detection controls Ineffective personnel Pervasive ineffective processes Acquisition accounting Revenues and related receivables Lease accounting Income tax accounting Accounts payable and accrued liabilities Specific intercompany accounts Technology and data access controls |
| Interpool Inc. | Ineffective personnel Pervasive ineffective processes Technology and data access controls |
| Jo-Ann Stores, Inc. | Lease accounting |
| Kellwood Co. | Accounts payable and accrued liabilities |

Appendix 2
Nature of Control Weakness Reported by Company
in the Current Year¹
As of April 1, 2006

| Company | Nature of Control Weakness |
|------------------------------------|--|
| Kroger, Co. | Income tax accounting |
| Leap Wireless | Ineffective personnel Income tax accounting |
| Lennox International | Derivative accounting |
| Loews Corp. | Discontinued operations accounting Cash flow statement presentation |
| Longview Fibra Co. | Ineffective personnel Inventory accounting Accounts payable and accrued liabilities OPEB |
| Magellan Health Services | Income tax accounting |
| Markwest Energy Partners | Pervasive ineffective processes Derivative accounting |
| Movie Gallery Inc. | Pervasive ineffective processes Ineffective personnel Fixed assets - other Inventory accounting |
| MTR Gaming Group | Various significant deficiencies constituting a material weakness |
| Navarre Corporation | Income tax accounting Consolidation accounting Compensation accounting |
| NDCHealth Corp. | Revenues and related receivables Pervasive ineffective processes Income tax accounting |
| Odyssey Re Holdings | Finite reinsurance arrangements |
| OM Group, Inc. | Financial information accumulation - small subsidiary Income tax accounting Investment accounting |
| Oneok, Inc. | Derivative accounting |
| Pantry Inc. | Pervasive ineffective processes Accounts payable and accrued liabilities |
| Paxson Communications Corporation | Income tax accounting |
| Petco | Accounts payable and accrued liabilities |
| Petsmart, Inc. | Income tax accounting |
| Polo Ralph Lauren Corporation | Income tax accounting |
| Pope and Talbot, Inc. | Income tax accounting |
| Popular Inc. | Cash flow statement presentation |
| Progressive Gaming International | Revenues and related receivables |
| Radiologix, Inc. | Lease accounting |
| Residential Capital Corporation | Cash flow statement presentation |
| Ryerson Inc. | Ineffective personnel Inventory accounting |
| SFBC International | Tone at the top Pervasive ineffective processes Ineffective personnel |
| South Financial Group | Derivative accounting |
| Stewart Enterprises Inc. | Revenues and related receivables - significant |
| Stillwater Mining | Ineffective personnel Pervasive ineffective processes Inventory accounting Revenues and related receivables |
| Sun Microsystems | Income tax accounting |
| Susquehanna Bancshares | Cash flow statement presentation |
| SVB Financial Group | Ineffective personnel Pervasive ineffective processes |
| TRM Corporation | Revenues and related receivables Fixed assets - other Accounts payable and accrued liabilities |
| United Rentals North America, Inc. | Pervasive ineffective processes |
| Visteon Corporation | Accounts payable and accrued liabilities |
| Wynn Resorts LTD | Derivative accounting |

¹ For fiscal years ending 1/16/05-1/15/06

Appendix 3
Nature of Control Weaknesses Reported in the Current Year¹ by Type of Weakness
As of April 1, 2006

| Nature of Control Weakness | Severity | Number of Companies | Percentage of Weaknesses | Percentage of Severity Group |
|---|----------|---------------------|--------------------------|------------------------------|
| Delinquent filers | B | 33 | 18% | 40% |
| Fraud-detection controls | B | 2 | 1% | 2% |
| Ineffective personnel | B | 21 | 11% | 26% |
| Pervasive ineffective processes | B | 18 | 10% | 22% |
| Revenues and related receivables - significant | B | 5 | 3% | 6% |
| Tone at the top | B | 3 | 2% | 4% |
| Accounts payable and accrued liabilities | A | 11 | 6% | 11% |
| Acquisition and consolidation accounting | A | 2 | 1% | 2% |
| Cash accounting | A | 1 | 1% | 1% |
| Cash flow statement presentation | A | 8 | 4% | 8% |
| Derivative accounting | A | 7 | 4% | 7% |
| Discontinued operations accounting | A | 2 | 1% | 2% |
| Financial information accumulation - small subsidiary | A | 1 | 1% | 1% |
| Finite reinsurance arrangements | A | 1 | 1% | 1% |
| Fixed assets - other | A | 3 | 2% | 3% |
| Impairment accounting | A | 1 | 1% | 1% |
| Income tax accounting | A | 30 | 16% | 29% |
| Inventory accounting | A | 9 | 5% | 9% |
| Investment accounting | A | 1 | 1% | 1% |
| Lease accounting | A | 8 | 4% | 8% |
| OPEB and other benefit plans | A | 2 | 1% | 2% |
| Revenues and related receivables | A | 11 | 6% | 11% |
| Specific intercompany accounts | A | 1 | 1% | 1% |
| Technology and data access controls | A | 4 | 2% | 4% |
| Various significant deficiencies constituting a material weakness | A | 1 | 1% | 1% |
| Total Material Weaknesses² | | 186 | | |
| Total Category B Material Weaknesses | | 82 | | |
| Total Category A Material Weaknesses | | 104 | | |

¹ For Fiscal years ending 1/15/05-1/15/06

² This figure is greater than the total number of companies reporting material weaknesses because some companies report several material weaknesses.

Appendix 4
Nature of Control Weakness for Companies Reporting Weakness in the Previous Year
As of April 1, 2006

| Companies | Prior Year ¹ Categorization | Material Weaknesses | Current Year ² Categorization | Material Weaknesses |
|---|--|---|--|---|
| Delinquent Filers in Prior Year: | | | | |
| American International Group, Inc. | B | Tone at the top Pervasive ineffective processes Derivative accounting Income tax accounting | B | Pervasive ineffective processes Derivative accounting Income tax accounting |
| BearingPoint, Inc. | B | Revenues and related receivables Accounts payable and accrued liabilities Fixed assets - other Pervasive ineffective processes Ineffective personnel Tone at the top Specific intercompany accounts Income tax accounting | B | Delinquent Characterization of material weakness not yet disclosed |
| Cardian Corporation | B | Financial reporting process - small subsidiary Pervasive ineffective processes | B | Ineffective personnel |
| Delphi Corporation | B | Ineffective personnel Pervasive ineffective processes Tone at the top | B | Delinquent Characterization of material weakness not yet disclosed |
| Dresser, Inc. | B | Pervasive ineffective processes Ineffective personnel Foreign exchange accounting Inventory accounting Revenues and related receivables | B | Delinquent Characterization of material weakness not yet disclosed |
| FannieMae (Federal National Mortgage Association) | B | Derivative accounting Lease accounting Loans - indirect costs | B | Delinquent Pervasive ineffective processes Ineffective personnel Fraud detection controls - internal audit |
| Ferro Corporation | B | <u>Original report:</u> Characterization of material weakness not yet disclosed <u>Revised report:</u> Ineffective personnel Pervasive ineffective processes Pensions and other benefit plans | B | Delinquent Characterization of material weakness not yet disclosed |
| Flowerserve Corporation | B | Tone at the top Ineffective personnel Pervasive ineffective processes Fraud detection controls - internal audit Consolidation accounting Foreign exchange accounting Technology and data access controls Specific intercompany accounts Fixed assets - other Revenues and related receivables Inventory accounting Pension accounting Securitization accounting Derivative accounting Investment accounting Income tax accounting Acquisition accounting Accounts payable and accrued liabilities Intangible asset accounting | B | Delinquent Characterization of material weakness not yet disclosed |
| Healthcare Realty Trust Incorporated | B | Pervasive ineffective processes Ineffective personnel | N/A | No material weaknesses reported |
| Highwoods Properties, Inc. | B | Pervasive ineffective processes Fixed assets - other Lease accounting | B | Delinquent Characterization of material weakness not yet disclosed |
| Integrated Alarm Services Group, Inc. | B | Pervasive ineffective processes Ineffective personnel Revenues and related receivables Accounts payable and accrued liabilities Cash accounting | B | Revenues and related receivables |

Appendix 4
Nature of Control Weakness for Companies Reporting Weakness in the Previous Year
As of April 1, 2006

| Companies | Prior Year ¹ Categorization | Material Weaknesses | Current Year ² Categorization | Material Weaknesses |
|--------------------------------------|--|---|--|---|
| Interpublic Group of Companies, Inc. | B | Tone at the top Fraud detection controls Ineffective personnel Pervasive ineffective processes Acquisition accounting Revenues and related receivables Lease accounting Income tax accounting Accounts payable and accrued liabilities Specific intercompany accounts Technology and data access controls | B | Tone at the top Fraud detection controls Ineffective personnel Pervasive ineffective processes Acquisition accounting Revenues and related receivables Lease accounting Income tax accounting Accounts payable and accrued liabilities Specific intercompany accounts Technology and data access controls |
| Markwest Energy Partners | B | Ineffective personnel Pervasive ineffective processes Fixed assets - other | B | Pervasive ineffective processes Derivative accounting |
| Nortel Networks Corporation | B | Lease accounting Accounts payable and accrued liabilities Foreign exchange accounting Ineffective personnel Pervasive ineffective processes Tone at the top | B | Delinquent Characterization of material weakness not yet disclosed |
| OM Group Inc. | B | <u>Original Report:</u> Characterization of material weakness not yet disclosed <u>Revised Report:</u> Pervasive ineffective processes Income tax accounting | B | Financial information accumulation - small subsidiary Income tax accounting Investment accounting |
| RCN Corporation | B | Lease accounting Ineffective personnel Pervasive ineffective processes | N/A | No material weaknesses reported |
| Shurgard Storage Centers | B | Pervasive ineffective processes Ineffective personnel Consolidation accounting Fixed assets - other | N/A | No material weaknesses reported |
| Sirva Inc. | B | Pervasive ineffective processes Tone at the top Ineffective personnel Lease accounting Acquisition accounting Insurance accounting Revenues and related receivables Securitization accounting Accounts payable and accrued liabilities Specific intercompany accounts | B | Delinquent Characterization of material weakness not yet disclosed |
| Terex Corporation | B | Ineffective personnel Specific intercompany accounts Income tax accounting Accounts payable and accrued liabilities Pensions and OPEB | B | Delinquent Characterization of material not yet disclosed |

Appendix 4
Nature of Control Weakness for Companies Reporting Weakness in the Previous Year
As of April 1, 2006

| Companies | Prior Year ¹ Categorization | Material Weaknesses | Current Year ² Categorization | Material Weaknesses |
|--|---|---|---|---|
| United Rentals North America, Inc. | B | Tone at the top Ineffective personnel Fraud prevention controls -- internal audit Fraud prevention controls Pervasive ineffective processes Accounts payable and accrued liabilities Income tax accounting Inventory accounting | B | Pervasive ineffective processes |
| Vesta Insurance Group | B | Characterization of material weakness not yet disclosed | B | Delinquent Characterization of material not yet disclosed |
| Companies Reporting Material Weakness in 404 Reports: | | | | |
| AES Corporation | B | <u>Original Report:</u> ³ Income tax accounting <u>Revised Report:</u> Income tax accounting Financial information accumulation -- small subsidiary Ineffective personnel Specific intercompany accounts Derivative accounting Foreign exchange accounting | B | Delinquent Characterization of material weakness not yet disclosed |
| AFC Enterprises, Inc. | A | <u>Original Report:</u> No material weakness reported <u>Revised Report:</u> Accounts payable and accrued liabilities Income tax accounting | N/A | No material weaknesses reported |
| Alcan, Inc. | A | Impairment accounting | N/A | No material weaknesses reported |
| Alderwoods Group, Inc. | B | <u>Original Report:</u> Ineffective personnel Income tax accounting Consolidation accounting <u>Revised Report:</u> Ineffective personnel Pervasive ineffective processes | N/A | No material weaknesses reported |
| Aleris International, Inc. | B | <u>Original Report:</u> Derivative accounting Various significant deficiencies that constituted a material weakness <u>Revised Report:</u> Derivative accounting Interest costs- debt Pension accounting | N/A | No material weaknesses reported |
| Alpharma, Inc. | B | Revenues and related receivables Accounts payable and accrued liabilities Income tax accounting Segment reporting | A | Income tax accounting |
| America West Airlines, Inc. | A | Derivative accounting | N/A | No material weaknesses reported |
| American Tower Corporation | A | Lease accounting | N/A | No material weaknesses reported |
| Amkor Technology, Inc. | A | <u>Original Report:</u> No material weaknesses <u>Revised Report:</u> Cash flow statement presentation | N/A | No material weaknesses reported |
| Associated Banc-Corp. | A | <u>Original Report:</u> No material weaknesses reported <u>Revised Report:</u> Derivative accounting | N/A | No material weaknesses reported |
| Baxter International, Inc. | A | Income tax accounting | N/A | No material weaknesses reported |
| Blockbuster, Inc. | A | Lease accounting | N/A | No material weaknesses reported |

Appendix 4
Nature of Control Weakness for Companies Reporting Weakness in the Previous Year
As of April 1, 2006

| Companies | Prior Year ¹ Categorization | Material Weaknesses | Current Year ² Categorization | Material Weaknesses |
|---|--|---|--|--|
| Bowne & Company, Inc. | A | Financial information accumulation – small subsidiary Acquisition accounting | B | Delinquent Characterization of material weakness not yet disclosed |
| BRE Properties Inc. | A | Accounts payable and accrued liabilities | N/A | No material weaknesses reported |
| Brightpoint Inc. | A | Original Report: No material weaknesses reported Revised Report: Revenues and related receivables Accounts payable and accrued liabilities | N/A | No material weaknesses reported |
| Carmike Cinemas Inc. | B | Ineffective personnel Income tax accounting | B | Delinquent Characterization of material weakness not yet disclosed |
| Centerpoint Energy Inc. | A | Original Report: No material weaknesses reported Revised Report: Specific intercompany accounts | N/A | No material weaknesses reported |
| Central European Media Enterprises Ltd. | A | Financial Instruments – debt vs. equity classification | N/A | No material weaknesses reported |
| Chesapeake Corp. | B | Original Report: No material weaknesses reported Revised Report: Pervasive ineffective processes | A | Income tax accounting |
| Chiron Corporation | A | Accounts payable and accrued liabilities Income tax accounting Revenues and related receivables | N/A | No material weaknesses reported |
| CIT Group Inc. | A | Income tax accounting | N/A | No material weaknesses reported |
| Clean Harbors Inc. | A | Accounts payable and accrued liabilities | N/A | No material weaknesses reported |
| CNA Financial Corp. | A | Original Report: No material weaknesses reported Revised Report: Finite reinsurance arrangements | A | Discontinued operations accounting Cash flow statement presentation |
| Crown Castle International Corp. | A | Income tax accounting | N/A | No material weaknesses reported |
| Compass Bancshares | A | Original Report: No material weaknesses reported Revised Report: Derivative accounting | N/A | No material weaknesses reported |
| Compass Minerals International | A | Income tax accounting | N/A | No material weaknesses reported |
| Continental Airlines Inc. | A | Original Report: No material weaknesses reported Revised Report: Lease accounting | N/A | No material weaknesses reported |
| Countrywide Financial Corporation | A | Securitization accounting | N/A | No material weaknesses reported |
| Covanta Energy Holding Corporation | B | Ineffective personnel | N/A | No material weaknesses reported |
| Cray Inc. | B | Ineffective personnel Pervasive ineffective processes Revenues and related receivables Income tax accounting | B | Delinquent Characterization of material weakness not disclosed |
| Crescent Real Estate Equities Co. | A | Accounts payable and accrued liabilities Revenues and related receivables | N/A | No material weaknesses reported |
| Crown Castle International Corp. | A | Lease accounting | N/A | No material weaknesses reported |
| Dana Corp. | B | Original Report: No material weaknesses reported Revised Report: Ineffective personnel Pervasive ineffective processes Tone at the top Inventory accounting | B | Delinquent Characterization of material weakness not yet disclosed |

Appendix A
Nature of Control Weakness for Companies Reporting Weakness in the Previous Year
As of April 1, 2006

| Companies | Prior Year ¹ Categorization | Material Weaknesses | Current Year ² Categorization | Material Weaknesses |
|---|--|--|--|---|
| Denny's Corporation | A | Lease accounting | N/A | No material weaknesses reported |
| Dynegey Incorporated | A | Income tax accounting | A | Income tax accounting |
| Eastman Kodak Company | A | Income tax accounting Pension & OPEB accounting | A | Income tax accounting |
| El Paso Corporation | B | Technology and data access controls Fixed assets - other Impairment accounting Investment accounting Various significant deficiencies that constituted a material weakness | N/A | No material weaknesses reported |
| First Industrial, L.P. | A | Original Report: Income tax accounting Revised Report: Income tax accounting Equity accounting | N/A | No material weaknesses reported |
| Foster Wheeler Ltd. | A | Financial information accumulation - small subsidiary | N/A | No material weaknesses reported |
| Friendly Ice Cream Corporation | A | Lease accounting | N/A | No material weaknesses reported |
| General Cable Corporation | B | Accounts payable and accrued liabilities Ineffective personnel Fixed assets - other Inventory accounting Revenues and related receivables Technology and data access controls | N/A | No material weaknesses reported |
| General Motors | A | Original Report: No material weaknesses reported Revised Report: Cash flow statement presentation | A | Cash flow statement presentation Impairment accounting |
| GEO Group, Inc. | B | Accounts payable and accrued liabilities Consolidation accounting Lease accounting Income tax accounting | N/A | No material weaknesses reported |
| Glenborough Realty Trust Inc. | B | Original Report: No material weaknesses reported Revised Report: Pervasive ineffective processes | N/A | No material weaknesses reported |
| Goodyear Tire and Rubber Company | B | Technology and data access controls Various significant deficiencies that constituted a material weakness | N/A | No material weaknesses reported |
| Grant Prideco, Inc. | A | Revenues and related receivables | N/A | No material weaknesses reported |
| Green Mountain Power Corporation | A | Income tax accounting | N/A | No material weaknesses reported |
| GulfMark Offshore, Inc. | B | Foreign exchange accounting Income tax accounting Pervasive ineffective processes | N/A | No material weaknesses reported |
| Hacsa Mining Company | A | Inventory accounting Accounts payable and accrued liabilities | N/A | No material weaknesses reported |
| Heritage Property Investment Trust Inc. | A | Original Report: No material weaknesses reported Revised Report: Compensation accounting | N/A | No material weaknesses reported |
| Hertz Corporation | A | Revenues and related receivables | B | Delinquent Characterization of material weakness not disclosed |
| Horace Mann Educators Corporation | A | Cash accounting Income tax accounting | N/A | No material weaknesses reported |

Appendix 4
Nature of Control Weakness for Companies Reporting Weakness in the Previous Year
As of April 1, 2006

| Companies | Prior Year ¹ Categorization | Material Weaknesses | Current Year ² Categorization | Material Weaknesses |
|-------------------------------------|---|---|---|---|
| INFOUSA, Inc. | B | Ineffective personnel Impairment accounting | N/A | No material weaknesses reported |
| Interpool, Inc. | B | Pervasive ineffective processes Ineffective personnel Technology and data access controls | B | Pervasive ineffective processes Ineffective personnel Technology and data access controls |
| Inverness Medical Innovations, Inc. | A | Acquisition accounting Income tax accounting | N/A | No material weaknesses reported |
| King Pharmaceuticals, Inc. | B | Ineffective personnel | N/A | No material weaknesses reported |
| Leap Wireless | B | Ineffective personnel Income tax accounting | B | Ineffective personnel Income tax accounting |
| Menlowec | A | Foreign exchange accounting | N/A | No material weaknesses reported |
| Masco Corporation | B | Pervasive ineffective processes | N/A | No material weaknesses reported |
| Mastec, Inc. | A | Inventory accounting | N/A | No material weaknesses reported |
| Maxtor Corporation | B | Ineffective personnel | N/A | No material weaknesses reported |
| McDermott International, Inc. | B | Aggressive critical accounting policy Technology and data access controls Various significant deficiencies that constituted a material weakness | N/A | No material weaknesses reported |
| MeadWestvaco Corp. | A | Income tax accounting | N/A | No material weaknesses reported |
| Maritage Homes Corporation | A | Lease accounting | N/A | No material weaknesses reported |
| New York Community Bancorp, Inc. | A | Income tax accounting | N/A | No material weaknesses reported |
| Northeast Utilities | A | Derivative accounting | N/A | No material weaknesses reported |
| NorthWestern Corporation | A | Derivative accounting | N/A | No material weaknesses reported |
| OfficeMax, Inc. | B | Pervasive ineffective processes | N/A | No material weaknesses reported |
| Pacific Capital Bancorp | B | Pervasive ineffective processes Ineffective personnel | N/A | No material weaknesses reported |
| Paxon Communications Corporation | A | Lease accounting | A | Income tax accounting |
| Pope & Talbot Inc. | A | Income tax accounting | A | Income tax accounting |
| Presidential Life Corporation | B | Ineffective personnel Pervasive ineffective processes | N/A | No material weaknesses reported |
| Pride International | B | Pervasive ineffective processes | B | Delinquent Characterization of material weakness not disclosed |
| Radiologix, Inc. | A | Revenues and related receivables | A | Lease accounting |
| SBA Communications Corporation | A | Lease accounting | N/A | No material weaknesses reported |
| Scientific Games Corp. | B | Original Report: Investment accounting Revised Report: Ineffective personnel | N/A | No material weaknesses reported |
| Scottish Re Group, Ltd. | A | Financial reporting process – small subsidiary | N/A | No material weaknesses reported |
| Sea Containers Ltd. | B | Ineffective personnel | B | Delinquent Characterization of material weakness not disclosed |
| Semco Energy, Inc. | A | Preferred stock accounting | N/A | No material weaknesses reported |
| Sensient Technologies Corporation | A | Impairment accounting | N/A | No material weaknesses reported |

Appendix 4
Nature of Control Weakness for Companies Reporting Weakness in the Previous Year
As of April 1, 2006

| Companies | Prior Year ¹ Categorization | Material Weaknesses | Current Year ² Categorization | Material Weaknesses |
|------------------------------------|--|--|--|--|
| Sequa Corporation | A | Revenues and related receivables | N/A | No material weaknesses reported |
| Service Corporation International | B | Revenues and related receivables Lease accounting Inventory accounting Accounts payable and accrued liabilities Cash accounting Impairment accounting | N/A | No material weaknesses reported |
| Standard Motor Products, Inc. | B | Ineffective personnel Technology and data access controls Various significant deficiencies that constituted a material weakness | N/A | No material weaknesses reported |
| SunTrust Banks, Inc. | B | Revenues and related receivables | N/A | No material weaknesses reported |
| SVB Financial Group | B | Original Report: No material weaknesses reported Revised Report: Ineffective personnel Pervasive ineffective processes | B | Ineffective personnel Pervasive ineffective processes |
| Telephone and Data Systems | B | Original Report: No material weaknesses reported Revised Report: Ineffective personnel Accounts payable and accrued liabilities Income tax accounting | B | Delinquent Ineffective personnel Accounts payable and accrued liabilities Income tax accounting |
| Thermadyne Holdings Corporation | B | Financial information accumulation - small subsidiaries Income tax accounting Inventory accounting Fixed assets - other | B | Delinquent Characterization of material weakness not disclosed |
| UCBH Holdings, Inc. | B | Ineffective personnel | N/A | No material weaknesses reported |
| United States Cellular Corporation | B | Original Report: No material weaknesses Revised Report: Ineffective personnel Income tax accounting | B | Delinquent Ineffective personnel Income tax accounting |
| US Unwired, Inc. | A | Lease accounting | N/A | No material weaknesses reported |
| USEC, Inc. | A | Revenues and related receivables Income tax accounting | N/A | No material weaknesses reported |
| USI Holdings | A | Various significant deficiencies that constituted a material weakness | N/A | No material weaknesses reported |
| Vishay Intertechnology, Inc. | B | Ineffective personnel | N/A | No material weaknesses reported |
| Visteon Corporation | B | Original Report: OPEB Fixed assets - other Revised Report: OPEB Fixed assets - other Accounts payable and accrued liabilities | A | Accounts payable and accrued liabilities |
| Vornado Realty L.P. | A | Original Report: No material weaknesses reported Revised Report: Cash flow statement presentation | N/A | No material weaknesses reported |
| Western Gas Resources Inc. | A | Original Report: No material weaknesses reported Revised Report: Derivative accounting | N/A | No material weaknesses reported |

1 For fiscal years ending 11/15/04 (Section 404 implementation date) - 1/15/05

2 For fiscal years ending 11/15/05 - 1/15/06

3 Section 404 reports

Appendix 5
Examples of Rating Actions Referring to Control Problems from April 2, 2005 - April 1, 2006

| Company | Rating Action | Basis for Decision |
|-------------------------|--|--|
| Bally Technologies Inc. | <p>Senior secured revolving credit facility due 2008, to B1 from Ba3</p> <p>Senior secured term loan due 2009, to B1 from Ba3</p> <p>Corporate family rating, to B1 from Ba3</p> <p>Review for downgrade</p> | <p>The downgrade was in response to the company's announcement it will not be in a position to file its Annual Report on Form 10-K for the fiscal year ended June 30, 2005 by September 13, 2005. Although Alliance intends to file for a 15 calendar day extension, the company stated that it may not be able to file the Form 10-K by the extended filing date. The downgrade also takes into consideration that in the course of the annual closing and audit process, several transactions came under review with respect to the timing of revenue recognition. This finding has prompted a broader review of Alliance's sale contracts and revenue recognition practices.</p> <p>The ratings were placed on review for further possible downgrade given that until the broader review of Alliance's sale contracts and revenue recognition practices is completed, it will not be possible for the company to determine whether a restatement of certain quarterly results for fiscal year 2005 or other periods will be required.</p> <p>Any further downgrade will consider the business and financial impact of this announcement and subsequent findings, particularly with respect to the impact it may have on the company's overall business reputation.</p> |
| Bausch & Lomb | Review for downgrade | <p>Moody's Investors Service ("Moody's") has placed the Baa3 senior unsecured debt rating of Bausch & Lomb, Inc. ("BOL" or the "company") on review for possible downgrade. BOL's failure to file financial statements with the Securities & Exchange Commission ("SEC") since the end of its second quarter for 2005 prompted Moody's rating action. The review is also prompted by concerns about the effectiveness of BOL's internal controls because of (i) investigations by the company into financial reporting and control issues at its Brazilian subsidiary (BL Industria Otica), BL Korea, and other foreign subsidiaries and (ii) potential restatements with respect to deferred income tax balance sheet accounts as disclosed in BOL's recent form 12b-25 filing with the SEC and recent press release. Moody's anticipates that these developments will lead to the company reporting material weaknesses in its internal accounting controls, as prescribed under Section 404 of Sarbanes-Oxley.</p> <p>Moody's believes that BOL's failure to file its financial statements with the SEC timely increases the risk that lenders will exercise their rights under the terms of various indentures to accelerate payments covering BOL's bonds. Moody's believes that ongoing financial statement filing delays, internal investigations into financial controls and policies at BOL's foreign subsidiaries, corrective action implementation and recent issues with ReNu in Singapore and Hong Kong have created significant management distractions. These developments have reduced investor confidence in management's internal control functions and cast doubt on the accuracy of financial reporting, according to Moody's.</p> |

Appendix 5
Examples of Rating Actions Referring to Control Problems from April 2, 2005 - April 1, 2006

| Company | Rating Action | Basis for Decision |
|--------------------|---|---|
| BearingPoint, Inc. | <p>Senior implied rating to B1 from Ba2</p> <p>Interim senior secured credit facility maturing May 2005 to Ba3 from Ba1</p> <p>Senior unsecured Issuer Rating to B2 from Ba3</p> <p>Series A and Series B convertible subordinated debentures to B3 from B1</p> <p>Review for downgrade</p> | <p>The rating action follows the company's announcement that it will be unable to meet the April 29, 2005 extended filing requirements for its 2004 Form 10-K. As a result, the company will be unable to access its interim credit facility, which it plans to terminate following completion of the recently announced \$250 million new convertible debentures offering.</p> <p>The rating action reflects very weak financial performance, significant funding requirements and limited financial flexibility. The ratings remain under review for further possible downgrade, pending completion of the offering, resolution of the company's interim credit facility and the ultimate filing of its 2004 10-K and interim quarterly reports for 2005. The review will also consider the potential negative implications for its franchise in light of these uncertainties.</p> <p>The delay in filing the company's 2004 Form 10-K is related to material weaknesses in its internal control and financial reporting, restatements of prior period reported results and impairment of goodwill for its European, Middle East and Africa business segment. In addition, the company indicated that its auditor may issue a report that cites a "going concern" opinion, if the auditor concludes that the company would require additional financing to support its operations at current levels through the end of 2005. Completion of the proposed financing could help address that specific concern.</p> |
| Carmike Inc. | Rating outlook to negative from positive | <p>The negative outlook incorporates Moody's concerns over Carmike's delayed filing of its form 10k and the resultant need to seek waivers for the requirement to file timely financial statements from its bank lenders. Additionally, the weak internal controls, including continued challenges in hiring and retaining financial staff with the appropriate expertise, pose risk. Should Carmike resolve these accounting issues and demonstrate significant progress towards remediation of its internal control weaknesses, a stable outlook is likely. Due to Moody's concerns over staffing and control issues, as well as weaker than expected fundamental performance, a positive outlook is unlikely over the intermediate term. Moody's would consider a positive outlook if leverage (fully adjusted to capitalize operating leases as debt) fell below 5 times and evidence of a more robust financial staff existed.</p> |
| Chesapeake Corp. | Rating outlook to negative from stable | <p>Chesapeake's Ba3 corporate family rating is influenced primarily by the relationship between debt and cash flow, the company's relatively small aggregate scale, and its lack of backwards integration. Chesapeake's rating is also influenced by contingent issues stemming from environmental and accounting matters. The rating is also suppressed by risks that leverage may increase as a consequence of debt incurred to finance acquisitions in support of a growth strategy. Historically, margins for consumer packaging companies have been relatively stable. This factor has supported the rating. The rating is also supported by the company's good liquidity arrangements.</p> |

Appendix 5
Examples of Rating Actions Referring to Control Problems from April 2, 2005 - April 1, 2006

| Company | Rating Action | Basis for Decision |
|----------------------|--|--|
| CSK Auto Corporation | Review for downgrade | <p>This review action results from CSK's announcement on March 27, 2006 that it is investigating accounting errors and irregularities surrounding inventory valuation and vendor allowances, and hence is delaying scheduling a date for the announcement of its fourth quarter and fiscal year end 2005 financial results. In addition, the Company stated that it would be evaluating whether any of the accounting errors and irregularities were the result of one or more material weaknesses in its internal controls in addition to those previously reported in its fiscal 2004 Form 10-K, and that it was likely to report material weaknesses in its internal controls for fiscal 2005. The Audit Committee has retained independent counsel and a separate accounting firm to conduct a thorough investigation, the final scope of which cannot be determined at this time. While the Company has asserted that there will be no impact on either historically reported sales or cash flows from issues presently known, the potential nature and magnitude of errors and irregularities that could be uncovered is unknown, as well as the length of time that it may take to resolve these issues. Under the terms of CSK's bank credit agreement, it is a default if the Company does not deliver audited annual financial statements within 95 days of its fiscal year end.</p> |
| Dana Corporation | <p>Corporate family, to B1 from Ba2</p> <p>Senior Unsecured Notes to B1 from Ba2</p> <p>Speculative Grade Liquidity to SGL-4, from SGL-3</p> | <p>The rating action concludes the ratings review initiated September 16, 2005 and reflects the continued challenging environment for the company's auto components businesses and the prospects for continued weak financial metrics. The downgrades also incorporate the company's withdrawal of its guidance for 2005 full year earnings, announced deferred tax write-off, and the expected re-statement of its financial statements. The outlook is negative.</p> <p>The negative outlook reflects Moody's belief that the continuing challenging environment in the auto parts industry, including OEM price reduction requests, OEM production uncertainty, and high raw material costs, will continue to pressure Dana's credit metrics despite the company's announced restructuring plans. While the restructuring should help to stem recent losses and position the company for longer term competitiveness, financial metrics are unlikely to be supportive of a Ba rating for the foreseeable future. The restructuring will consume funds during the near term, but planned asset sales could mitigate some of the effect on Dana's liquidity. Nevertheless, a critical near term step necessary to support the company's liquidity profile and avoid further rating downgrades relates to its ability to conclude its internal accounting investigation and bring its financial reporting current.</p> |

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| Company | Rating Action | Basis for Decision |
|-----------------------|------------------------------|---|
| Doral Financial Corp. | Senior debt to Ba1 from Baa3 | <p>Moody's noted that there had been a number of corporate governance failures at Doral, notably in risk management, accounting practices and board oversight. The decision to remove some of the key management members, including the CEO, CFO and Treasurer, raises some concerns about the extent of internal control failures. Some family members were retained in key leadership roles to encourage employee commitment. On the other hand, this decision could be an indication of weak board decision-making. The appointment of an independent chairman is a positive step, but it is unclear if any new independent directors will be appointed in the short term.</p> |
| Dresser, Inc. | Review for downgrade | <p>Moody's review will entail a review of the 10-K, when filed; an assessment of the implications of Dresser's material internal control weaknesses; and prospects for further leverage reduction over the near-term. Dresser's ratings could be downgraded by one notch if the company is unable to file its Form 10-K by the second quarter of 2006 due to additional reporting weaknesses or material restatements.</p> <p>Dresser has reported six material weaknesses, two of which relate to its on/off valves business, which was sold in November 2005. These weaknesses are the root cause for the company's filing delays and restatements. While Moody's notes that the financial impact of the restatements has ultimately been small, the nature and pervasiveness of the internal control issues reported are very serious because they relate to company-level controls and indicate a weak control environment. While Dresser is making efforts to address its internal control weaknesses, the company is unlikely to avoid reporting material weaknesses when it does file its 2005 10-K. Until the material weaknesses are fully resolved, some uncertainty remains regarding the company's financial reporting.</p> |

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Examples of Rating Actions Referring to Control Problems from April 2, 2005 - April 1, 2006

| Company | Rating Action | Basis for Decision |
|-----------------------|--|---|
| Ferro Corporation | <p>Senior unsecured to Ba1 from Baa3</p> <p>Senior unsecured to B1 from Ba1</p> <p>Senior implied to B1 from Ba1</p> <p>Rating withdrawn, but could reassign ratings when audited financial statements for 2004 and 2005 are received.</p> | <p>The downgrade of Ferro's ratings to Ba1 reflects continuing delays in the delivery of financial statements and weak credit metrics. Although the company's forensic audit has confirmed the limited scope of the inappropriate accounting entries, the company's auditor has requested a further review by a new investigation team. In Moody's opinion, this will further delay the issuance of audited financial statements and will likely cause the company to seek another waiver from its bank group. Against this backdrop, the company continues to generate financial metrics that remain below the level required to support an investment grade rating.</p> <p>The downgrade of Ferro's ratings to B1 reflects the continuing delay in the delivery of audited financial statements. While the company business profile is consistent with a rating in the Ba category, according to Moody's rating methodology for the chemical industry, the lack of timely audited financial statements creates uncertainty over the company's financial profile. This uncertainty is reflected by the assignment of the B1 ratings.</p> <p>The withdrawal of Ferro's ratings reflects the absence of audited financials for a sustained period of time and the concern that there may be additional delays in receiving audited financial statements for 2005. Hence, Moody's believes that it lacks adequate information to maintain ratings on the company and its debt. Moody's guidelines for the withdrawal of ratings (January 2004 publication) can be found on moodys.com. If audited financial statements for 2004 and 2005 are received prior to the end of 2006.</p> |
| Flowserve Corporation | <p>Ratings outlook to negative from stable</p> | <p>Moody's said that the rating outlook change reflects heightened concerns associated with the expanded scope and more pervasive nature of Flowserve's internal control weaknesses than Moody's previously anticipated. In its latest comments on May 26, 2005, Flowserve identified new material control weaknesses that existed at the end of 2004, which are suggestive of company-level deficiencies in a number of important aspects of its internal control and reporting process.</p> <p>In Moody's view, these weaknesses, together with the ongoing restatement of its financial statements and the pending tax audit, raise concerns over the company's financial reporting process and may affect the management's ability to effectively control the business.</p> <p>On the other hand, Moody's also notes that since some of the material control weaknesses first became known in 2004, the company's senior management has taken a proactive and aggressive approach towards identifying and correcting the issues. It appears that the significant time and resources that the company has invested has led to some progress in the remediation process in certain areas such as the control environment, internal audit processes, segregation of duties, fraud prevention, etc. Nevertheless, the effectiveness of the remediation efforts and recently implemented control processes will not be known until the company's auditor completes its testing and validation process towards the end of this year.</p> |

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Examples of Rating Actions Referring to Control Problems from April 2, 2005 - April 1, 2006

| Company | Rating Action | Basis for Decision |
|---------------------------------------|----------------------|---|
| General Motors Corporation | Review for downgrade | <p>These rating actions follow GM's announcement that it will delay filing its annual report on Form 10-K with the SEC due to an accounting issue regarding the classification of cash flows at ResCap, the residential mortgage subsidiary of GMAC.</p> <p>The GM rating actions reflect Moody's concern that the delayed filing, in combination with the ensuing time necessary to resolve the outstanding accounting matters, poses the risk of a potential event of default under the terms of the indentures covering GM's \$32 billion in bonds as well as its \$5.6 billion undrawn credit facility. Additionally, further delay in meeting the company's filing requirements could impede prospects for GM's proposed sale of a majority interest in GMAC.</p> <p>The GMAC and ResCap rating actions reflect the rating agency's view that the delay in filing financial statements, and the factors contributing to the delay, highlight substantial control issues in both firms. Though neither GMAC nor ResCap are required to file their financial statements with the SEC until March 31, Moody's is also concerned that there is a potential for further filing delays beyond the March 31 deadline and any short-term filing extensions, which could present a challenge to the two company's efforts to raise debt in the capital markets. Failure to file in a timely manner could also constitute a default under bond indentures and bank agreements of each company, though these agreements customarily include cure periods that provide for additional time to resolve such issues.</p> |
| General Motors Acceptance Corporation | Review for downgrade | <p>The GMAC and ResCap rating actions reflect the rating agency's view that the delay in filing financial statements, and the factors contributing to the delay, highlight substantial control issues in both firms. Though neither GMAC nor ResCap are required to file their financial statements with the SEC until March 31, Moody's is also concerned that there is a potential for further filing delays beyond the March 31 deadline and any short-term filing extensions, which could present a challenge to the two company's efforts to raise debt in the capital markets. Failure to file in a timely manner could also constitute a default under bond indentures and bank agreements of each company, though these agreements customarily include cure periods that provide for additional time to resolve such issues.</p> <p>GM continues to be engaged in efforts to sell a controlling stake in GMAC but Moody's believes that negative developments such as the filing delay could slow the progress of the sale process. In addition, Moody's believes that the characteristics of potential buyers of the GMAC stake and the transaction's structure are increasingly less likely to contribute to a rating outcome that is higher than GMAC's or ResCap's current ratings. Given this view, together with the issues highlighted above, even if GMAC and ResCap successfully file their financial statements within their deadlines, Moody's does not expect to change the current rating review status at that time.</p> |

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Examples of Rating Actions Referring to Control Problems from April 2, 2005 - April 1, 2006

| Company | Rating Action | Basis for Decision |
|----------------------------|---|---|
| Highwoods Properties, Inc. | Review for downgrade | <p>Moody's Investors Service placed the ratings of Highwoods Realty Limited Partnership (senior unsecured debt at Ba1) on review for possible downgrade. According to Moody's, this rating action reflects concerns surrounding Highwoods' timely filing of audited 2005 financial data, refinancing strategy, and resolution of its 2006 debt maturities following the REIT's announcement to replace its auditors.</p> |
| Ikon Office Solutions Inc. | Ratings outlook to negative from stable | <p>Moody's Investors Service changed the ratings outlook for IKON Office Solutions (senior implied at Ba2) to negative from stable. The change in outlook to negative reflects (1) weak revenue patterns and strong pricing competition that continues to pressure margins, which in turn is necessitating cost reduction efforts and a streamlining of certain business activities in addition to (2) an accounting review of its US trade receivable balances that has delayed its ability to file its most recent financial statements.</p> <p>IKON is undergoing an accounting review relating to certain of its US trade receivables that surfaced during a review of billing controls and reserve practices during its Sarbanes-Oxley testing. Based on preliminary data, IKON estimates that US trade receivables of \$372 million could be overstated by about \$45 million, which will likely require a restatement of revenues and trade accounts receivable of prior period financial statements. Although the ultimate charge will be non cash, it will reduce net worth as defined in its \$200 million bank facility, however, the covenant would still have ample cushion, unless the charge were notably higher. IKON has received a waiver from its bank group to file its March 2005 financials by June 30, 2005. IKON has not and is not expected to borrow under this bank facility, however, it does consistently use it for approximately \$30 million to \$40 million of letters of credit.</p> <p>IKON's credit ratings could be downgraded to the extent that (1) IKON is not able to file its March 2005 financials by June 30, 2005, and/or (2) it is not able to show an ability to reverse the decline in revenues (adjusting for exited businesses) and sufficiently streamline its cost structure to improve its operating margins to the 5% level on a sustainable basis. The ratings could be stabilized if IKON demonstrates clear progress in stabilizing revenue, improving profit margins, satisfactorily completes its review of its US trade receivables billing and control practices and files its fiscal second quarter financial statements.</p> |

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| Company | Rating Action | Basis for Decision |
|-------------------|-----------------------------------|---|
| Interpublic Group | Senior unsecured to Ba1 from Baa3 | <p>The downgrade is driven by revenue growth significantly below the company's peers, weak operating margins and negative cash flow, both indirectly and directly caused by historical extremely weak internal controls, lack of management information systems, past discipline and effective cost planning and monitoring. Much of this is highlighted by the failure to integrate the significant number of past acquisitions, and the extremely high cost to complete the company's past and near-term financial statements audits and internal control certifications as well as the significant internal control and shared services remediation.</p> <p>IPG benefits from reduced uncertainty as a result of filing its past due financial statements, but will continue to incur significant costs to implement a stronger control environment that includes implementing a shared services platform and global management information system, hiring and retaining additional financial personnel, and ensuring sufficient external professional and audit staff necessary to assist in the upgrade and testing of the control environment as well as maintain timely filings. Moody's notes that external auditors had to perform extensive broad scope testing procedures to complete the audit for fiscal year 2004 and will disclaim an opinion on internal controls for that period. Further, auditors are expected to provide an adverse opinion on internal controls for the 2005 fiscal year.</p> <p>Moody's anticipates IPG will access capital markets opportunistically to bolster liquidity and maintain, if not strengthen, its balance sheet. However, IPG will be limited in its access to the public capital markets until it receives an unqualified or adverse opinion on its internal controls (and an unqualified financial statement audit opinion) which is expected when the 2005 10-K is filed, and will thereafter be unable to use "short form" registration for 12 months, unless the SEC states otherwise. In addition, IPG, not unlike its peers, retains a sizable current asset to current liabilities deficit (accounts payable and accrued liabilities in excess of receivables and expenditures billable to clients) of approximately \$1.7 billion at the end of June 2005. Moody's estimates that about half of this figure represents timing issues and deferred revenues that are not expected to be a call on cash in the future. Working capital sourcing of capital is common for the industry and Moody's expects the large multi-national agencies to continue to manage working capital as a low-cost source of financing. However, the expected cash portion of the deficit is a potential draw on cash (if revenues decline) that Moody's includes in debt if and when it exceeds cash balances when calculating credit metrics.</p> |

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| Company | Rating Action | Basis for Decision |
|----------------------------|--|---|
| Kansas City Southern | Review for downgrade | <p>Moody's Investors Service placed under review for possible downgrade all debt ratings of Kansas City Southern ('KCS'), and its wholly owned subsidiaries The Kansas City Southern Railway Company ('KCSR', senior unsecured at B2), and Kansas City Southern de Mexico, S.A. de C.V. ('KCSM', formerly TFM S.A. de C.V., senior unsecured at B2). Moody's review was prompted by the inability of KCS to file its Form 10-K after requesting an extension and indicating the filing would be made by March 31, 2006.</p> <p>Moody's review will focus on whether KCS will be able to file audited financial statements over the very near term and whether any additional adverse financial matters are disclosed, the prospects for the separate bank syndicates for both KCSR and KCSM to provide waivers to provide full access to the revolving credit facilities, and whether the inability to produce financial statements on a timely basis indicates a broader material weakness in financial reporting and/or in control procedures.</p> <p>Neither KCSR nor KCSM are in compliance with the reporting requirement of their respective bank agreements and, if the financial statements are not filed by April 30, 2006, may not comply with reporting requirements of certain lease agreements. The company is seeking waivers to provide access to the revolvers. The company is still in the seasonally low portion of the year and may need access to the revolver over the near term to supplement its cash position. The delay in filing stems from the inability of the company to complete the account reconciliation of its subsidiary, KCSM, and provide its auditor the information to issue an opinion, although KCS acquired full control of KCSM during 3Q, 2005. Also, KCS previously indicated that management's opinion was that a material weakness existed in financial controls, but was isolated in the tax reporting area. Inability to file financial statements on a timely basis, however, could indicate broader weakness in financial controls which could give rise to future restatements.</p> |
| King Pharmaceuticals, Inc. | Rating outlook to negative from stable | <p>Until a new CFO is hired and the company's financial policies, acquisition strategy and correction of internal controls become more clear, Moody's does not believe that King's credit profile has fully stabilized. As a result, Moody's is assigning a negative rating outlook. Moody's will evaluate the appropriateness of the negative outlook over the next 12 months as King's acquisition plans unfold, as well as management's refinancing plans for the \$345 million convertible note putable in November 2006. Under many scenarios, King may be able to withstand these challenges and maintain sufficient financial flexibility to maintain its current rating.</p> |

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Examples of Rating Actions Referring to Control Problems from April 2, 2005 - April 1, 2006

| Company | Rating Action | Basis for Decision |
|--------------------------------|--|--|
| Navistar Financial Corporation | Senior unsecured to B1 from Ba3 Subordinate to B3 from B2 | <p>Moody's Investors Service lowered the ratings of Navistar International Corporation (senior unsecured to B1 from Ba3 and subordinate to B3 from B2) and placed the ratings under review for further possible downgrade. Moody's rating actions followed Navistar's announcement that it has received notice from purported holders of more than 25% of the company's approximately \$200 million senior subordinated exchangeable notes due 2009, claiming that the company is in default of reporting requirements relating to the filing of its financial statements for the fiscal year ending October 31, 2005. The company disputes the allegation of default. Nevertheless, receipt of the notice of default represents a further negative development for the company stemming from its inability to file financial statements in a timely manner because of accounting issues.</p> <p>The downgrade and review reflect the heightened financial risk stemming from uncertainty as to Navistar's ability to file its financial statements in a timely manner given the number and complexity of various open items that the company continues to discuss with its auditors Deloitte and Touche. As a result of these open issues, Navistar cannot estimate the time frame for the filing of its October 2005 financial statements. Moody's review is concentrating on Navistar's ability to ensure the stability of its capital structure in the face of the alleged default, the ultimate resolution of these accounting and auditing issues, and the attendant risks that the rating agency believes Navistar could face. These potential risks include: a protracted delay in completing the audit and in filing financial statements; the need for additional or extended waivers relating to lending agreements; potential adverse impacts on the company's liquidity if needed waivers can not be obtained in a timely fashion; potential for material restatements of past financial results; a significant deviation between the audited results for 2005 and the company's previous guidance for that year; and, a determination that there might be material weaknesses in Navistar's reporting controls and procedures.</p> |
| Pope & Talbot | Corporate family rating to B3 from B2 Senior unsecured regular bond/debenture to Caa1 from B3 | <p>In addition, Pope & Talbot announced on March 14 that it was "unable to complete the 2005 tax review in time for the March 15, 2006 [earnings] release. The release and management call will be rescheduled when that process is complete. The Company expects that this tax review will also result in a delay in the filing of its Annual Report on Form 10-K beyond the March 16 due date, but not beyond March 31, 2006." In the event the company is not able to meet this revised timeline and the delay persists beyond 60 days; given the then lack of current information, Moody's would consider withdrawing the company's ratings at that time.</p> |

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| Company | Rating Action | Basis for Decision |
|---------------------------------|--|---|
| Residential Capital Corporation | Review for downgrade | <p>The GMAC and ResCap rating actions reflect the rating agency's view that the delay in filing financial statements, and the factors contributing to the delay, highlight substantial control issues in both firms. Though neither GMAC nor ResCap are required to file their financial statements with the SEC until March 31, Moody's is also concerned that there is a potential for further filing delays beyond the March 31 deadline and any short-term filing extensions, which could present a challenge to the two company's efforts to raise debt in the capital markets. Failure to file in a timely manner could also constitute a default under bond indentures and bank agreements of each company, though these agreements customarily include cure periods that provide for additional time to resolve such issues.</p> |
| Reynolds and Reynolds Company | <p>Senior unsecured from Baa2 to Baa3</p> <p>Senior unsecured to Ba1 from Baa3</p> <p>Review for downgrade</p> | <p>Moody's Investors Service downgraded The Reynolds and Reynolds Company's senior unsecured ratings to Ba1 from Baa3 and placed the ratings on review for further possible downgrade. At the same time Moody's assigned a corporate family rating of Ba1, also placed on review for possible downgrade.</p> <p>The downgrade reflects continuing challenges the company faces in resolving the SEC accounting review that has delayed the timely filing of its September 2005 annual report and quarterly reports thereafter. The downgrade also reflects the company's limited financial flexibility considering its moderate cash balance, the near term retirement of \$100 million notes, and the need to obtain additional waivers for its revolver and A/R securitization facility.</p> <p>The continuing review will focus on the expected timing for the filing of the company's 10-K and quarterly financial statements and the company's financial flexibility, including the company's ability to access its revolving credit facility and A/R securitization facility. The review will also incorporate weakness within the domestic automotive dealership industry, which constrains prospects for the company's revenue growth. Moody's expects domestic automotive OEM financial difficulties and competition within the automotive dealer management system (DMS) market will continue to result in longer sales cycles and pricing pressure for DMS vendors.</p> <p>Moody's downgraded the company's rating to Baa3 from Baa2 and placed the company's ratings on review for further possible downgrade on February 24, 2006. Moody's had initiated that review subsequent to the company's December 2005 announcement that it will delay its Form 10-K for the year ended September 30, 2005 and is in the process of reviewing its revenue recognition policies, which may result in a restatement of its reported results.</p> |

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Examples of Rating Actions Referring to Control Problems from April 2, 2005 - April 1, 2006

| Company | Rating Action | Basis for Decision |
|------------|---|--|
| Saks, Inc. | <p>Senior implied to B1 from Ba3</p> <p>Senior unsecured debt guaranteed by operating subsidiaries to B1 from Ba3</p> <p>Senior unsecured long term issuer rating to B2 from B1</p> | <p>Moody's Investors Service downgraded the ratings of Saks Inc. and placed the company on review direction uncertain. The downgrade is based upon: 1) concerns over the company's internal controls and 2) the company's inability to file its 10K on a timely basis which places it at risk for an event of default as defined under its bond indentures.</p> <p>The review direction uncertain reflects the high degree of uncertainty at this time regarding the events that have caused the internal investigation, the adequacy of Saks' internal controls, the scope and timing of the SEC investigation, the outcome of the internal and external investigations, the timing of the company's eventual filing of its 10K and first quarter 10Q, and whether the trustee or 25% of bondholders under any single indenture issues a notice of default. Moody's ongoing review will focus on all of these issues, as well as the liquidity profile of the company as developments unfold and any potential strategic alternatives that may be available to the company.</p> <p>Ratings could move upward to the Ba3 senior implied level should the outcome of the investigation be limited to the initial \$21.5 million of irregularities from vendor allowances, as well as any associated material weakness noted being limited to accounting for leases and/or an immaterial amount of vendor allowances. Ratings could be confirmed at the senior implied B1 level should material weakness noted be more widespread or should the company's reported results support a B1 rating category. Ratings could move further down should the investigation uncover more significant irregularities, the trustees or bondholders serve the company with notice of a default, the company's liquidity profile weakens, or reported results are significantly weaker than the company has announced to date.</p> |

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Examples of Rating Actions Referring to Control Problems from April 2, 2005 - April 1, 2006

| Company | Rating Action | Basis for Decision |
|----------------------------|--|---|
| Sirva Inc. | <p>Senior secured revolving credit facility to B2 from Ba3</p> <p>Senior secured term loan B to B2 from Ba3</p> <p>Corporate family rating to B2 from Ba3</p> | <p>The downgrade reflects an increased level of uncertainty in assessing the company's financial condition and long-term earnings prospects given the continuing delay by SIRVA, Inc., in filing the required Form 10-K for fiscal year 2004 and the interim financial information, Moody's view of diminished financial strength at SWI as implied by the nature of the financial charges announced by SIRVA, Inc., as well as the negative effects that the recently disclosed material weaknesses in accounting controls and reporting systems have on the quality of the company's management information systems and reported financial results.</p> <p>SIRVA has disclosed that its internal controls over financial reporting were ineffective as of December 31, 2004, causing it to evaluate the its internal control structure and financial reporting procedures to comply with reporting requirements prescribed by Section 404 of the Sarbanes-Oxley Act. Moody's views the weakness cited to be sufficient to impact ratings, as the adequacy of financial reporting systems, personnel and training is called into question.</p> <p>The negative outlook reflects uncertainty of the long term financial strength of the company as a result of the disclosed inadequate financial controls. Moody's also notes that the full impact from any restructuring that the company undertakes to remediate problems associated with its management controls and financial reporting systems are not yet fully known.</p> |
| Telephone and Data Systems | <p>Senior unsecured to Baa3 from Baa2</p> <p>Senior unsecured medium term note program to Baa3 from Baa2</p> <p>Senior unsecured shelf registration to (P) Baa3 from (P) Baa2</p> <p>TDS Capital III: Preferred stock shelf registration to (P) Ba2 from (P) Ba1</p> | <p>Moody's Investors Service has downgraded Telephone and Data Systems, Inc.'s (TDS) and United States Cellular Corp.'s (U.S. Cellular or USM), TDS' 82% owned subsidiary, senior debt ratings to Baa3 from Baa2. All ratings are on under review for further possible downgrade. The downgrade reflects ineffective internal control over the financial reporting process due to an insufficient number of qualified personnel and the company's announcement that it will restate its financial results for the first and second quarters of 2005, and for the years ended December 31, 2000-2004 and for each of the quarters of 2004 and 2003. The restatements are intended to correct material errors surrounding USF expense reporting and other items.</p> |
| Thermadyne Holdings Inc. | <p>Review for downgrade</p> | <p>In addition, the company's inability to file its 2005 Form 10-K on time indicates that its previously disclosed internal control weaknesses have not been fully resolved. The nature and pervasiveness of the control issues combined with this delinquent filing raise concerns about the company's control environment and the reliability of its financial information. More importantly, these control issues could adversely affect management's ability to forecast results and control the business. Once the Form 10-K is filed, Moody's will review the internal control report and assess the full extent of the internal control weaknesses and their potential effect on the company.</p> |

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| Company | Rating Action | Basis for Decision |
|------------------------------------|--|---|
| United States Cellular Corporation | <p>Senior unsecured to Baa3 from Baa2</p> <p>Senior unsecured shelf registration to (P)Baa3 from (P) Baa2</p> | <p>Moody's Investors Service has downgraded Telephone and Data Systems, Inc.'s (TDS) and United States Cellular Corp.'s (U.S. Cellular or USM), TDS' 82% owned subsidiary, senior debt ratings to Baa3 from Baa2. All ratings are on under review for further possible downgrade. The downgrade reflects ineffective internal control over the financial reporting process due to an insufficient number of qualified personnel and the company's announcement that it will restate its financial results for the first and second quarters of 2005, and for the years ended December 31, 2000-2004 and for each of the quarters of 2004 and 2003. The restatements are intended to correct material errors surrounding USF expense reporting and other items.</p> |
| Vesta Insurance Group | <p>Senior debt to B3 from B2</p> <p>Rating outlook to negative from stable</p> | <p>Moody's Investors Service announced today that it has lowered the rating of Vesta Insurance Group's senior debt to B3 from B2, following continued delays in the filing of the company's GAAP financial statements and unfavorable developments regarding the status of ongoing internal accounting control assessments. Moody's confirmed the rating of the trust preferred securities of Vesta Capital Trust I at Caa2. The outlook for the ratings is negative.</p> <p>The negative outlook reflects the considerable uncertainty that exists around the scope and final outcome of the company's internal accounting review including the potential for significant negative adjustments to the company's financial statements.</p> |
| Visteon Corp. | <p>Senior implied and senior unsecured ratings to B3 from B1</p> <p>Speculative Grade Liquidity Rating to SGL-4 from SGL-3</p> | <p>Moody's Investor Service has lowered the senior implied and senior unsecured ratings of Visteon Corporation ("Visteon") to B3 from B1 and the Speculative Grade Liquidity Rating to SGL-4 from SGL-3. The actions follow a recent announcement from the company that it will delay the filing of its quarterly report on Form 10-Q for its first quarter of 2005 due to the recent identification of errors in its accruals for costs principally associated with freight and material surcharges that relate to prior periods. In addition, the Audit Committee of Visteon's Board of Directors has determined that the company will conduct an independent review of the accounting for certain transactions originating in the company's North American purchasing activity. While Moody's noted that the amounts involved in the accounting errors identified are moderate, the delay in providing financial statements could further impair the company's efforts to implement a needed business restructuring. Visteon has been in negotiations with Ford Motor Company (Ford) to implement a longer term solution to its uncompetitive cost structure and business difficulties. While a successful resolution to those negotiations with Ford would be helpful to the Visteon credit and would be considered in the future positioning of the rating, the new accounting developments create additional uncertainty and complexity to the company's current liquidity profile, and result in the further rating downgrade.</p> |

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