

## Special Report

# America's Most Trustworthy Companies

By John J. Ray, Electronically reprinted from March 27, 2008

One needs to look no further than the collapse of **Bear Stearns** to recognize the importance of analytical techniques that can help investors identify companies with aggressive or risky accounting practices. For such advice, we have repeatedly turned to Audit Integrity, a financial analytics company headquartered in Los Angeles. As far back as August of last year, Audit Integrity's analysis of Bear Stearns generated numerous red flags.

This is the second year that Audit Integrity has provided Forbes.com with a list of 100 American companies that, by their assessment, have consistently released transparent accounting statements and follow conservative accounting procedures. According to Audit Integrity, these companies do not play games with revenue and expense recognition or asset valuation.

In addition, these top-ranked companies do not exhibit revolving-door management, or substantial insider trading relative to their peers. Audit Integrity also tells us that such good housekeeping practices leave companies better prepared for difficult times.

Here is how it works: Audit Integrity assigns corporations an Accounting and Governance Risk (AGR) score based on objective analysis of accounting factors historically linked to fraud and governance

factors that increase shareholder risk.

Using a scale from 0 to 100, it rates the 15% of companies with the highest scores as Conservative and the 10% of companies with the lowest scores as Very Aggressive. Companies in between those extremes receive either an Average or Aggressive rating from Audit Integrity.

Audit Integrity claims that its scoring system has proved to be a statistically reliable predictor of negative events, such as U.S. Securities and Exchange Commission enforcement actions, delays in financial reporting, shareholder litigation or bankruptcy filings. For more detail on Audit Integrity's methodology, go to [www.auditintegrity.com/methodology](http://www.auditintegrity.com/methodology).

Audit Integrity sorted this year's list of the 100 Most Trustworthy companies into three groups, based on market capitalization. Two insurance companies, **Loews** (nyse: LTR) and **Transatlantic Holdings** (nyse: TRH), lead their large-cap and mid-cap groups with AGR scores of 87 and 85, respectively. The top-scoring small-cap, information technology catalog and online retailer **PC Connection** (nasdaq: PCCC), leads all companies, regardless of market value, with an AGR of 88.

One of last year's most trustworthy outfits, **AllianceBernstein** (nyse: AB), a diversified investment-management com-

pany, slipped off this year's list of the top 100. AllianceBernstein moved down in the AGR rankings to an Average classification, but Audit Integrity disqualified the company this year due to warning flags relating to its pension accounting.

It is worth noting that mergers or acquisitions accounted for 10 of the top 100 companies that Audit Integrity cited last year. Audit Integrity claims there is a strong correlation between high AGR scores and future stock market returns, but we must confess that its 2007 list was something of a disappointment. Of the stocks still actively trading, the group had an average loss of 5%, compared with a gain of 3.5% over the same period.

Adding in the 10 acquired companies as of their last trade date only slightly improves results. Perhaps the 2007 list of quality companies will win out over the longer term.

To qualify for the following list, the 100 companies also had to have market values of \$200 million or more, and AGR ratings of Conservative or Average over each of the last four quarters, and no amended filings or material restatements over the last year. They must also rank high in Audit Integrity's Equity Risk Ranking, which indicates a positive forecast for equity returns.

## In Pictures: The Most Trustworthy Mid-Cap Companies



### Mercury General Corporation

Founded in 1962, Mercury General sells insurance to motorists in 13 states, including New York, Texas and California. Headquartered in Los Angeles, and with over \$4 billion in total assets, Mercury is the second-largest private passenger automobile insurer in California. In addition to private automobile policies, the company provides insurance coverage for homeowners, commercial drivers and property owners.

Rank***	Company	Audit Integrity Industry	Average AGR score*	Market Cap (\$mil)**	Current Quarter AGR Score
<b>1st</b>	<b>Mercury General</b>	<b>Insurance (Prop. &amp; Casualty)</b>	<b>85</b>	<b>2,422</b>	<b>85</b>
1st	Transatlantic Holdings	Insurance (Accident & Health)	85	4,369	88
1st	Belo	Printing & Publishing	85	1,103	86
2nd	American Natl Insurance	Insurance (Life)	84	2,815	84
2nd	Hearst-Argyle Television	Broadcasting & Cable TV	84	1,989	87

\* Last four quarters \*\* Market Cap as of March 20, 2008 \*\*\* This is not the full list, only a section of the list

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