

## The 100 Most Trustworthy Companies

By Helen Coster, Electronically reprinted from April 5, 2010



**These are the American businesses that have the most transparent and conservative accounting practices and most prudent management.**

Events of the last few years—corporate scandals, bankruptcies, the recession—have greatly damaged investors’ trust in some of the country’s largest public companies. We wanted to identify the most transparent and trustworthy businesses that trade on American exchanges, so Forbes turned to Audit Integrity, an independent financial analytics company in Los Angeles. Audit Integrity looks beyond the raw data on companies’ income statements and balance sheets to assess the true quality of corporate accounting and management practices.

As early as August 2005, Audit Integrity’s proprietary rating system signaled potential problems at **Lehman Brothers** (LEHMQ). In December of 2005 it gave **American International Group** (AIG) a significant downgrade. Last year it flagged the Chicago management consultancy **Huron Consulting Group** (HURN) several months before the company announced it was reissuing its financial statements for three fiscal years and its chief executive, chief financial officer and accounting chief resigned.

For the fourth year, Audit Integrity has provided Forbes with a list of companies

that are at the other end of the spectrum from the beleaguered firms that make so many of today’s headlines. Audit Integrity finds that its 100 Most Trustworthy Companies have consistently demonstrated transparent and conservative accounting practices and solid corporate governance and management. They do not play games with revenue and expense recognition or with asset valuation. “These are the good guys,” says Jack Zwingli, the chief executive of Audit Integrity. “They’ve consistently shown accuracy and transparency in their financial reporting.”

They’ve also fared well on Wall Street. The shares of the average company on the 2009 Most Trustworthy Companies list are up 53% in the 52 weeks leading to March 24, compared with 45% for the Standard & Poor’s 500.

Audit Integrity’s evaluation penalizes companies for unusual or excessive executive compensation, high levels of management turnover, substantial insider trading relative to their corporate peers or high levels of short-term executive compensation, which encourages management to focus on short-term results. Good housekeeping practices leave companies better prepared to han-

dle an economic downturn, especially one as severe as right now. The absence of negative events counts, as much as the existence of positive events, in getting businesses on the list. “These companies have made it through our screening process and shown consistent high quality,” Zwingli says. “Healthy individuals are often that way because they don’t engage in unhealthy behavior. These companies are the same way.”

To create the list, Audit Integrity scans more than 8,000 companies traded on U.S. exchanges. Every three months it assigns each company an accounting and governance risk score, or AGR, based on proprietary modeling designed to identify practices that historically have had a high correlation with increasing shareholder risk.

Audit Integrity rates the 15% of companies in its universe with the highest AGR scores as “conservative” and the 10% of companies with the lowest scores as “very aggressive.” Companies in between those extremes are rated either “average” or “aggressive.” “We are recognizing that for the most part companies are responsible in reporting their financial performance,” Zwingli says. “Those that are not—about one

third of the companies we rate—are at heightened risk of negative events like litigation, restatements and bankruptcy.”

Audit Integrity claims that it has established a direct correlation between its AGR assessments and the likelihood of negative events such as class-action litigation, Securities and Exchange Commission enforcement actions, financial reporting delays, bankruptcy filings and poor stock price performance.

As in previous years, Audit Integrity

sorts its 100 Most Trustworthy Companies into three groupings, according to market capitalization. In this year’s crop, three mid- and small-cap companies received the highest AGR score, 100. The two large-caps to come closest, the retailer **Bed Bath & Beyond** (BBBY) and the energy company **Enbridge Energy Partners** (EEP), each scored 95.

To qualify for the roster, the 100 companies all had to have market caps of \$200 million or more at the time Audit

Integrity prepared the list, AGR ratings of “conservative” or “average” over each of the last four quarters and no amended filings with the Securities and Exchange Commission or material restatements over the last year. They also had to rank high in Audit Integrity’s Equity Risk Ranking, which indicates a positive forecast for equity returns. “We want to make sure, from an investor’s perspective, that these companies have substantial market cap and are viewed as very liquid,” Zwingli says.

## The Most Trustworthy Mid-Cap Companies

RANK*	COMPANY	AUDIT INTEGRITY INDUSTRY	AVERAGE AGR SCORE <sup>1</sup>	CURRENT QUARTER AGR SCORE	MARKET CAP (\$ MIL) <sup>2</sup>
3	Casey’s General Stores <sup>3</sup>	Retail (Grocery)	97	91	1,587
4	Bemis <sup>3</sup>	Containers & Packaging	96	92	3,237
4	Nu Skin Enterprises	Personal & Household Prods.	96	98	1,797
4	Watsco <sup>3</sup>	Misc. Capital Goods	96	97	1,880
5	Auxilium Pharmaceuticals	Biotechnology & Drugs	95	95	1,587
6	Arch Capital Group	Insurance (Prop. & Casualty)	94	89	3,993
6	Sykes Enterprises	Computer Networks	94	94	1,107

\* This is only a portion of the rankings for the Most Trustworthy Mid-Cap Companies

<sup>1</sup> Last four quarters. <sup>2</sup> Market Cap as of March 24, 2010. <sup>3</sup> Repeat from 2009 Most Trustworthy Companies. AGR: Accounting and Governance Risk. AGR is a proprietary score from Audit Integrity based on its analysis of accounting and governance factors that have been historically linked to fraud and increased shareholder risk. Sources: Audit Integrity; Interactive Data; Thomson Reuters Fundamentals; Worldscope via FactSet Research Systems.

Highlighting added for emphasis.

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