

SAMPLE REPORT

HOW TO READ THIS REPORT

This sample report consists of five sections. Each section presents a different view of the Company and its Executives, and includes benchmarks for the Company and its Executives, with comparisons by Industry, Sector and Region. The Company and its Executives are evaluated in eight (8) separate categories, which are outlined in Appendix A of this sample report.

This sample report includes quantitative assessments, ethics action alerts and trends, which make it possible to recognize problems early, trend operational risks, and closely monitor industry, sector and geographic exposures.

Each section in this sample report is followed by examples of fraud and misconduct that could have been recognized early and addressed by management to minimize the impact on share value and earnings expectations.

1. Company Survey Report

In the Company Survey, employees are asked to answer a number of questions yes/no, and rate the company on a scale from 1 (Poor) to 10 (Excellent) in each category. This section allows readers to identify weaknesses in specific areas of the Company.

2. Executive Survey Report

In the Executive Survey, employees are asked to rate each executive on a scale from 1 (Poor) to 10 (Excellent). Employees are asked to complete a separate survey for each executive of the Company. This section allows readers to identify weaknesses within the Company's management team, and to identify rogue executives.

3. Ethics Action Reporting

Employees file Ethics Action Reports (EAR) to describe a specific problem at work that may have a negative impact on share value or earnings expectations. Supporting documentation substantiates each EAR included in this section. EAR's provide the Company and its management team a unique opportunity to analyze misconduct, improve processes, and implement corrective and preventive actions. This section of the report makes it possible to monitor the Company's progress towards addressing problems in a reasonable timeframe, and initiating corrective and preventive actions.

4. Company Questionnaire Report

In the Company Questionnaire, employees are asked to answer a number of questions yes/no. This section of the report presents a Company Composite Rating, which gives a quick, high-level comparison of the Company to its peers by Industry, Sector or Region. Readers can gain a quick perspective of the Company simply by reviewing employee responses to general questions about the Company.

5. Suggestions Reporting

Employee Suggestions give employees the opportunity to present ideas for improvement to management. In this section, readers are given the opportunity to monitor how well the Company and its management team responds to employee suggestions.

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Sample Company ABC

Sector: Sample Sector
Industry: Sample Industry
Region: Sample Region

Company Survey Report

Company Rating Overview

This section of the report discloses weaknesses and/or structural flaws within the company and its executive management team, information that is currently not disclosed elsewhere by public companies.

In this sample report, Company ABC is rated significantly lower than it's peers within its Industry, Sector and Region. The report indicates exceptional weaknesses in the areas of strategic planning and management (Table 1). Identifying areas of weakness within the company make it possible for management to correctly identify and address problems before they lead to lower share value or earnings. The report also indicates substantial weakness in the areas of corporate governance, risk management, organization and employee empowerment.

Number of Respondents for this Company: 1,026

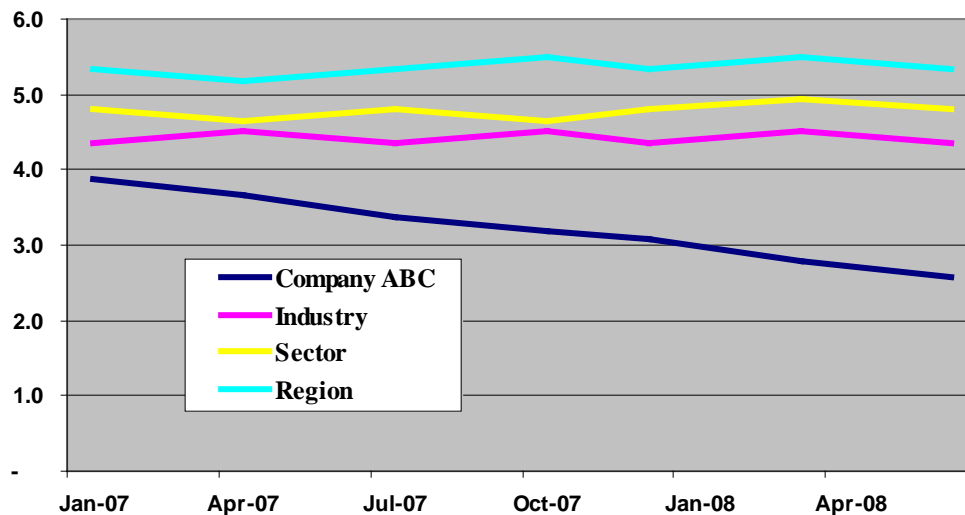
The Company is rated on a scale from 1 (Poor) to 10 (Excellent).

Reporting Category	Company	Industry Average	Sector Average	Region Average
Ethics & Corporate Governance	2.4	4.6	4.7	5.3
Risk Management	2.8	4.3	4.9	5.3
Strategic Planning	1.0	3.7	4.0	5.0
Management	1.3	3.6	4.1	4.9
Communication	4.3	5.0	5.6	5.9
Organization	2.5	4.0	4.8	5.1
Empowerment	2.8	4.5	4.9	5.6
Auditing / Quality Control	3.8	5.2	5.4	5.6
Composite Rating	2.6	4.4	4.8	5.3

Table 1: Company Rating Comparison

Company ABC shows a declining Company Composite Rating between January 2007 and April 2008 (Figure 1). The board of directors, investment professionals and insurance companies can closely monitor Ethics Action Reports to determine the cause of the decline in the company's ratings. Ethics Actions Reports filed by employees can be used to quickly and accurately identify specific areas of weakness or concern, as well as expose fraud or misconduct.

Trends



Note: Trend data available online beginning 2011

Figure 1: Company Rating Trends

In the Boardroom: Information is Knowledge, and Knowledge is Power! This reporting tool allows directors to find out what really goes on inside the company and within its executive management team. Most often, by expanding board-level reporting to the Audit and Governance Committees. The disclosures contained in this report can be used as a check and balance with disclosures made by the executive management team, as well as outside auditors and consultants.

Acquiring vital information anonymously from employees of public companies to drive corporate governance reforms can lead to full disclosure and can only be accomplished by an independent third party. Making use of this online forum could prevent public companies from deceiving investors and the public, whether it's through willful intent or incompetence.

Officers and directors of U.S. publicly traded companies must take the first step toward improving corporate governance by expanding board-level reporting to address increasing shareholder demands, executive compensation, risk oversight, strategic planning, succession planning and transparency.

The primary objectives of this report include:

- To empower directors with information to deal with increasing shareholder demands?
- To understand fully the business or businesses of the company and know what the drivers of success are?
- To engage more actively with the CEO and the management team on corporate strategy and the improvement of long-term corporate performance?
- To better understand the company's strengths and weaknesses?
- To better monitor performance against corporate goals?

Example(s)

AIG

In a [written response](#) to a lawsuit filed by shareholders in a New York federal court, AIG conceded that its executives were, at times, too optimistic, but denied any intent to deceive investors, “Being wrong or even unwise, in hindsight, is not the same as violating the securities laws.”

In defending itself against the shareholders’ lawsuit, AIG contends, “Statements of optimism about the future...that turn out to be wrong are simply not actionable. Even in times of market turmoil, the company need not presume the worst about its market prospects.”

So, were AIG executives dishonest, or were they incompetent?

To investors and the public, does it really matter whether company executives are dishonest or incompetent? Both have the potential to have a negative impact on shareholder value and earnings expectations.

In reference to the trends presented above, Company ABC shows a declining Company Composite Rating compared to Industry, Sector and Region between January 2007 and April 2008.

In reference to the AIG example, it wasn’t until Pricewaterhouse told AIG executives that the company “could have a material weakness” that uncertainty about the accuracy of the company’s financial statements were disclosed to investors and the public in early 2008 under SEC rules.

If AIG employees were completing Company Surveys on zEthics.com, perhaps investors and the public could have realized months prior to the financial disclosure in 2008 that the Company “could have a material weakness,” and taken action to avoid significant losses to their portfolio.

In reference to the composite rating above, Company ABC is rated significantly lower than it’s peers within its Industry, Sector and Region, and indicates exceptional weaknesses in the areas of risk management and strategic planning, that, if not corrected, could lead to lower share value or earnings expectations. The report also indicates substantial weakness in the areas of corporate governance, risk management, organization and employee involvement.

This could very well have been the case for AIG had employees been given the opportunity to disclose this information to investors and the public in 2007 and 2008.

Investment professionals can closely monitor Ethics Action Reporting to determine the cause of the decline in the company’s ratings. Ethics Actions Reports filed by employees can be used to quickly and accurately identify specific areas of weakness or concern, including fraud or misconduct.

Executive Survey Report

Executive Rating Overview

This section of the report identifies under-performing, incompetent and rogue executives, information that is currently not disclosed elsewhere by public companies.

This report exposes areas of weakness within the Company’s executive management team. In this sample report, the Chief Financial Officer (CFO) is rated poorly (Table 2a). Areas of exceptional weakness include corporate governance, management, and communication. Members of the board, investment professionals, insurance companies and regulators should closely monitor Ethics Action Reporting to track the number of reports filed in which the CFO is identified as the responsible executive to identify specific weakness or concerns, and to identify potential wrongdoing.

Number of Respondents for this Company: 1,026

Executives are rated on a scale from 1 (Poor) to 10 (Excellent).

Reporting Category	CEO	CFO	COO	CMO	CAO
Ethics & Corporate Governance	5.8	1.6	8.2	5.8	8.6
Risk	5.8	3.0	7.2	5.6	8.0
Strategic Planning	5.2	3.4	7.6	5.4	7.4
Management	5.4	1.8	7.8	5.6	7.6
Communication	4.8	1.0	6.0	4.4	5.4
Organization	5.8	2.0	7.8	4.6	6.2
Empowerment	5.4	2.0	7.6	4.6	7.2
Auditing / Quality Control	6.6	2.0	4.8	6.6	8.0
Composite Rating	5.6	2.1	7.1	5.3	7.3

Table 2(a): Executive Ratings

Reporting Category	President	EVP	SVP	VP	Director
Ethics & Corporate Governance	5.0	6.2	7.0	8.4	8.6
Risk	4.4	6.6	6.6	8.4	8.2
Strategic Planning	2.8	6.6	5.2	5.0	5.6
Management	4.8	6.6	5.8	6.2	7.0
Communication	2.6	5.2	6.6	6.0	6.0
Organization	5.6	6.0	5.6	6.2	7.4
Empowerment	4.8	4.2	6.0	7.2	6.0
Auditing / Quality Control	5.2	5.6	5.4	5.4	7.0
Composite Rating	4.4	5.9	6.0	6.6	7.0

Table 2(b): Executive Ratings

Reporting Category	Chairman	Non-Exec Board	Company Composite
Ethics & Corporate Governance	2.2	6.4	6.2
Risk	6.0	6.0	6.3
Strategic Planning	2.8	5.2	5.2
Management	3.4	6.2	5.7
Communication	1.0	5.4	4.5
Organization	1.4	6.4	5.4
Empowerment	2.0	5.2	5.2
Auditing / Quality Control	3.8	5.4	5.5
Composite Rating	2.8	5.8	5.5

Table 2(c): Executive Ratings

Executive Rating Comparison

Reporting Category	CFO	Industry Average	Sector Average	Region Average
Ethics & Corporate Governance	1.6	6.2	6.6	6.3
Risk	3.0	6.5	6.7	6.3
Strategic Planning	3.4	5.8	6.1	5.8
Management	1.8	6.1	6.3	6.0
Communication	1.0	5.5	5.8	5.6
Organization	2.0	6.0	6.2	6.0
Empowerment	2.0	5.7	6.1	5.7
Auditing / Quality Control	2.0	5.9	6.2	5.8
Composite Rating	2.1	6.0	6.3	5.9

Table 3: Executive Rating Comparison

Reporting Category	Company ABC	Industry Average	Sector Average	Region Average
Ethics & Corporate Governance	6.2	6.2	6.6	6.3
Risk	6.3	6.5	6.7	6.3
Strategic Planning	5.2	5.8	6.1	5.8
Management	5.7	6.1	6.3	6.0
Communication	4.5	5.5	5.8	5.6
Organization	5.4	6.0	6.2	6.0
Empowerment	5.2	5.7	6.1	5.7
Auditing / Quality Control	5.5	5.9	6.2	5.8
Composite Rating	5.5	6.0	6.3	5.9

Table 4: Executive Team Rating Comparison

In addition, although the composite rating for the executive management team of Company ABC compares favorably with peers by Industry, Sector and Region (Table 4), the trend (Figure 2) suggests a growing weakness or lack of confidence in the Company's executive management team. Of particular concern should be the CFO, President and Chairman ratings compared with peers by Industry, Sector and Region (Table 3). Directors have a unique opportunity to address the deficiencies within the management in a timely manner to avoid a negative impact on share value or earnings.

Trends

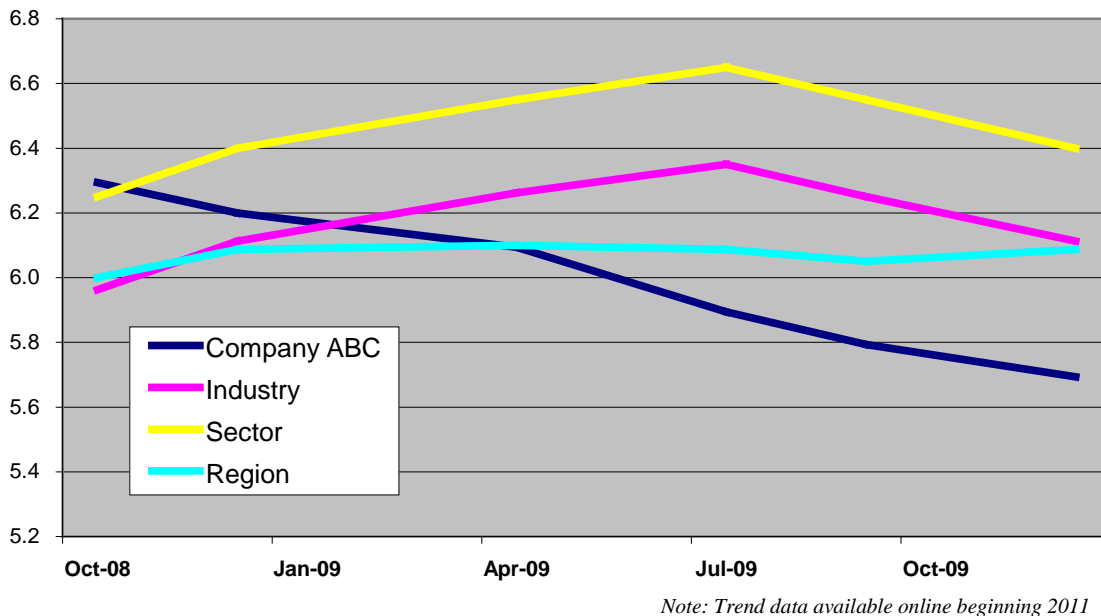


Figure 2: Executive Rating Trends

Example(s)

In reference to the executive ratings presented above, the Chief Financial Officer (CFO), President and Chairman are rated poorly, suggesting weakness with the Company's executive management team. Specific areas of weakness include corporate governance, strategic planning, and communication. Investment professionals could closely monitor Ethics Action Reports (EAR) to track the number of reports filed for each of these executives to identify specific areas of weakness or concern, and to identify potential wrong-doing.

In addition, although the executive management team composite rating for Company ABC compares favorably with peers by Industry, Sector and Region, the trend suggests a growing weakness or lack of confidence in the Company's executive management team.

KOSS CORP.

A January 7, 2010 [article](#) by Sarah Johnson, CFO.com, stated “A finance executive's alleged embezzlement of as much as \$31 million over five years from headphone-maker Koss Corp. could serve as fodder for critics of legislation that would permanently exempt smaller publicly traded companies from fully complying with the Sarbanes-Oxley Act.”

According to the article, Tracy Coenen, a fraud examiner and forensic accountant who has been following the case, suggested “The company could have been alerted to the problems by having a fraud hotline and giving employees a way to raise suspicions.”

In the example of Koss Corp., fraudulent charging on the Company's charge cards could have been recognized early and addressed by management, in this case, to avoid tens of millions of fraudulent charges.

REGULATORY FREEDOM

According to the [Financial Times](#):

- US banking supervisors are taking a much more active hand in shaping banks' top personnel decisions, as regulators seek to prevent a recurrence of management failures that helped precipitate the financial crisis.
- Bankers, their advisers and government regulators told the Financial Times that supervisors at the Federal Reserve Board and the Federal Deposit Insurance Corporation are asking more questions about potential appointees than they did two years ago.
- They said regulators were also providing much stronger guidance on the types of experience and skills they expected to see from candidates for both non-executive board members and for executive positions.

Public companies could easily curtail efforts by federal regulators to influence management's personnel decisions by making use of executive ratings in our Executive Reporting section to qualify hiring decisions based on quantitative rather than subjective analysis.

SUCCESSION PLANNING

According to the [Conference Board](#), succession planning is more important than ever. Amid heightened demands and complexities, the processes that boards use to drive CEO succession have changed little. By and large, boards remain attached to badly outmoded methods of identifying and choosing the next chief executive.

This report provides the board a credible source of information to base CEO succession decisions on qualitative rather than subjective information. Board members will have access to a wealth of information over the entire career of their top candidates, establishing a pipeline of leaders developing toward the senior post, dramatically reducing the error in CEO succession decisions, and building greater leadership stability at the top.

Ethics Action Reporting Overview

This section of the report discloses information about specific instances of managerial mischief, fraud, unethical behavior, illegal activity, questionable business practices of individual managers, lying, falsification of records, executive incompetence, etc., information that is currently not disclosed elsewhere by public companies.

In reference to the information presented in Table 5, the maximum level of risk identified in the Ethics Actions Reports is between \$10m and \$100m, with the average risk of \$1m to \$10m. The maximum level of risk and average level of risk can be compared to peers by Industry, Sector and Region. Table 6 indicates that employees have identified significant weakness with the areas of Risk Management and Compliance (Internal Controls/Quality Control) for Company ABC.

Of particular concern, is the Ethics Action Report filed within the Risk Management category with a risk level of \$10m - \$100m, that, if not addressed in a timely manner, could have a negative impact on share value and earnings.

Investment professionals, insurance companies, public companies as well as federal and state regulators can closely monitor Ethics Actions Reports to quickly identify fraud or misconduct, which could have a negative impact on share value and earnings.

	Company ABC	Industry	Sector	Region
Maximum Level of Risk Reported	\$10M - \$100M	\$10M - \$100M	\$10M - \$100M	\$10M - \$100M
Average Level of Risk Reported	\$1M - \$10M	\$100k - \$1M	\$100k - \$1M	\$100k - \$1M
Number of EAR's FILED	273			
Number of EAR's OPEN (Not yet closed by Company)	150			
Average Days EAR's OPEN	183			

Table 5: Ethics Action Reporting Overview

Category	EAR's Filed	EAR's Open	Average Level of Risk	Maximum Level of Risk
Ethics & Corporate Governance	12	8	\$100k - \$1M	\$1M - \$10M
Risk Management	84	62	\$1M - \$10M	\$10M - \$100M
Strategic Planning	16	6	\$100k - \$1M	\$100k - \$1M
Management	21	4	\$100k - \$1M	\$100k - \$1M
Communication	14	5	\$100k - \$1M	\$100k - \$1M
Organization	19	3	\$100k - \$1M	\$100k - \$1M
Empowerment	11	6	\$100k - \$1M	\$100k - \$1M
Auditing / Quality Control	96	56	\$1M - \$10M	\$1M - \$10M
Composite	273	150	\$1M - \$10M	\$10M - \$100M

Table 6: Ethics Action Reporting

Example(s)

In reference to the information presented above, employees have identified significant weakness with the areas of Risk Management and Compliance (Internal Controls/Quality Control) for Company ABC.

Company ABC's average level of risk is much higher than its peers within its Industry, Sector and Region. Of particular concern, is the EAR filed within the Risk Management category with a risk level of \$10m - \$100m, that, if not addressed in a timely manner, could have a negative impact on share value and earnings expectations.

Investment professionals, insurance companies, public companies as well as federal and state regulators can closely monitor Ethics Actions Reports to quickly identify fraud or misconduct, which could have a negative impact on share value and earnings expectations.

Enron, Tyco, Worldcom

The [Sarbanes-Oxley Act of 2002](#) was supposed to prevent scandals like those that brought down Enron, Tyco and WorldCom.

According to a [2008 Securities and Exchange Commission survey](#) of officers at publicly traded firms, Sarbanes-Oxley cost the average company \$2.3 million a year in direct compliance costs (staff time, documentation and external audits), compared with supporters' estimates of \$91,000 in annual costs. The same survey found that only twenty percent of respondents believed the benefits outweigh the costs. That result echoes a 2008 report from the Association of Certified Fraud Examiners that found firms with the new controls "experienced greater fraudulent financial statement manipulations than organizations lacking these controls."

Was it ever clear how more accounting and reporting regulations were supposed to squelch fraud? Is Sarbanes-Oxley a case study in hysterical legislating, which always produces more harm than good?

Combining the Company Survey, Executive Survey, Ethics Actions Reports with Company ABC's composite rating provides full disclosure.

- Investment professionals gain confidence and trust in U.S. publicly traded companies.
- Publicly traded companies gain investor and public acceptance of their ethics and corporate governance programs, as well as extended visibility into customers, suppliers and competitors to assess business risks and qualify business opportunities.
- To avoid being blind-sided by fraud and misconduct, Ethics Action Reporting gives officers and directors of public companies extended visibility into the company and its management team.

Recent corporate scandals have raised serious questions about the effectiveness of boards of directors in exercising their fiduciary duties. Corporate governance requires that the board be a check and balance on the CEO and the executive team. The obvious question is whether directors of public companies properly oversee management and ensure management's actions are in the best interests of shareholders.

Our information reporting is designed to give officers and directors extended visibility into the company and its management team to properly oversee management and ensure management's actions are in the best interests of shareholders.

A key component of Billionaire Warren Buffet's investment strategy is to invest in companies run by honest and competent people. Unfortunately, "... it's hard to write rules to prevent excesses. It's in human nature to go to excess."

Employees have the highest success rate for uncovering fraud, according to the latest research by Alexander Dyck, Adair Morse, & Luigi Zingales (Financial Economics, Feb 2007, "[Who Blows the Whistle on Corporate Fraud](#)").

According to a 2008 survey by Accounting firm KPMG:

- 75% of employees observed a high level of illegal or unethical conduct at work
- 50% of employees observed misconduct that, if revealed, would cause their firms to "significantly lose public trust"

For more examples of corporate fraud and misconduct, the Corporate Council on Law.com maintains a [database](#) of 124 corporate fraud investigations, which resulted in 440 indicted defendants.

Company Questionnaire Report

This section of the report generates a company composite rating (Table 7) that can be compared with peers by Industry, Sector and Region. In this sample report, Company ABC's composite rating is significantly lower than its peers.

Figure 3 shows a decline in employee confidence in Company ABC. The number of Ethics Action Reports filed over the same time period provide specific information regarding areas of weaknesses or concern within the company or within the executive management team, and provide details of potential fraud or misconduct. The Questionnaire is presented in Appendix B.

Combining the Company Survey, Executive Surveys, and Ethics Actions Reporting with Company ABC's composite rating portrays the overall quality of the company and strength of the management team.

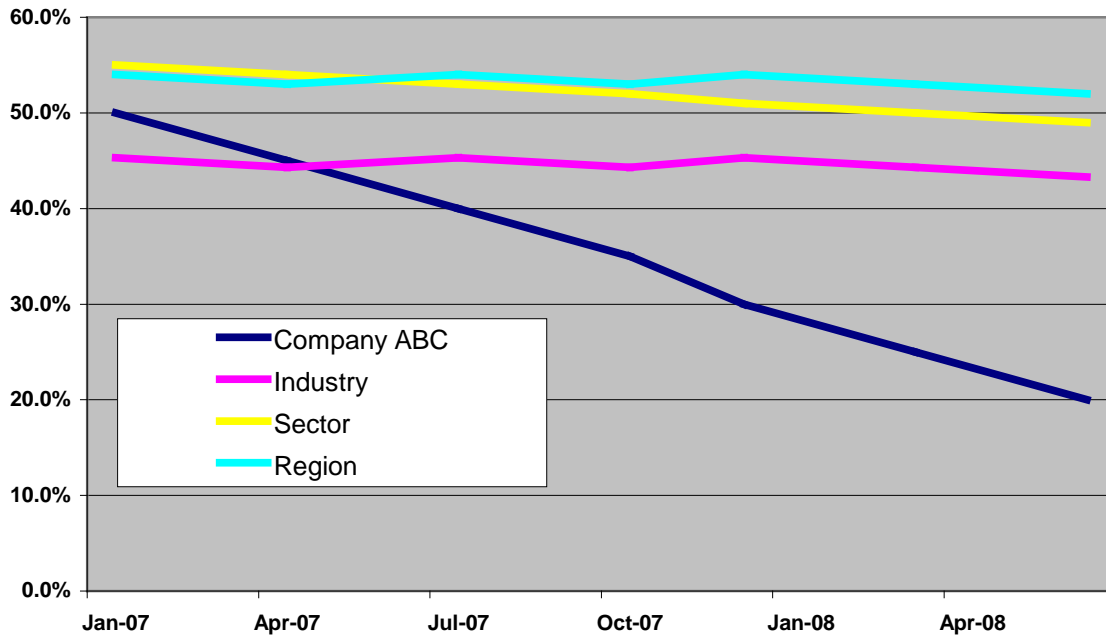
Company Composite Rating

Number of Respondents for this Company: 3,428

Company	Industry Average	Sector Average	Region Average
22.0%	43.3%	49.0%	52.0%

Table 7: Company Rating Comparison

Trends



Note: Trend data available online beginning 2011

Figure 3: Company Composite Trends

Example(s)

Building an Ethical Framework

In a recent article Building an Ethical Framework (Corporate Responsibility Officer), Dr. Thomas R. Krause (*Behavioral Science Technology, Inc.*) and Paul J. Voss discuss a number of questions to consider in encouraging an ethical corporate culture, including:

What is the relationship between exercising sound ethics and retaining great talent?

Fortune magazine's annual list of the top 100 companies to work for contains a wide variety of companies with no obvious common denominator. Salary, benefits, career opportunities, location and profession all vary. What they do have in common is trust between employee and employer. Ethical behavior with and among employees, then, can lay the groundwork for attracting and retaining the best talent.

Have we conducted a "risk assessment" to determine our exposure to major ethical damage? What is our potential Enron?

While each company may have its unique "ethical nightmare," most companies face similar ethical exposures (e.g., to theft and accounting irregularities). Companies must examine the potential hazards of perverse incentives (e.g., compensation based 100 percent on financial goals) and the various "unintended consequences" of policy, procedures and protocols. Companies can reduce or eliminate adverse incentives by never rewarding, intentionally or unintentionally, improper behavior.

How can we be proactive in the area of ethics, culture and corporate citizenship?

Leaders need to own and shape the culture as much as they manage, for example, quality initiatives. Research literature identifies several characteristics predictive of ethical outcomes: management credibility, upward communication, perceived organizational support, procedural justice and teamwork. Well-tested diagnostic tools allow leaders to measure these characteristics and specific behaviors that foster the culture desired.

What tone should executive leadership set regarding ethics, integrity and transparency?

Setting an example is just one part of the executive leadership's responsibility. What leaders say, think and feel affects the tone as much as their actions. Mistrust, cynicism or indifference from topmost leaders can erode others' loyalty to the organization, to its mission, to employees and to shareholders. Left unchecked, this tone from the top can also potentially push ethical leaders out the door.

In reference to the trend above, investment professionals can clearly see the declining confidence of the employees in Company ABC. If the number of Ethics Action Reports (EAR) filed by employees has risen in the same time period, management have a unique opportunity to monitor Ethics Actions Reports to identify potential fraud or misconduct, and measure the level of risk.

Suggestions Reporting Overview

Number of Suggestions filed for this Company: 109

Reporting Category	Number of Suggestions FILED	Number of Suggestions Implemented	% of Suggestions Implemented
Ethics & Corporate Governance	5	2	40%
Risk	11	1	9%
Strategic Planning	3	2	67%
Management	9	1	11%
Communication	23	6	26%
Organization	14	4	28%
Empowerment	32	16	50%
Auditing / Quality Control	48	32	67%

Table 8: Employee Suggestions

Example(s)

Xerox

In the February 20th article in the New York Times ‘*Xerox’s New Chief Tries to Redefine Its Culture*’, Adam Bryant stated, “She (Ms. Ursula M. Burns, the new CEO of Xerox) wants its 130,000 employees to get over the past, take more initiative, become more fearless and be more frank and impatient with one another to ratchet up performance.”

Sometimes the best way to redefine a company's culture is to shine a light on the problems.

“By all accounts, Ms. Burns, who is 51, has never been shy about speaking her mind. It’s how she wound up working alongside Xerox’s top leaders at an early age.”

Ms. Burns’ leadership and courage in redefining Xerox’s culture is truly admirable.

zEthics’ Suggestion Form and Reporting is intended to do just that, encourage employees to speak their mind and participate in the success of their company.

Summary

zEthics offers an innovative new solution to communicate with and attract long-term investors. Our online information service utilizes five (5) key elements:

- QUANTITATIVE rather than subjective analysis
- ACTIVE participation by company employees
- Information that is ACTIONABLE
 - Improve the QUALITY of the business
 - Improve the STRENGTH of the management team
- Information that is DYNAMIC
 - Continuously evolving
- Create a PARADIGM SHIFT in corporate culture
 - Corporate culture based on honesty, loyalty, mutual trust and respect

zEthics offers a market-based tool for demonstrating the quality of your business and the strength of your management team to build trust and confidence, then brokers that trust and confidence to investment professionals, institutional investors, fund managers, research analysts and market experts.

Information distribution and analysts' recommendations within the investment sector are flawed and often deceptive. Vital information is distributed unevenly. "Advisors" (investment banks, brokerages) are more concerned about trading for their own account. Recommendations from analysts have been shown to be inaccurate and may be deceptive due to conflicts of interest. Analysts go from 'sell' to 'buy' recommendations in the blink of an eye to win investment banking fees. The distinction between investment advisors and salesmen is virtually non-existent.

The recent financial crisis has raised serious questions about the effectiveness of boards of directors in exercising their fiduciary duties. Corporate governance requires that the board be a check and balance on the CEO and the executive team. The obvious question is whether directors of public companies properly oversee management and ensure management's actions are in the best interests of shareholders?

In *Money for Nothing: How the Failure of Corporate Boards Is Ruining American Business and Costing Us Trillions*, coauthors John Gillespie and David Zweig chronicle the role boards played in the recent debacles, "The failure of the financial system in 2008 wasn't simply a massive failure of common sense, regulation, and leadership. It was also a failure of corporate governance. In theory, the corporate boards at Lehman Brothers, Bear Stearns, AIG, and General Motors were paid handsome sums to oversee the activity of the executives and protect shareholders' interest. In practice, they slept as the CEOs ran the companies into the ground."

In testimony to Congress in March 2009, Scott M. Polakoff of the Treasury Department's Office of Thrift Supervision (OTS) conceded that his agency "did not foresee the risk concentration and the profound systematic impact" caused by AIG's \$65 billion in credit default

swaps. “The extent of company losses came largely as a surprise to stock and bond holders as well as regulators charged with monitoring their performance.”

To the board, information is knowledge, and knowledge is power. How can anyone expect the board to oversee management if they can’t distinguish between negligence and ill intent, between delusion and dishonesty?

Recent studies indicate that employees find more corporate fraud than regulators (Adair Morse, assistant professor of finance at the University of Chicago's Booth School of Business).

Sometimes the best way to facilitate a change is to shine a light on the problems.

The best and only alternative the Board and investors have to prevent corruption, fraud and mismanagement is to provide employees a structured process to disclose information about the business practices of the company and its management team on a regular basis via an independent third party.

Improved internal transparency from an independent third party would provide the board and investors with comprehensive information about the business practices of the organization and strength of the management team. The information would serve as a check and balance against the information currently disclosed by management as well as auditors and outside consultants.

Our Value Proposition:

- Improve Transparency
- Improve Shareowner Rights
- Improve Board Accountability

zEthics offers U.S. publicly traded companies a unique opportunity to gain investor confidence by expanding board-level reporting from an independent third party.

Employees have an opportunity to anonymously disclose information about the business practices of their company and its executives to an independent third party to ensure management’s actions are in the best interests of shareholders. Comprehensive board-level reporting from an independent third party is available online at <http://www.zethics.com>.

Appendix A

Reporting Categories

Ethics & Corporate Governance	Assess the level of illegal or fraudulent activities; withholding or covering up information; manipulating government reports; scandal; managerial mischief; misconduct; unethical behavior; lying; falsification of records; sexual harassment; drug and alcohol abuse; etc.
Risk Management	Assess the level of risk taking by executives; the risk of failure; management taking on more risk than shareholders are willing to accept, etc.
Strategic Planning	Assess the company's strategic planning methods; are the executives allocating sufficient resources to execute the strategic plan effectively or efficiently; etc.
Management	Assess the competence or character of management; does the management team work well together; is management being held accountable for decisions that impact the Company's financial performance; is management consistent with its decision making; etc.
Communication	Assess how well the organization communicates the information required to accomplish goals and objectives; is there a problem with miscommunication of information or misinformation; etc.
Organization	Assess the Company's Internal Controls, Policies, Procedures or Systems; identify structural flaws or weaknesses in the organization; etc.
Empowerment	Empowerment: are you empowered to perform your duties and responsibilities without fear, reprisal or reprimand; is management undermining your ability to perform your duties and responsibilities; etc.
Compliance (Auditing, Quality)	Assess compliance with all laws and regulations; to identify problems or concern with the way management implements corrective and preventive actions; etc.

Appendix B

Questionnaire – Scoring for Company Composite Rating	YES	NO
1. Within the past 12 months, has your company conducted a risk assessment to determine compliance, regulatory and ethics related risks?	4pts	
2. Within the past 12 months, has your company conducted a formal evaluation or benchmarking of overall compliance and ethics programs/initiatives to evaluate its relative effectiveness?	4pts	
3. Are you satisfied with the company’s performance over the past 12 months?	4pts	
4. To the best of your knowledge, is your company at risk of failure or downsizing in the next 12 months?		4pts
5. Does your company maintain a written Code of Ethics and Business Conduct?	4pts	
6. Does your company have a formal compliance and ethics program?	4pts	
7. In the past 3 months have you witnessed illegal or unethical conduct at work?		4pts
8. In the past 3 months have you witnessed excessive risk taking by management?		4pts
9. In the past 3 months have you participated in company sponsored ethics and compliance training?	4pts	
10. In the past 3 months has your company emphasized the importance of reporting ethics and compliance issues or concerns?	4pts	
11. In the past 3 months, has management performed their duties in the best interest of the company?	4pts	
12. In the past 3 months, has management performed their duties in the best interest of shareholders?	4pts	
13. In the past 3 months, has a lack of communication, or misinformation, prevented you from performing your duties?		4pts
14. In the past 3 months, has the company had a problem communicating effectively?		4pts
15. In the past 3 months, has management taken ownership for the company’s performance?	4pts	
16. In the past 3 months, have company policies or procedures prevented you from performing your duties efficiently?		4pts
17. In the past 3 months have any of the company’s work processes created unnecessary risk or harm?		4pts
18. In the past 3 months have any of the company’s products created unnecessary risk or harm?		4pts
19. At any time in the past 3 months has management undermined your ability to perform your duties and tasks efficiently?		4pts
20. In the past 3 months has management acted upon your suggestions or recommendations?	4pts	
21. In the past 3 months are you aware of any behavior by management to circumvent the company’s internal controls at any time?		4pts
22. In the past 3 months are you aware of any behavior by management to circumvent the company’s Quality Management System (QMS) at any time?		4pts
23. In the past 3 months has management given you adequate authority and resources to perform your tasks and duties?	4pts	
24. In the past 3 months have company executives communicated the proper standards of conduct, ethics and compliance with you?	4pts	
25. In the past 3 months have company executives emphasized the importance of using an internal or external whistle-blowing system for reporting misconduct or concerns without retaliation?	4pts	
TOTAL	56pts	44pts