

The EPS Syndrome™ and How it was Discovered

With the advent of the Enron debacle in the fall of 2001, StockDiagnostics.com commenced a study of Enron's current and historical financial statement data. While reviewing Enron's financial data, StockDiagnostics.com found that its "OPS Diagnosis" software revealed an anomaly within Enron's financial statements during August 2001, when Enron stock was still trading at over \$38 per share. To determine the significance of the discovery of this anomaly and its application to the financial statements of other public companies, researchers at StockDiagnostics.com initiated an in-depth study of the financial statement data of Sunbeam Corporation, a former household name alleged to have financial statement irregularities in 1998. To our surprise our research proved conclusively that Sunbeam's financial statements had the same anomalies that we found in Enron's financials. Had StockDiagnostics.com's system been operational in 1997, Sunbeam with its stock trading at over \$40 per share would have received the same diagnosis as Enron. Sunbeam subsequently filed for bankruptcy (in 1998) and its stock now trades at \$.05 per share.

After the discovery of the common denominators shared by Sunbeam and Enron, the researchers at StockDiagnostics.com did an exhaustive comparison of the historical financial statements of both companies. As a result, we developed numerous patent pending algorithms, formulas and processes that can now screen a majority* of all public companies for what StockDiagnostics.com has labeled, "The EPS Syndrome **." The term "The EPS Syndrome" was chosen because the first criteria for the diagnosis are positive EPS (Earnings Per Share) for the quarter in which it was diagnosed. The presence of "The EPS Syndrome" reveals the **true condition** of a company's EPS.

The StockDiagnostics.com patents pending formulas that screen for and identify "The EPS Syndrome" are based on a combination of different financial statement elements and ratios. "The EPS Syndrome" is diagnosed when the difference between a public company's "OPS" (Operational-cashflow Per Share) and its EPS (Earnings Per Share) reaches or exceeds a mathematical threshold or tolerance level. The primary catalyst for "The EPS Syndrome" diagnosis is negative "OPS." Its detection triggers an extensive search for "The EPS Syndrome." In order to be a candidate for the diagnosis of "The EPS Syndrome," a public company must also exhibit certain financial statement criteria. "The EPS Syndrome" can only be diagnosed when all of the historic criteria and most recent (on diagnosis date) financial statement conditions have been met. The current and historic diagnoses of the "The EPS Syndrome" are based upon a public company's quarterly financial reports.

The diagnosis of "The EPS Syndrome" means **much more** than a company reporting negative "OPS" (Operational-cashflow Per Share) and positive EPS (Earnings Per Share). Over 2000 companies report at least one quarter per fiscal year of negative "OPS" and **do not** meet the criteria required for diagnosis of "The EPS Syndrome."

"The EPS Syndrome" cannot be diagnosed or monitored by the human eye. The diagnosis of "The EPS Syndrome" is completely computer driven. It requires complex computer and proprietary database technology to continually monitor comprehensive data on public companies. StockDiagnostics.com and its team of securities analysts and scientists devoted over six years and millions of dollars in developing numerous patent pending algorithms, formulas and processes to monitor all public companies on a real time basis.

"The EPS Syndrome" is deceptive because, by definition, it can only appear in companies that appear to be doing very well. They report positive EPS, and many have Wall Street "Buy" recommendations. For example, one of the many companies diagnosed with "The EPS Syndrome" by StockDiagnostics.com is Suprema Specialties Inc. Suprema, for its fiscal year ending June 2001, reported its fifth consecutive year of record EPS at \$1.41 per share and its seventh consecutive year of record revenue at \$420 million. Despite this apparent stellar performance Suprema filed for bankruptcy in February of 2002, and its stock subsequently plummeted from \$13.00 to \$.02 per share.

One of the common characteristics of companies diagnosed with "The EPS Syndrome" is that the stocks of many of them trade at or close to a 5 year high within a 52-week period before or after diagnosis. Companies diagnosed with the "The EPS Syndrome" should be continually monitored. Operational Cashflow is a company's financial lifeblood. A sudden change in Operational Cashflow can drain this lifeblood, causing an increase in debt, share dilution, share price erosion and in the more extreme cases, bankruptcy. The "OPS" (Operational-cashflow Per Share) of all non-financial public companies should be monitored regularly for "The EPS Syndrome."

* Some companies cannot be diagnosed for "The EPS Syndrome." Financial companies such as Banks, Brokerage firms, Insurance companies, Real Estate Investment trusts and other types of investment companies do not generate Operational Cashflow from Operations, but instead generate Investment Cashflow. Foreign companies such as Daimler Chrysler and Nokia also cannot be diagnosed, as they are not required to file quarterly financial statements. "The EPS Syndrome" cannot be diagnosed without examining a company's quarterly statements.

**Syndrome: a group of signs and symptoms that occur together and characterize a particular abnormality (The Merriam Webster Dictionary)