FOLEY

FOLEY & LARDNER LLP

THE COST OF BEING PUBLIC IN THE ERA OF SARBANES-OXLEY

Presented by:

Thomas E. Hartman
Foley & Lardner LLP

June 15, 2006

Executive Summary

- The total cost of being public for companies with under $1 billion in annual revenue dropped by 16%. This was the first reduction in overall costs in the history of our study. For companies with over $1 billion in annual revenue, the total costs dropped 6%.

    - These reductions are significantly less dramatic than cost reductions reported in studies released earlier this year.

    - The areas of initial corporate governance reform set-up costs and legal fees have decreased steadily as the expenses associated with these areas have largely proven to be one-time expenses in the years in which various provisions of the Sarbanes-Oxley Act have phased-in.

    - While overall costs associated with Sarbanes-Oxley Act compliance have dropped slightly for the first time in the history of our study, the out-of-pocket costs facing public companies have remained relatively flat between FY 2004 and FY 2005. The cost of audit fees has continued to increase steadily.

- Contrary to many predictions made in 2005 and anecdotal stories reported this year, average audit fees did not drop in the second year after Section 404 requirements phased-in for U.S. companies with $75 million or more in market capitalization.

- Average audit fees have continued to increase and represent a significant expense for public companies. The increases witnessed in conjunction with the implementation of Section 404 in FY 2004 have been sustained in FY 2005.

    - Audit fees alone now represent more than 50% of out-of-pocket costs associated with Sarbanes-Oxley Act compliance for public companies with under $1 billion in annual revenue, up from 33% of such costs in the last year before the Sarbanes-Oxley Act was enacted.

- In FY 2005, the percentage increase in average audit fees was significantly higher for small-cap companies (22%) than mid-cap (6%) and S&P 500 companies (4%).

    - The results provide factual support for the perception that Section 404 disproportionately impacts smaller public companies. The percentage increases in average audit fees year over year were generally the same for S&P small-cap, S&P mid-cap and S&P 500 companies until the Section 404 requirements phased-in during FY 2004. Since then, S&P small-cap and S&P mid-cap companies have experienced larger percentage increases in their average audit fees, particularly S&P small-cap companies.

    - Between FY 2003 and FY 2005, average audit fees increased an average total of $786,000 for S&P small-cap companies and $1.14 million for S&P mid-cap companies. This represents a 141% increase for S&P small-cap companies and a 104% increase for S&P mid-cap companies. Comparatively, S&P 500 companies experienced a percentage increase of 62% during this same period.

- Since the enactment of the Sarbanes-Oxley Act, the average cost of compliance for companies with under $1 billion in annual revenue has increased more than $1.8 million to approximately $2.9 million, representing a 174% overall increase.

- Percentage increases in average audit fees were reduced for all companies in FY 2005 compared to FY 2004, but fees paid to outside auditors remain at historically high levels and represent a significant expense for organizations of all sizes.

- Despite the 97% decrease in other fees paid to auditors between FY 2001 and FY 2005, beginning in FY 2004 total fees paid to auditors[1] have in fact equaled or surpassed the levels witnessed prior to the enactment of the Sarbanes-Oxley Act.

- 84% of respondents felt that costs had increased “somewhat” or “a great deal” for their organizations in FY 2005.

- For the second straight year, a vast majority (82%) of respondents felt that corporate governance and public disclosure reforms are too strict. For the first time in the history of our survey, not a single respondent felt the reforms are “not strict enough.”

- Consistent with results from previous years, one in five survey respondents (21%) are considering going-private transactions as a result of corporate governance and public disclosure reforms.

- A majority of respondents (65%) agree that they are better able to predict costs associated with Sarbanes-Oxley Act related reforms. This represented a significant increase (21%) over 2005 that we attribute to the full realization of the costs associated with Section 404, which phased-in for most companies in FY 2004.

- There are still a significant number of respondents (34%) who do not believe they are better able to predict costs associated with corporate governance reforms.

- One-third of respondents (34%) told us that Sarbanes-Oxley Act compliance has resulted in budget and/or staffing cuts in critical areas of their business.

[1] Includes audit fees, audit-related fees and other fees paid to auditors. Does not include tax preparation fees.

Verbatims

Regarding the impact of Section 404 on the company's relationship with their outside auditing firm…

- *Outside audit firm provides less value to company - much less willing to provide advice on accounting issues, if at all.*
- *… trust is more tentative and never assured.*
- *The outside audit firm has a closer relationship with the audit committee, but a more distant and sometimes adversarial relationship with management.*
- *Our relationship with the outside auditing firm was weakened from the inception of Sarbanes-Oxley.*
- *We have substantially curtailed range of services they provide and have engaged another firm to deal with Section 404 compliance.*
- *Section 404 Sarbanes-Oxley has strengthened our relationship with the external auditors.*
- *SOX in general has made them much more nervous about answering questions. Every little issue has to go to the "national" office.*
- *… outside auditing firm is less willing to comment or provide guidance on specific accounting issues and are quick to point out internal control deficiencies/material weakness if we disagree with them.*
- *Overall, it has become a less collaborative relationship – with no noticeable increase in accounting accuracy.*
- *… outside auditor no longer views nor treats company as a "customer." Management perception is that auditors' focus is entirely driven by attempt to minimize their use.*
- *Your auditors know your business but are not able to assist with business problems.*
- *They will not make a timely decision on accounting judgments, and they frequently change their answers after the passage of time.*

How would you suggest modifying corporate governance and public disclosure reform?

- *Differing standards for different size companies.*
- *I think the 404 requirements are very onerous and costly for smaller companies. The audit firms are scared to death to make a mistake, and they have set the bar very high for companies in terms of control design and operation.*
- *Further recognition that small businesses are not staffed to comply with the same level of regulation as the $1 billion market cap companies.*
- *Governance and disclosure need to focus on the important issues - like director effectiveness - versus easy to draft but ineffective bright-line tests for independence that don't get to the heart of the matter.*
- *There needs to be more rule of reason applied. Just having a great code of conduct on paper does not improve governance or disclosure.*
- *Little if any attention seems to be given to the implications of new requirements. Corporate governance is not one size fits all, but that seems to be the regulatory approach.*
- *Section 404 is by far the biggest expense and represents lowest ROI. Would reform it to make it more meaningful and less expensive.*
- *Truly study whether any of these rules and regulations have a positive cost/benefit effect on shareholder value and revise accordingly.*
- *Re-evaluate the process to make sure the intended results were being achieved - look at the significant global disadvantage U.S.-based firms are facing.*
- *Need to focus on the right things and not all the small stuff. It's like the revenge of the internal auditor.*

Who does the person in charge of your internal audit function report to?

Title	% of Respondents
Audit Committee	21%
CFO and Audit Committee	13%
CFO or SVP Finance/EVP Finance	11%
CEO and Audit Committee	9%
CEO	6%
Board	5%
CFO, CEO and Audit Committee	3%
COO	1%
CIO	1%
Chief Compliance Officer	1%
Other	5%
No Answer	28%

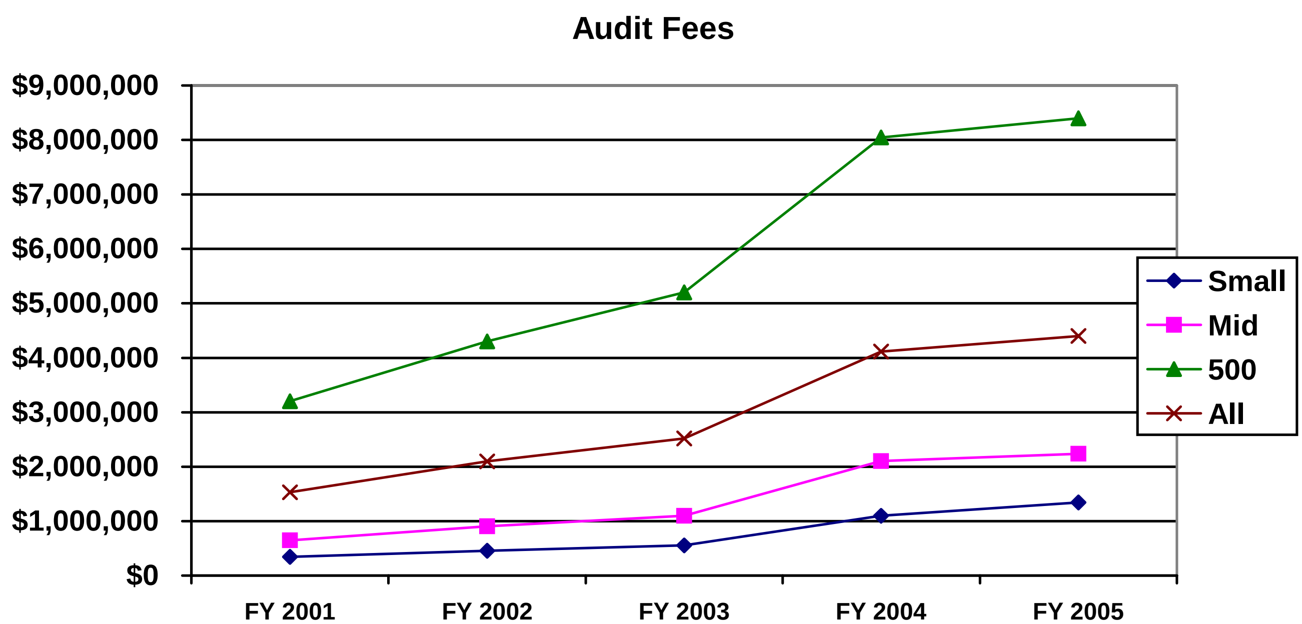
Analysis of Standard & Poor's Database

Foley commissioned a statistical analysis of proxy statement data compiled and maintained by Standard and Poor's Investment Services Custom Business Unit. This database contains information from more than 850 public companies included in the S&P 500, S&P Mid-Cap 400 and S&P Small-Cap 600 indices and was obtained by Standard and Poor's from proxy statements relating to 2006 annual shareholder meetings filed with the Securities and Exchange Commission through May 18, 2006. Whenever possible, the same companies used in Foley's 2005 analysis were used for the 2006 proxy review to ensure consistency in year-over-year comparisons.

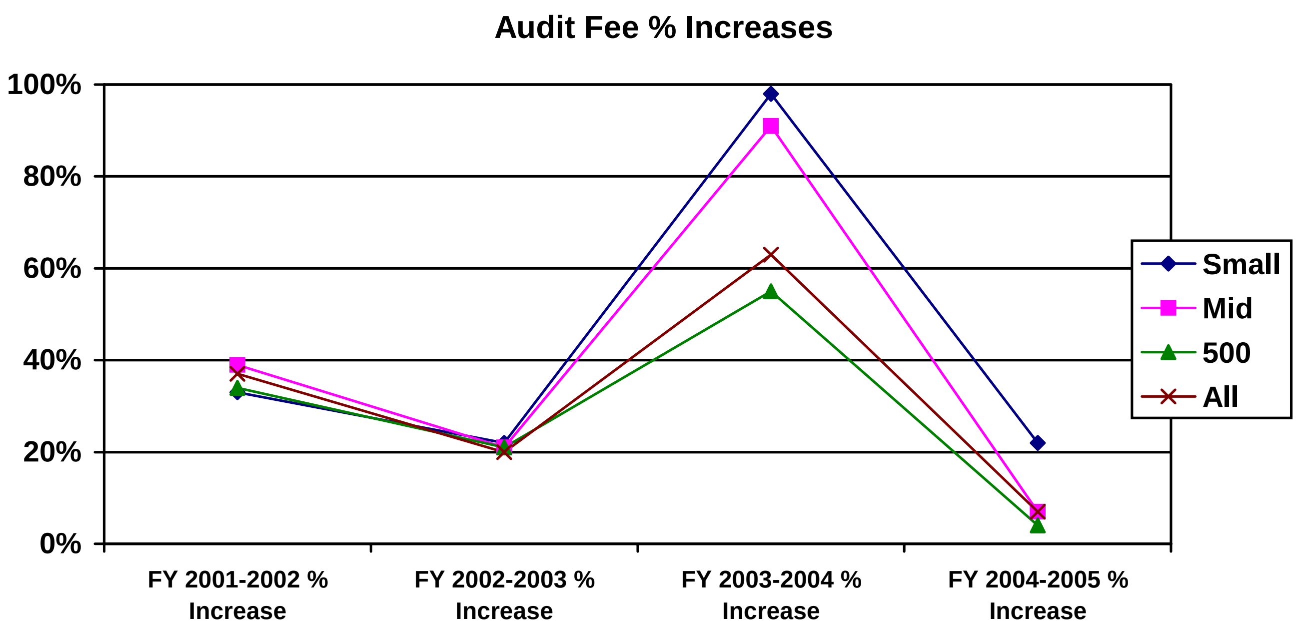
The S&P database represents a random sample of public companies included in the S&P 500, S&P Mid-Cap 400 and S&P Small-Cap 600 indices. The margin of error for each category was used to calculate a confidence interval - the range in which the average audit fees of companies in the indicated market cap category should fall at a 95% confidence level.

Audit Fees

Market Cap	FY 2001 Confidence Interval[1]	FY 2002 Confidence Interval[1] (YOY % increase)	FY 2003 Confidence Interval[1] (YOY % increase)	FY 2004 Confidence Interval[1] (YOY % increase)	FY 2005 Confidence Interval[1] (YOY % increase)
S&P Small-Cap	$342,000 +/- $26,000	$454,000 +/- $42,000 (33% increase)	$556,000 +/- $60,000 (22% increase)	$1,100,000 +/- $95,000 (98% increase)	$1,342,000 +/- $108,000 (22% increase)
S&P Mid-Cap	$650,000 +/- $69,000	$906,000 +/- $99,000 (39% increase)	$1,100,000 +/- $133,000 (21% increase)	$2,103,000 +/- $232,000 (92% increase)	$2,240,000 +/- $215,000 (6% increase)
S&P 500	$3,200,000 +/- $450,000	$4,300,000 +/- $570,000 (35% increase)	$5,200,000 +/- $713,000 (21% increase)	$8,050,000 +/- $1,013,000 (56% increase)	$8,400,000 +/- $1,122,000 (4% increase)
All	$1,534,000 +/- $199,000	$2,100,000 +/- $256,000 (36% increase)	$2,520,000 +/- $318,000 (21% increase)	$4,112,000 +/- $458,000 (63% increase)	$4,400,000 +/- $487,000 (6% increase)



[1] The confidence intervals represent the range in which the average audit fees of companies in the indicated market cap category should fall at a 95% confidence level.



- Increases in average audit fees between FY 2001 and FY 2005 have been significant for companies of all sizes:

Market Cap	Average Increase ($) FY 2001 – FY 2005	Average Increase (%) FY 2001 – FY 2005
S&P Small-Cap	$1,000,000	292%
S&P Mid-Cap	$1,590,000	245%
S&P 500	$5,200,000	163%

- In FY 2005, the percentage increase in average audit fees was significantly higher for small-cap companies (22%) than mid-cap (6%) and S&P 500 companies (4%).

  - Contrary to many predictions made in 2005 and anecdotal stories reported this year, average audit fees did not drop in the second year after Section 404 requirements phased-in for U.S. companies with $75 million or more in market capitalization.

  - The results provide factual support for the perception that Section 404 disproportionately impacts smaller public companies. The percentage increases in average audit fees year over year were generally the same for S&P small-cap, S&P mid-cap and S&P 500 companies until the Section 404 requirements phased-in during FY 2004. Since then, S&P small-cap and S&P mid-cap companies have experienced larger percentage increases in their average audit fees, particularly S&P small-cap companies.

- Leading into FY 2005, average audit fees increased by double-digit percentages year over year since the enactment of the Sarbanes-Oxley Act in 2002. This increase accelerated dramatically in FY 2004, which we attributed to the substantial costs associated with the financial control audits required under Section 404 of the Sarbanes-Oxley Act, which phased-in for most domestic public companies at the end of 2004.[1] In FY 2005, percentage increases continued at less dramatic levels than witnessed in FY 2004. For S&P mid-cap and S&P 500 companies, these percentage increases were the smallest since the enactment of the Sarbanes-Oxley Act.

- It is important to note that while percentage increases were reduced for all companies in FY 2005 compared to FY 2004, fees paid to outside auditors remain at historically high levels and represent a significant expense for organizations of all sizes.

- Consistent with previous years, other fees paid to auditors continued to decline in FY 2005, decreasing 42% for all companies analyzed. Between FY 2001 and FY 2005, other fees paid to auditors have decreased 97%.

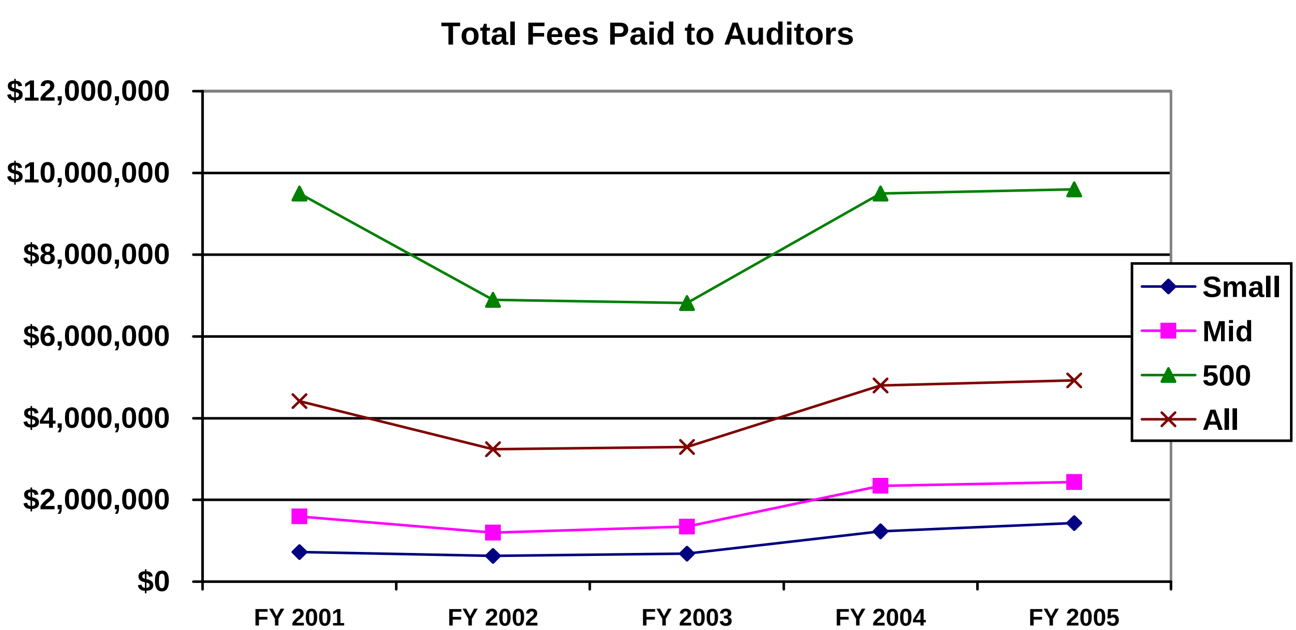
    - This decline is the result of a continued shift of consulting work away from outside auditors because of Sarbanes-Oxley Act auditor independence regulations, as well as heightened sensitivity surrounding consulting work generally, even consulting work that is not strictly prohibited under the Sarbanes-Oxley Act regulations.

- However, it is important to note that despite the 97% decrease in other fees paid to auditors between FY 2001 and FY 2005, beginning in FY 2004 total fees paid to auditors[1] have in fact equaled or surpassed the levels witnessed prior to the enactment of the Sarbanes-Oxley Act.

[1] Section 404 phased-in for domestic public companies with market capitalizations exceeding $75 million beginning with their first fiscal year ending after November 15, 2004.

Fees Paid to Auditors[1]

Market Cap	FY 2001 Confidence Interval[2]	FY 2002 Confidence Interval[2] (YOY % change)	FY 2003 Confidence Interval[2] (YOY % change)	FY 2004 Confidence Interval[2] (YOY % change)	FY 2005 Confidence Interval[2] (YOY % change)
S&P Small-Cap	$723,000 +/- $68,000	$633,000 +/- $70,000 (12% decrease)	$688,000 +/- $73,000 (9% increase)	$1,232,000 +/- $99,000 (79% increase)	$1,433,000 +/- $109,000 (16% increase)
S&P Mid-Cap	$1,600,000 +/- $240,000	$1,200,000 +/- $125,000 (25% decrease)	$1,350,000 +/- $161,000 (13% increase)	$2,345,000 +/- $253,000 (74% increase)	$2,440,000 +/- $229,000 (4% increase)
S&P 500	$9,500,000 +/- $1,394,000	$6,900,000 +/- $1,054,000 (28% decrease)	$6,820,000 +/- $949,000 (1% decrease)	$9,500,000 +/- $1,184,000 (39% increase)	$9,601,000 +/- $1,229,000 (1% increase)
All	$4,420,000 +/- $617,000	$3,240,000 +/- $453,000 (27% decrease)	$3,300,000 +/- $414,000 (1% increase)	$4,800,000 +/- $525,000 (46% increase)	$4,930,000 +/- $539,000 (3% increase)



[1] Includes audit fees, audit-related fees and other fees paid to auditors. Does not include tax preparation fees.

[2] The confidence intervals represent the range in which the average audit fees of companies in the indicated market cap category should fall at a 95% confidence level.

Annual Director Fees

- It continues to be increasingly expensive for companies of all sizes to attract and retain qualified directors, as annual director fees continued to increase steadily and consistently for each category of company analyzed. Overall, annual director fees have increased an average of 71% for small-cap companies, 64% for mid-cap companies and 58% for S&P 500 companies between FY 2001 and FY 2005.

	FY 2002 Fees (YOY % Increase)	FY 2003 Fees (YOY % Increase)	FY 2004 Fees (YOY % Increase)	FY 2005 Fees (YOY % Increase)	FY 2001 – 2005 Overall % Increase
S&P Small-Cap	$ 18,000 (10%)	$ 21,000 (17%)	$ 24,000 (17%)	$ 27,000 (14%)	$ 9,000 (71%)
S&P Mid-Cap	$ 22,000 (11%)	$ 24,000 (13%)	$ 28,000 (15%)	$ 32,000 (14%)	$10,000 (64%)
S&P 500	$ 33,000 (9%)	$ 39,000 (16%)	$ 44,000 (13%)	$ 48,000 (11%)	$15,000 (58%)

- As seen in all previous years, companies listed on the NYSE continued to have significantly higher average annual director fees than NASDAQ-traded companies, paying directors an average of $40,000 in annual fees in FY 2005 compared to $27,000 in average annual fees for NASDAQ companies.
    - However, NASDAQ companies experienced a larger percentage increase in average annual fees paid to directors, climbing 88% between FY 2001 and FY 2005, compared to 58% for NYSE companies during the same period.

Analysis of Public Company Survey

In January of 2006, Foley distributed public company and private organization surveys via mail and e-mail to approximately 9,000 CEOs, CFOs, General Counsel, Chief Compliance Officers, Board Members, Directors and other executives of both public companies and private organizations. Recipients were asked to complete the survey that applied to their entity, based on their standing as either a public company or a private organization. Recipients were given the option to complete a paper- or Web-based version of the applicable survey.

A total of 114 public company surveys were returned. A total of 33 surveys were returned from public companies with annual revenue of $1 billion or more, and 80 surveys were returned by public companies with annual revenue under $1 billion (one company did not provide an answer regarding annual revenue).

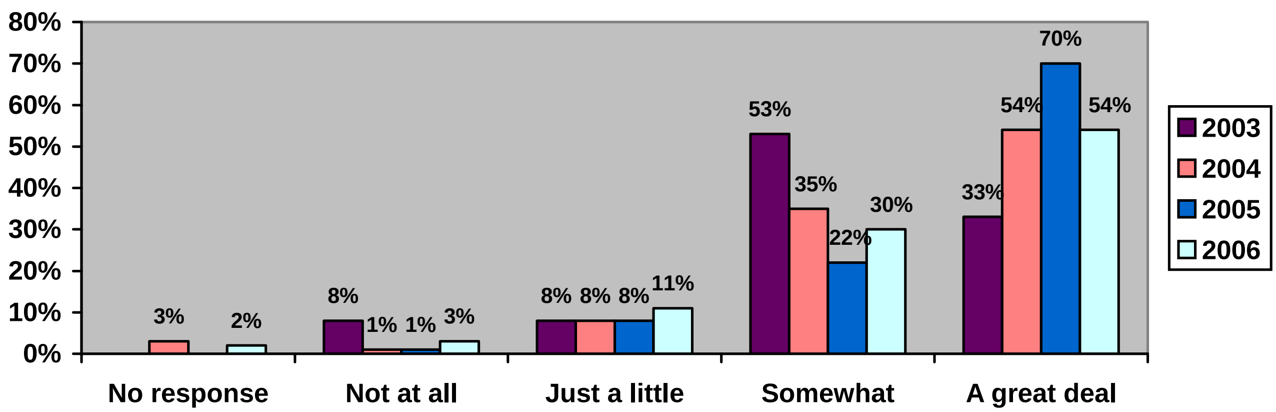
The survey addressed many of the same questions and issues as the surveys conducted by Foley in 2003, 2004 and 2005. The results of the survey follow (Please note: due to rounding, percentages may not always add up to 100 percent):

Have corporate governance and public disclosure reforms increased your company's overall administrative expenses a great deal, somewhat, just a little, or not at all? (Please check just one.)

- The number of respondents who felt that Sarbanes-Oxley has impacted administrative expenses "a great deal," decreased from 70% to 54% between the 2005 and 2006 surveys. Responses to the 2006 survey were similar to responses seen in 2004, which we attribute to the realization of the financial impact of Section 404 in FY 2004 and a relative return to "steady state" in 2006.

- It is important to note that 84% of respondents overall felt that costs had increased "somewhat" or "a great deal."

	2006	2005	2004	2003
A great deal	54%	70%	54%	33%
Somewhat	30%	22%	35%	53%
Just a little	11%	8%	8%	8%
Not at all	3%	1%	1%	8%
Don't know/No Answer	2%	-	3%	-



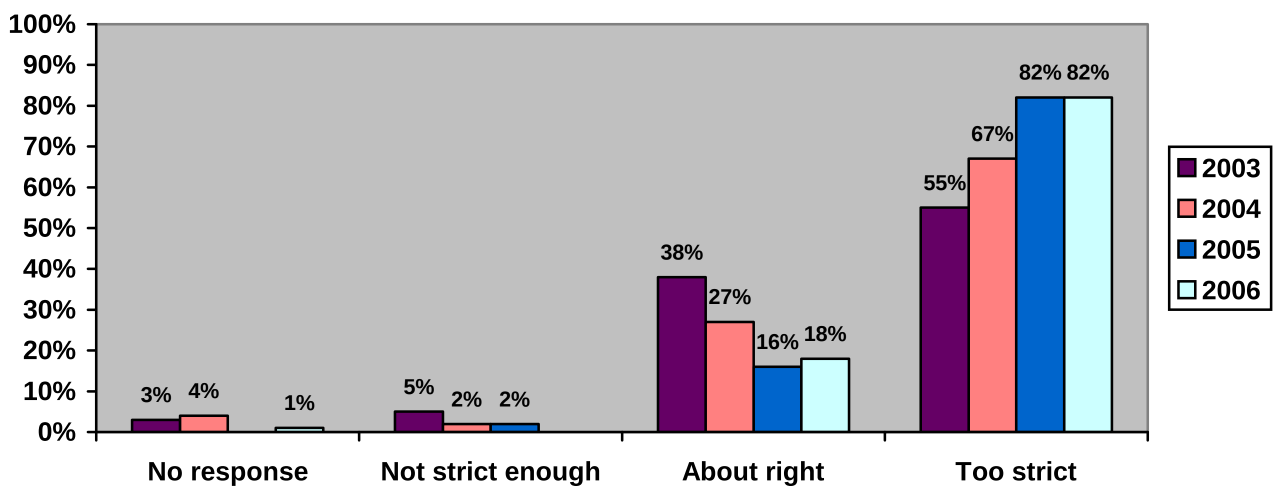
- In four years of conducting this study, responses to this question have been reflective of the phases in which the Sarbanes-Oxley Act was implemented:
  - In 2003, the first year of our study, which reflects results from FY 2002, we believe administrative expenses were impacted primarily by CEO/CFO certifications and director independence compliance.
  - In 2004, we believe new audit committee rules and NYSE/NASDAQ listing standards accounted for the bulk of administrative expenses, supplemented for some companies by preparations for Section 404 phase-in.
  - In 2005, the full impact of Section 404 phase-in was realized by domestic public companies with market capitalizations in excess of $75 million, which we believe accounted for the increase in those responding that administrative expenses have been impacted "a great deal."
  - In 2006, we have returned to a "steady state" in which the costs of compliance are still significant but are no longer increasing at the rates witnessed in previous years.

Do you feel that the corporate governance and public disclosure reforms implemented since the enactment of the Sarbanes-Oxley Act in 2002 are too strict, about right, or not strict enough? (Please check just one.)

- For the second straight year, a vast majority (82%) of respondents felt that corporate governance and public disclosure reforms are too strict. For the first time in the history of our survey, not a single respondent felt the reforms are "not strict enough."

- In 2003, a relatively large number of respondents (38%) felt that the reforms were "about right." We note that, at that time, only limited aspects of the Sarbanes-Oxley Act, such as CEO/CFO certifications, had phased-in. The number of respondents in the "about right" category has dropped significantly in subsequent years, particularly in 2004 and 2005, which is when Section 404 requirements phased-in for public companies with market capitalizations of $75 million or more.

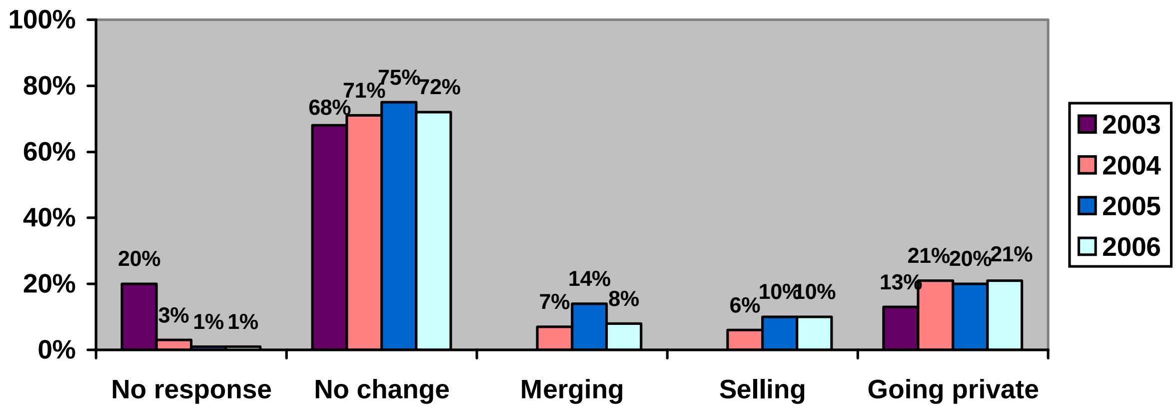
	2006	2005	2004	2003
Too strict	82%	82%	67%	55%
About right	18%	16%	27%	38%
Not strict enough	-	2%	2%	5%
Don't know/No Answer	1%	-	4%	3%



As a result of the new corporate governance and public disclosure reforms implemented since the enactment of the Sarbanes-Oxley Act in 2002, is your company considering any of the following? (Check all that apply.)

- Consistent with results from previous years, one in five survey respondents (21%) are considering going-private transactions as a result of corporate governance and public disclosure reforms. Additionally, respondents to our 2006 survey continue to consider other options, including selling the company (10%) and merging with another company (8%).

	2006	2005	2004	2003
Going private	21%	20%	21%	13%
Selling your company	10%	10%	6%	N/A[1]
Merging with another company	8%	14%	7%	N/A[1]
No change	72%	75%	71%	68%
Don't know/No Answer	1%	1%	3%	20%



- A majority of the respondents who said they were exploring the option of going private, selling or merging were companies with under $1 billion in annual revenue.
- Of those respondents who said they would consider going private as a result of Sarbanes-Oxley, 96% said that they felt the corporate governance standards are "too strict."

[1] This option was not available in our 2003 survey.

To what extent do you agree with this statement: Now that we are into the fourth year of Sarbanes-Oxley Act related reforms, I am better able to predict costs associated with corporate governance reforms. (Please check just one.)

- A majority of respondents (65%) agree that they are better able to predict costs associated with Sarbanes-Oxley Act related reforms. This represented a significant increase (21%) over 2005, which we attribute to the full realization of the costs associated with Section 404, which phased-in for most companies in FY 2004.

- We noted the likelihood of this trend in our 2005 report, where we predicted that costs associated with Sarbanes-Oxley Act related reforms would become more predictable in future years as companies completed their initial Section 404 audits.

- There are still a significant number of respondents (34%) who do not believe they are better able to predict costs associated with corporate governance reforms.

	2006	2005	2004
Strongly Agree	7%	5%	4%
Agree	58%	39%	35%
Disagree	29%	40%	50%
Strongly Disagree	5%	16%	10%
Don't know/No Answer	1%	1%	2%
Net Agree	***65%***	***44%***	***38%***
Net Disagree	***34%***	***56%***	***60%***

Do you agree or disagree with the following statement: The cost of Sarbanes-Oxley Act compliance has resulted in budget and/or staffing cuts in critical areas of my business.[1]

	2006
Agree	34%
Disagree	65%
Don't know/No Answer	1%

[Only asked of those agreeing with the above] To what extent do you agree or disagree with the following statement: The cost of Sarbanes-Oxley Act compliance has negatively impacted my organization's earnings.[1]

	2006
Agree	95%
Disagree	5%

- A significant number of respondents (34%) told us that Sarbanes-Oxley Act compliance has resulted in budget and/or staffing cuts in critical areas of their business.

- Of those who have experienced budget and/or staffing cuts in critical areas of their business, nearly all respondents believe the cost of compliance has negatively impacted the organization's earnings.

[1] This question was asked only in the 2006 survey.

The Cost of Being Public for Companies With Annual Revenue Under $1 Billion

Based on the responses of senior management to our studies conducted over the past four years, the average costs of being public for public companies with annual revenue under $1 billion surveyed in each year were:

Item	Before Reform	Estimated FY 2002 Costs [% change]	Estimated FY 2003 Costs [% change]	Estimated FY 2004 Costs [% change]	Estimated FY 2005 Costs [% change]	FY 2001 – FY 2005 % Change
D&O Insurance	$ 329,000	$ 639,000 [+94%]	$ 850,000 [+33%]	$ 407,000 [-52%]	$ 414,000 [+2%]	+26%
Audit [1]	$ 332,000	$ 460,000 [+39%]	$ 542,000 [+18%]	$ 1,060,000 [+96%]	$ 1,230,000 [+16%]	+270%
Legal	$ 212,000	$ 404,000 [+91%]	$ 468,000 [+16%]	$ 213,000 [-54%]	$ 131,000 [-38%]	-38%
Board Compensation	$ 107,000	$ 212,000 [+98%]	$ 313,000 [+48%]	$ 222,000 [-29%]	$ 295,000 [+33%]	+176%
Lost Productivity	$ 46,000	$ 93,000 [+102%]	$ 160,000 [+72%]	$ 1,050,000 [+556%]	$ 563,000 [-46%]	+1,124%
Other SOX Costs	$ 26,000	$ 83,000 [+219%]	$ 100,000 [+20%]	$ 300,000 [+200%]	$ 171,000 [-43%]	+558%
Corporate Governance Set-Up Costs [2]	N/A	N/A	$ 147,000	$ 185,000 [+26%]	$ 77,000 [-58%]	N/A
Total	**$1,052,000**	**$1,891,000 [+80%]**	**$2,580,000 [+36%]**	**$ 3,437,000 [+33%]**	**$ 2,881,000 [-16%]**	**+174%**

The Cost of Being Public for Companies With Annual Revenue of $1 Billion and Over

Based on the responses of senior management to our studies conducted over the past four years, the average costs of being public for public companies with annual revenue of $1 billion and over surveyed in each year were:

Item	Estimated FY 2003 Costs	Estimated FY 2004 Costs [% Change]	Estimated FY 2005 Costs [% Change]	Estimated FY 2003 – FY 2005 % Change
D&O Insurance[3]	$ 707,000	$ 1,350,000 [+91%]	$ 1,820,000 [+35%]	+157%
Audit[1]	$ 3,412,000	$ 5,500,000 [+61%]	$ 5,800,000 [+5%]	+70%
Legal	$ 841,000	$ 403,000 [-52%]	$ 226,000 [-44%]	-73%
Board Compensation	$ 247,000	$ 475,000 [+92%]	$ 743,000 [+56%]	+201%
Lost Productivity	$ 2,500,000	$ 2,938,000 [+18%]	$ 2,460,000 [-16%]	-2%
Other SOX Costs	$ 246,000	$ 1,100,000 [+347%]	$ 222,000 [-80%]	-10%
Corporate Governance Set-Up Costs	$ 174,000	$ 496,000 [+185%]	$ 226,000 [-54%]	+30%
Total	**$ 8,127,000**	**$ 12,262,000 [+51%]**	**$ 11,497,000 [-6%]**	**+41%**

[1] Audit fee amounts were obtained using the 2005 S&P database to provide a more accurate portrayal of actual accounting fees for the companies within this category.

[2] This cost area was first measured in our 2004 study. Therefore, data prior to FY 2003 is not available.

[3] We identified an outlier in our D&O insurance data for companies with revenue of $1 billion or more. We have removed this outlier from our 2006 data, as well as from our 2004 and 2005 data, resulting in revised D&O insurance numbers for 2003 and 2004.

- Since the enactment of the Sarbanes-Oxley Act, the average cost of compliance for companies with under $1 billion in annual revenue has increased more than $1.8 million to approximately $2.9 million, representing a 174% overall increase.

- Audit fees have continued to increase and represent a significant expense for public companies. The increases seen in connection with the initial implementation of Section 404 in FY 2004 have been sustained in FY 2005. On average, audit fees have increased 270% between FY 2001 and FY 2005 for companies with under $1 billion in revenue.

- The areas of initial corporate governance reform set-up costs and legal fees have decreased steadily as the expenses associated with these areas have largely proven to be one-time expenses in the years in which various provisions of the Sarbanes-Oxley Act have phased-in.

- Companies with annual revenue over $1 billion experienced a dramatic increase (347%) in “other SOX costs” in FY 2004 which we attributed to the costs of Section 404 implementation. It is important to note that even with an 80% reduction in this category for FY 2005, increases in the cost of D&O insurance, audit fees and board compensation in FY 2005 significantly offset this reduction, resulting in only a 6% decrease in total costs for these companies in FY 2005.

- While the overall cost associated with lost productivity has decreased on average for companies responding to our survey, this area continues to represent a major cost for companies of all sizes.

  - Average costs associated with lost productivity were $563,000 for companies with under $1 billion in annual revenue, representing a 46% decrease from the previous year. However, even with the decrease, lost productivity has increased more than 1,100% since 2001 and represents the second-highest cost area for companies with under $1 billion in revenue behind audit fees.

  - Average costs associated with lost productivity were $2.46 million for companies with over $1 billion in annual revenue, representing a 16% decrease from the previous year. Similar to the smaller companies participating in our survey, lost productivity also represented the second-highest cost area for companies with over $1 billion in revenue behind audit fees.

Analysis of Out-of-Pocket Costs[1]

Out-of-Pocket Costs for Companies With Annual Revenue Under $1 Billion

Before Reform	Estimated FY 2002 Costs [% change]	Estimated FY 2003 Costs [% change]	Estimated FY 2004 Costs [% change]	Estimated FY 2005 Costs [% change]	FY 2001 – FY 2005 % Change
$1,006,000	**$1,798,000 [+79%]**	**$2,420,000 [+35%]**	**$ 2,390,000 [-1%]**	**$ 2,318,000 [-3%]**	**+130%**

Out-of-Pocket Costs for Companies With Annual Revenue of $1 Billion and Over

Estimated FY 2003 Costs	Estimated FY 2004 Costs [% Change]	Estimated FY 2005 Costs [% Change]	Estimated FY 2003 – FY 2005 % Change
$ 5,627,000	**$ 9,324,000 [+66%]**	**$ 9,037,000 [-3%]**	**+61%**

- While overall costs associated with Sarbanes-Oxley Act compliance have dropped slightly for the first time in the history of our study, the out-of-pocket costs facing public companies have remained relatively flat between FY 2004 and FY 2005. The cost of audit fees has continued to increase steadily.

- Audit fees alone now represent more than 50% of out-of-pocket costs associated with Sarbanes-Oxley Act compliance for public companies with under $1 billion in annual revenue, up from 33% of such costs in the last year before the Sarbanes-Oxley Act was enacted.

[1] Includes the costs of D&O insurance, audit fees, legal fees, board compensation, other SOX costs and corporate governance set-up costs.

Methodology

Overview

In 2006, Foley & Lardner LLP worked with national research firm KRC Research in a fourth annual study designed to gauge the true financial impact of corporate governance reform on public companies. Due to the complexities of current reforms and the myriad of governance issues facing companies today, a multi-tiered approach was used to gather the necessary data. The study consisted of a survey designed to measure attitudes toward current reform among top executives and a comprehensive review of a database compiled by Standard and Poor's Investment Services Custom Business Unit from proxy statements filed in 2006 for certain S&P Small-Cap, S&P Mid-Cap and S&P 500 companies. A full description of each approach appears below.

Public Company Survey

In January of 2006, Foley distributed public company and private organization surveys via mail and e-mail to approximately 9,000 CEOs, CFOs, General Counsel, Chief Compliance Officers, Board Members, Directors and other executives of both public companies and private organizations. Recipients were asked to complete the survey that applied to their entities, based on their standing as either a public company or a private organization. Recipients were given the option to complete a paper- or Web-based version of the applicable survey.

A total of 114 public company surveys were returned. A total of 33 surveys were returned from public companies with annual revenue of $1 billion or more, and 80 surveys were returned by public companies with annual revenue under $1 billion (one company did not provide an answer regarding its annual revenue).

Analysis of Standard & Poor's Database

Foley commissioned a statistical analysis of proxy statement data compiled and maintained by Standard and Poor's Investment Services Custom Business Unit. This database contains information from more than 850 public companies included in the S&P 500, S&P Mid-Cap 400 and S&P Small-Cap 600 indices and was obtained by Standard and Poor's from proxy statements relating to 2006 annual shareholder meetings filed with the Securities and Exchange Commission through May 18, 2006.

The S&P database represents a random sample of public companies included in the S&P 500, S&P Mid-Cap 400 and S&P Small-Cap 600 indices. The margin of error for each category was used to calculate a confidence interval - the range in which the average audit fees of companies in the indicated market cap category should fall at a 95% confidence level.