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

2004 NATIONAL DIRECTORS INSTITUTE
Presented by:

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EXECUTIVE SUMMARY

- Based on data received from Foley & Lardner's 2003 and 2004 studies, the average cost of being public for a company with annual revenue under $1 billion in the wake of corporate governance reform has increased $1.6 million (130%) from the inception of Sarbanes-Oxley through FY 2003, including an increase of $736,000 during FY 2003.

- Contrary to some predictions, the overall costs increases associated with corporate governance reform in FY 2002 were not a one-time event. Costs continued to increase in FY 2003 and, in the case of director compensation, actually accelerated.

- Not only do the costs associated with corporate governance reform continue to be significant, but executives surveyed feel these costs are increasingly unpredictable.

- Section 404 compliance was overwhelmingly cited by survey respondents as the area having the most significant financial impact on public companies, followed by legal expenses and D&O insurance.

  - The increase is likely to continue to have an impact in 2004 as companies prepare for their FY 2004 audit.

- Fees paid to outside auditors have continued to increase by double digits year over year since the enactment of the Sarbanes-Oxley Act in 2002.

  - Of the companies analyzed, audit fees increased an average of 23% between FY 2002 and FY 2003.

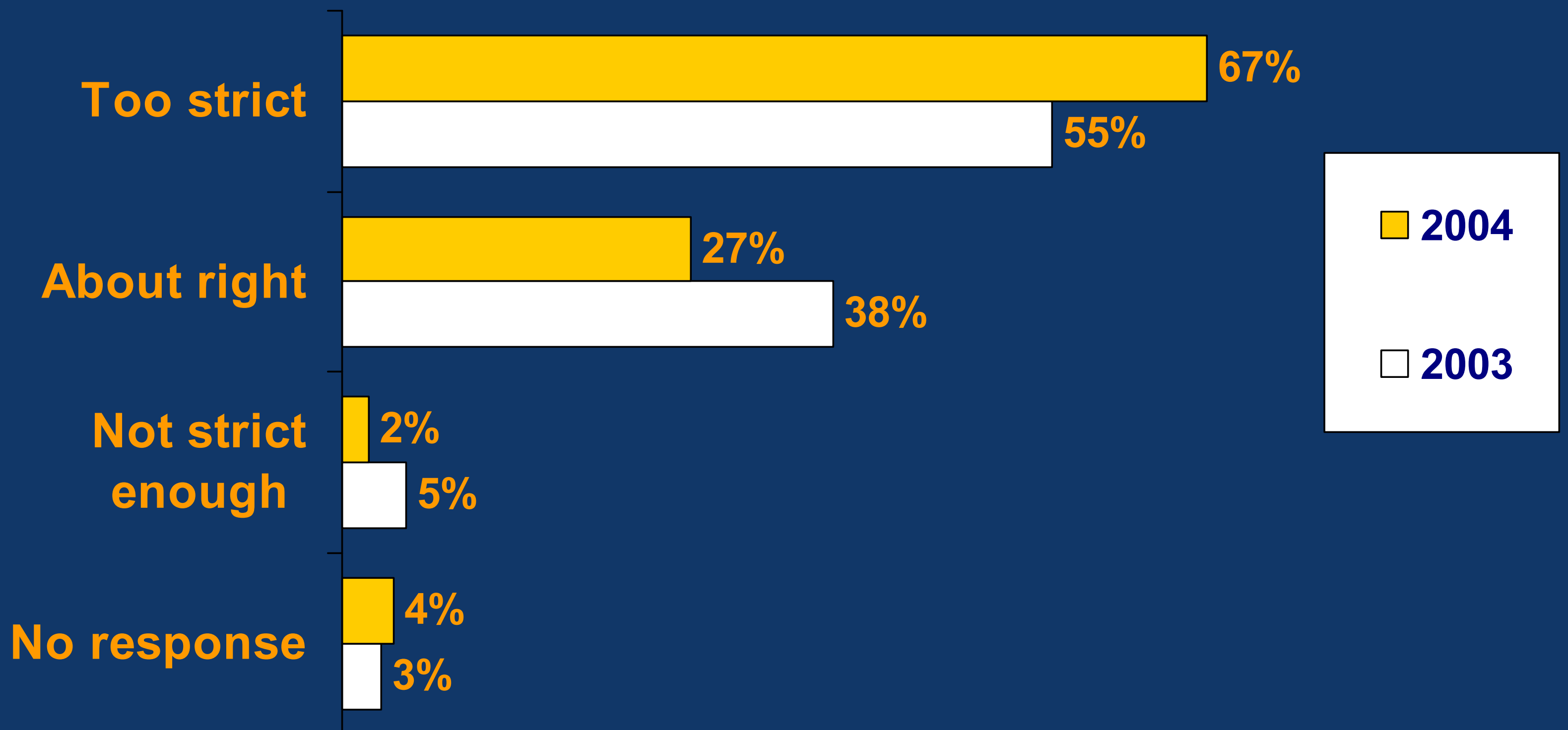
- Non-audit fees paid to accountants continued to decline between FY 2002 and FY 2003 for the companies studied, averaging a 20% decrease between FY 2002 and FY 2003. We believe this is due largely to the shift in consulting work away from auditors.

- The increase in annual director fees accelerated, increasing at a faster rate in FY 2003 than they did in FY 2002:

	FY 2002 Increase	FY 2003 Increase
Small-Cap	9%	19%
Mid-Cap	12%	16%
S&P 500	9%	15%

- Based on a survey of public company executives, the average costs associated with lost productivity, board compensation and D&O insurance experienced the largest percentage increase between FY 2002 and FY 2003 for public companies surveyed with annual revenue under $1 billion. Those fees increased by an average of 72% (lost productivity), 48% (board compensation) and 33% (D&O).

New Corporate Governance & Public Disclosure Reforms:



VERBATIMS

On the company's relationship with the outside auditing firm…

- *The auditor performs more work on our account primarily due to [Section] 404 requirements.*
- *Outside auditing firms are less willing to provide guidance, assistance or insight into accounting or regulatory issues. Their stance is that it is our responsibility and, after we decide, they will provide their opinion. In other words, they are very concerned about being independent.*
- *Our [audit] firm is unconcerned about the costs of the additional SOX requirements. Their position, although stated very politely, is that we will pay whatever they ask for.*
- *There are signs that our relationship [with our auditor] is becoming more adversarial, and we are no longer thinking of our auditors as valued business partners.*
- *Our outside auditing firm has turned into a regulator and not a business advisor, as in the past.*
- *We are having to deal with our auditor through our audit committee more frequently.*
- *We believe we will need to hire one to two additional financial staff to interface [with our auditor].*
- *[Our auditor] is less likely to offer constructive advice, being much more cognizant of their audit role. This is an unintended impact and results in worse financial planning.*
- *Outside auditors are no longer confident in giving advice on accounting rules. Our auditors require us to hire internal auditors and obtain rulings from the SEC and lawyers [,which] slows us down and costs a lot of money.*

On expected changes in Sarbanes-Oxley in 2004…

- *As the PCAOB continues to regulate the auditing industry, it is possible that auditing firms will come to be viewed in the same light as the IRS, i.e. an arm of the government to assure compliance with rules. If that is the case, the profession may not attract the best and brightest as in the past, and the audit itself may become nothing more than a commodity, in which case the decision to hire an auditor will be based on price alone as long as the firm is approved by the PCAOB.*
- *We have yet to implement all of the regiments necessary to fully comply with [Section] 404. That will consume much of our time in 2004.*
- *I hope that reason might prevail to help protect the little guy from really excessive costs.*

VERBATIMS (Continued)

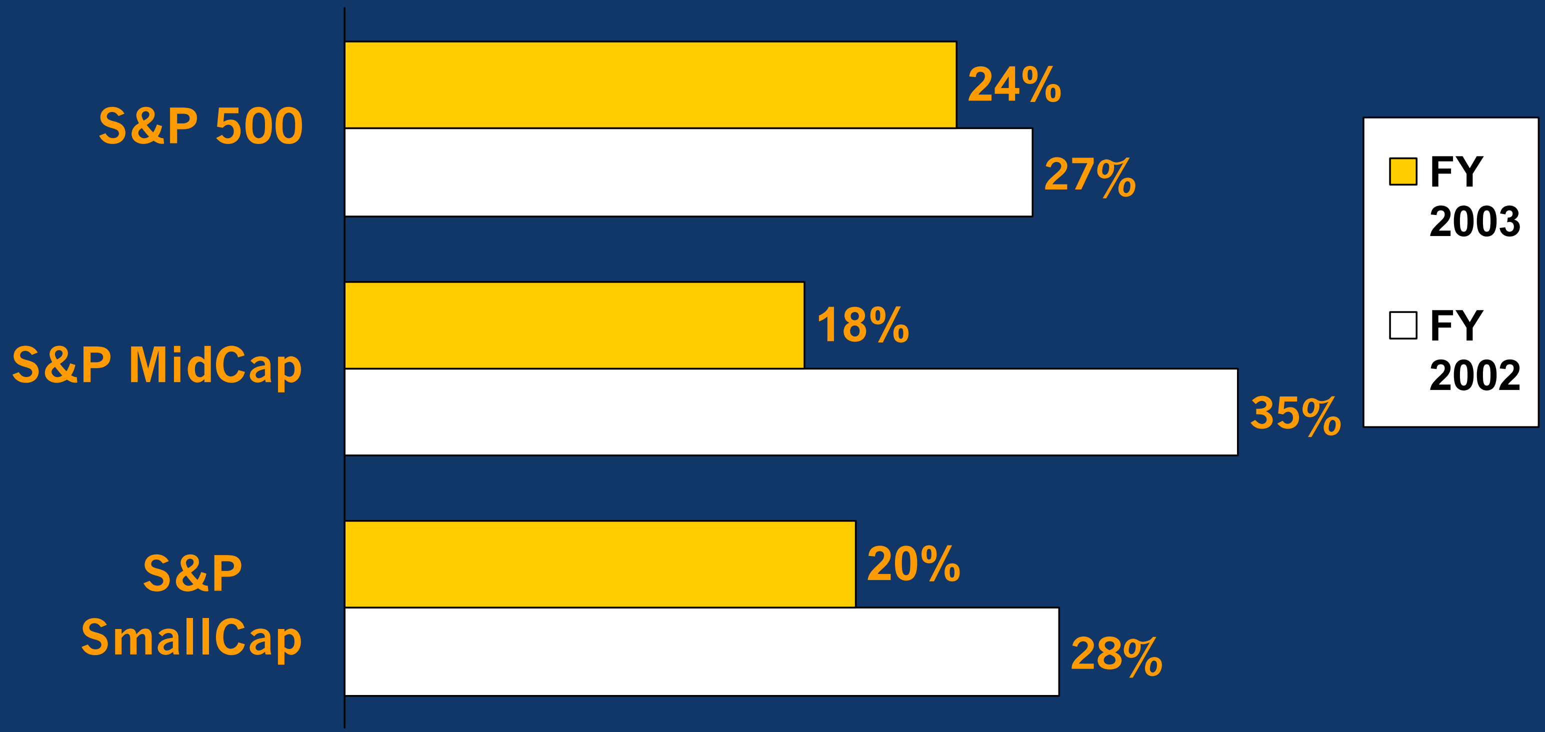
How would you suggest modifying corporate governance and public disclosure reform?

- *Keep it simple.*
- *Prior to Sarbanes-Oxley and Section 404, there were sufficient rules in place. The problem was that they weren't enforced. Because of the sins of the few, all public companies are paying the price and public perception doesn't allow disagreement with the thought that these rules will produce substantial benefits.*
- *Eliminate the non-productive portions of Section 404 which are highly duplicative and provide no benefit to anyone. I have spoken to many of our shareholders, mostly institutional, and analysts and not a single one cares at all about Section 404 issues, except as it will cause our administrative costs to increase to comply.*
- *Because of [the actions] of a handful of companies, all public companies have been forced to adopt changes that are not necessary. One size does not fit all.*
- *These reforms should be sensitive to a company's size, both in revenue and earnings, and in staffing. My 50-employee company…is being asked to comply to the same disclosure rules as Coca-Cola. An unintended consequence will be the drying-up of equity capital for start-ups and other riskier endeavors. Entrepreneurs will be forced back into their garages and innovation will suffer.*
- *There is an obvious cost to this process, which can fall more heavily on smaller, more entrepreneurial companies than large companies with existing extensive internal infrastructure.*
- *Require the same reporting by Congress.*

ACCOUNTING FEES

- Fees paid to outside auditors have continued to increase by double digits year over year since the inception of the Sarbanes-Oxley Act in 2002.
  - Of the companies analyzed, audit fees increased an average of 23% between FY 2002 and FY 2003.
  - This translates to average increases of 20% for small-cap companies, 18% for mid-cap companies and 24% for S&P 500 companies.
  - Average increases for small-cap, mid-cap and S&P 500 companies between FY 2002 and FY 2003 are not as high at the changes between FY 2001 and FY 2002, (28%, 35% and 27%, respectively) but the actual average dollar increases in FY 2003 are still significant ($89,000 for small-cap, $170,000 for mid-cap and $959,000 for S&P 500 companies).
  - Between FY 2002 and FY 2003, on average, audit fees increased at a rate of nearly $500,000 for the companies studied.
- The increase in accounting fees witnessed in FY 2002 was not a one-time event. The increase in accounting fees related to Sarbanes-Oxley compliance has been steady and sustained.
- The requirements of Section 404 are one element that is having an impact on accounting fees, particularly for the S&P 500 companies. The increase is likely to continue to have an impact as companies prepare for their FY 2004 audit.
- Non-audit fees paid to accountants continued to decline between FY 2002 and FY 2003 for the companies studied, averaging a 20% decrease between FY 2002 and FY 2003.
  - We believe this decline is primarily because certain consulting work done in prior years has been shifted away from accountants because of Sarbanes-Oxley regulations, heightened sensitivity surrounding such work and the divestiture by large accounting firms of their consulting businesses.
  - The average decline in non-audit fees was 13% for small-cap, 0.04% for mid-cap and 22% for S&P 500 companies.

Increase In Audit Fees For Public Companies (FY 2002 versus FY 2003):



ANNUAL DIRECTOR FEES

- The increase in annual director fees accelerated, increasing at a faster rate in FY 2003 than they did in FY 2002:

	FY 2002 Increase	FY 2003 Increase
Small-Cap	9%	19%
Mid-Cap	12%	16%
S&P 500	9%	15%

- Companies listed on the NYSE continue to have significantly higher average annual director fees than NASDAQ-traded companies, paying directors an average of $32,000 in annual fees compared to $20,000 in average annual fees for NASDAQ companies. However, NASDAQ companies have witnessed a larger increase in average annual fees paid to directors, climbing 40% between 2001 and 2003.

- Director meeting fees also showed a year-over-year increase between 2002 and 2003, increasing an average of 7% for small-cap, 15% for mid-cap and 8% for S&P 500 companies.

- Increases in total director compensation (annual fees plus director meeting fees) are falling disproportionately on mid-cap companies.

- On the whole, it is becoming increasingly expensive for companies of all sizes to attract and retain qualified directors in the wake of Sarbanes-Oxley Act requirements.

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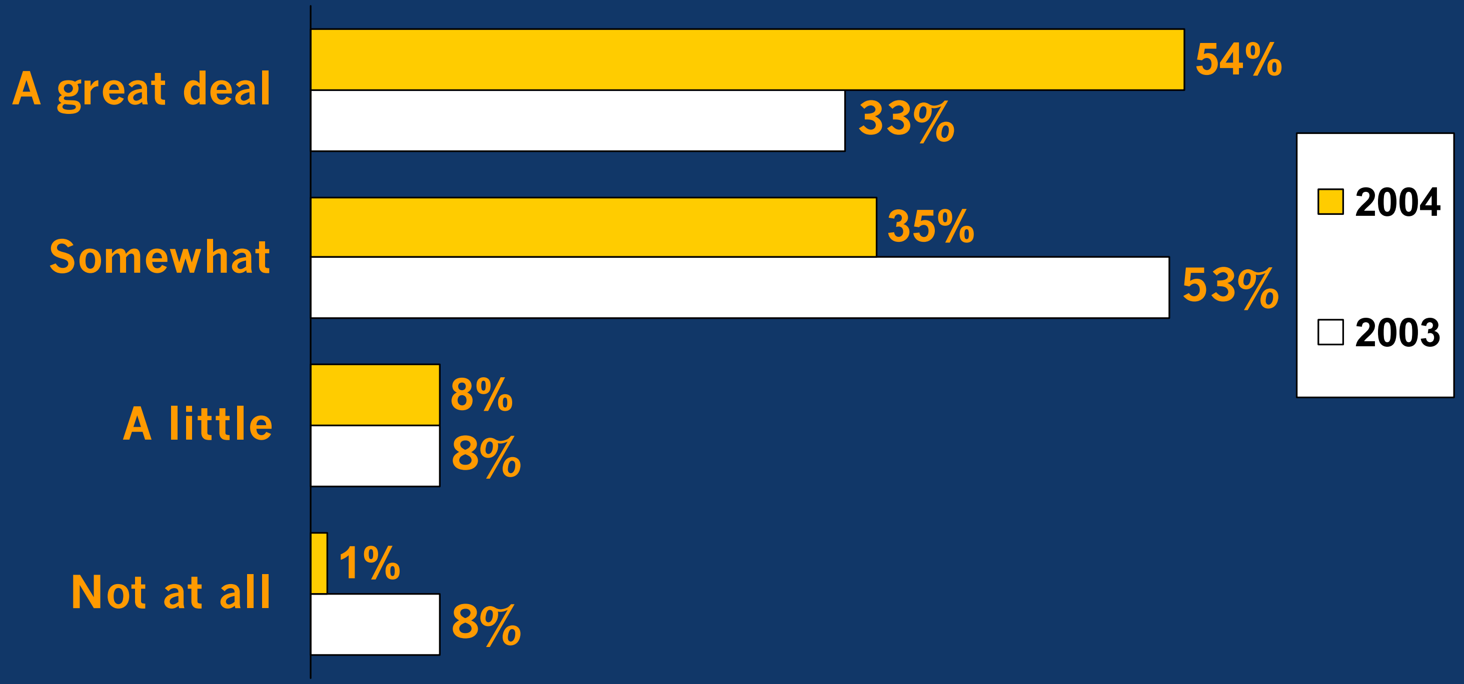
New Corporate Governance & Public Disclosure Reforms Impact On Company's Overall Administrative Expenses:



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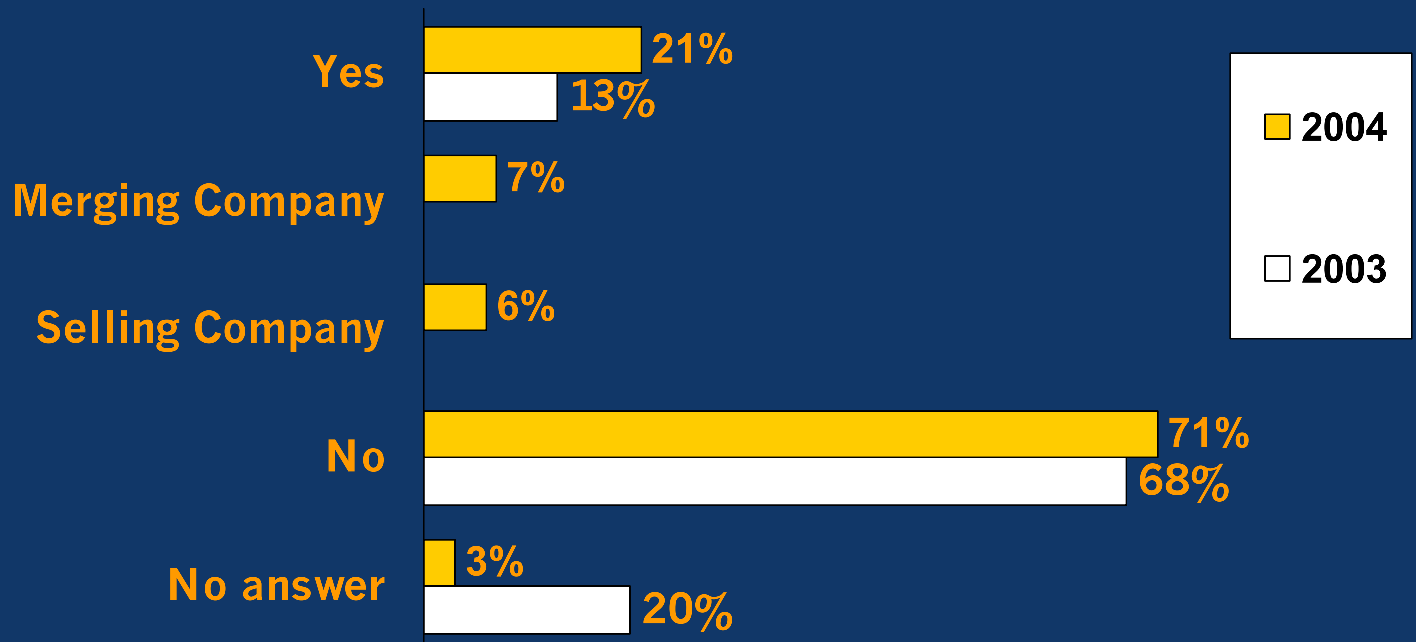
Is your company considering going private or selling the company *as a result of* new corporate governance and disclosure reforms:



PUBLIC COMPANY SURVEY

In April of 2004, Foley & Lardner distributed a survey to 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 organizations, 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 public company survey.

A total of 115 public company surveys were returned. A total of 26 surveys were returned from public companies with annual revenue of $1 billion or more, and 85 surveys were returned by public companies with annual revenue under $1 billion (4 companies did not provide annual revenue information).

The survey addressed many of the same questions and issues as the original study conducted by Foley & Lardner in 2003. (Please note: due to rounding, percentages may not always add up to 100 percent):

- A large number of companies now feel that corporate governance and public disclosure reforms have increased their company's overall administrative expenses "a great deal." 54% of respondents agreed with this statement in 2004, compared to 33% in the 2003 study.

  - In 2003, 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.)

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

- Two-thirds (67%) of survey respondents feel that corporate governance and public disclosure reforms are too strict, an increase of 12% over 2003.

  - Do you feel that the new corporate governance and public disclosure reforms are too strict, about right, or not strict enough? (Please check just one.)

	2004	2003
Too strict	67%	55%
About right	27%	38%
Not strict enough	2%	5%
Don't know/No Answer	4%	3%

- Survey respondents revealed that a surprisingly large number (21%) were considering going private as a result of new corporate governance and public disclosure reforms, an increase over our 2003 survey in which 13% of respondents said they were considering the option.

  - As a result of the new corporate governance and public disclosure reforms, is your company considering any of the following? (Check all that apply.)

	2004	**2003**
Going private	21%	13%
Selling your company	6%	N/A
Merging with another company	7%	N/A
No change	71	68%
Don't know/No Answer	3%	20%

- Regardless of the fact that they are now in the second year of reacting to the Sarbanes-Oxley Act and its associated regulations, a majority of respondents (60%) did not feel that they were better able to predict costs associated with corporate governance reforms.

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

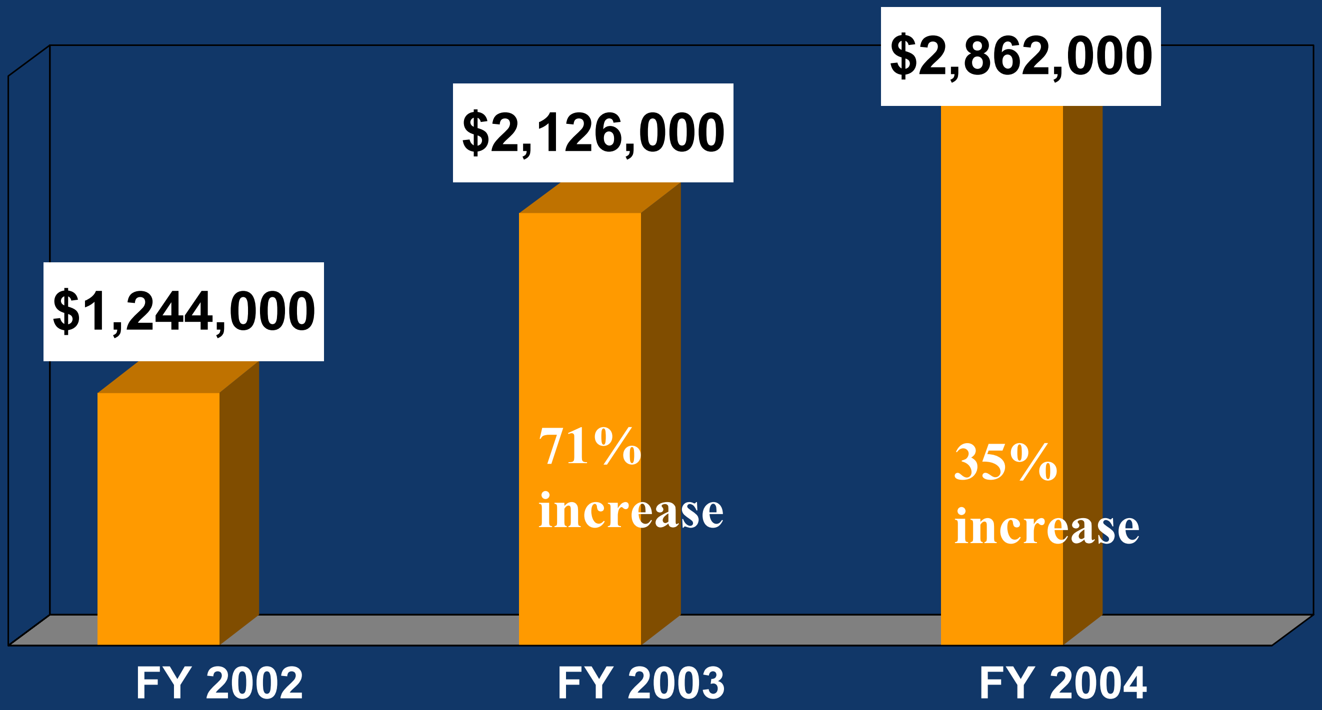
	2004
Strongly Agree	4%
Agree	35%
Disagree	50%
Strongly Disagree	10%
Don't know/No Answer	2%
Net Agree	***38%***
Net Disagree	***60%***

- Section 404 compliance was overwhelmingly listed as the area having the most significant financial impact on public companies, followed by legal expenses and D&O insurance.

  - Please rank the following areas based on increased costs, both internal and out-of-pocket, associated with corporate governance reform, with **1** having the greatest impact and **5** having the least.

	1st	2nd	3rd	4th	5th	No answer	1st - 2nd	1st-3rd
404 Compliance	63%	15%	5%	4%	3%	10%	78%	83%
Legal Expenses	15%	35%	30%	10%	1%	9%	50%	80%
D&O Insurance	9%	19%	24%	29%	10%	10%	28%	52%
Revised NYSE/NASDAQ Listing Standards	3%	16%	25%	31%	12%	13%	19%	44%
Other	3%	4%	9%	5%	28%	52%	7%	16%

Cost Of Being Public:



FY 2001 to FY 2003 Increase: 130%

THE COST OF BEING PUBLIC FOR COMPANIES WITH ANNUAL REVENUE UNDER $1 BILLION

Based on the responses of senior management to both the 2003 and 2004 studies, 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	FY 2001 – FY 2002 % increase	Estimated FY 2003 Costs	FY 2002 – FY 2003 % increase	FY 2001 – FY 2003 % increase
D&O Insurance	$ 329,000	$ 639,000	94%	$ 850,000	33%	158%
Accounting*	$ 524,000	$ 695,000	33%	$ 824,000	19%	57%
Legal	$ 212,000	$ 404,000	91%	$ 468,000	16%	120%
Board Compensation	$ 107,000	$ 212,000	98%	$ 313,000	48%	192%
Lost Productivity	$ 46,000	$ 93,000	102%	$ 160,000	72%	247%
Other SOX Costs	$ 26,000	$ 83,000	319%	$ 100,000	20%	284%
Corporate Governance Set-Up Costs **	N/A	N/A	N/A	$ 147,000	N/A	N/A
Total	**$1,244,000**	**$2,126,000**	**71%**	**$2,862,000**	**35%**	**130%**

THE COST OF BEING PUBLIC FOR COMPANIES WITH ANNUAL REVENUE OF $1 BILLION AND OVER

Based on the responses of senior management, the average costs of being public for public companies surveyed with annual revenue of $1 billion and over are:

Item	Estimated FY 2003 Costs
D&O Insurance	$ 2,200,000
Accounting*	$ 1,200,000
Legal	$ 841,000
Board Compensation	$ 247,000
Lost Productivity	$ 2,500,000
Other SOX Costs	$ 246,000
Corporate Governance Set-Up Costs	$ 174,000
Total	**$ 7,408,000**

*These figures were obtained using the S&P database to provide a more accurate portrayal of accounting fees for the companies within this category.

**This cost represents a new area added to the 2004 study based on feedback obtained from our 2003 study participants.

- Contrary to some predictions, the overall cost increases associated with corporate governance reform in FY 2002 were not a one-time event. They continued to increase in FY 2003 and, in the case of director compensation, actually accelerated.

- According to survey respondents, public companies with annual revenue under $1 billion experienced increased costs within every category surveyed.

- The costs associated with lost productivity and D&O insurance experienced the largest percent increase between FY 2002 and FY 2003 for companies surveyed with annual revenue under $1 billion.

- Based on data received from Foley & Lardner's 2003 and 2004 studies, the average cost of being public for a company with annual revenue under $1 billion in the wake of corporate governance reform has increased $1.6 million (130%) from the inception of Sarbanes-Oxley through FY 2003, including an increase of $736,000 during FY 2003.

- Based on a survey of public company executives, the average costs associated with lost productivity, board compensation and D&O insurance experienced the largest percentage increase between FY 2002 and FY 2003 for public companies surveyed with annual revenue under $1 billion. Those fees increased an average of 72% (lost productivity), 48% (board compensation) and 33% (D&O).

- The cost of being a public company with annual revenue of $1 billion and over in today's corporate governance environment averages $7.4 million.

METHODOLOGY

Overview

In 2004, Foley & Lardner worked with national research firm KRC Research on a second annual study designed to measure 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, the firms implemented a multi-tiered approach 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 recently-filed proxy statements among small-, mid- and large-cap companies. A full description of each approach appears below.

Survey of Corporate Executives

In April of 2004, Foley & Lardner distributed a survey to 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 organizations, 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.

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Due to rounding, percentages of survey responses may not always add up to 100%.

The survey addressed many of the same questions and issues as the original study conducted by Foley & Lardner in 2003.

Study of Proxy Statements

Foley & Lardner conducted a review of a database compiled from proxy statements filed by public companies in 2004, covering FY 2003. Information reported for 908 public companies were chosen randomly from the database, which is maintained by Standard and Poor's Investment Services Custom Business Unit. All companies in which data was missing on key metrics for FY 2001, FY 2002 or FY 2003 were removed. Once these companies were removed from the database, the total sample size for all categories of data included more than 750 companies, with the exception of "Director Meeting Fees" which included data from more than 550 companies.

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