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

Presented by:

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Executive Summary

- Our study, like other recent studies, found a decrease in overall Sarbanes-Oxley Act compliance costs during FY 2006.[1]

    - However, despite this decrease in FY 2006, since FY 2003 companies of all sizes have experienced a significant increase in Sarbanes-Oxley Act compliance costs, with costs associated with compliance with Section 404 of the Act responsible for most of that increase.

    - Total fees paid to auditors increased 59% for all companies analyzed in our S&P data between FY 2003 and FY 2006.

    - It is important to note that the majority of cost savings experienced by public companies after their initial implementation of Section 404 are driven by increased internal efficiency reducing lost productivity. Nevertheless, out-of-pocket costs associated with Sarbanes-Oxley Act compliance continue to increase.

- While overall costs associated with Sarbanes-Oxley Act compliance have plateaued, the out-of-pocket costs facing public companies have increased between FY 2005 and FY 2006. The increased cost of audit fees, board compensation and legal fees has driven these out-of-pocket percentage increases.

- Audit fees alone now represent more than 47% of out-of-pocket costs associated with corporate governance compliance for public companies with under $1 billion in annual revenue and 60% for companies with $1 billion and over in annual revenue.

- Increases in average audit fees between FY 2001 and FY 2006 have been significant for companies of all sizes:

Market Cap	**Average Increase ($) FY 2001 – FY 2006**	**Average Increase (%) FY 2001 – FY 2006**
S&P Small-Cap	$1,044,000	311%
S&P Mid-Cap	$1,820,000	251%
S&P 500	$5,789,000	189%

- In FY 2006, audit fees have plateaued for companies of all sizes with relatively modest year-over-year increases. In FY 2006, the percentage increase in average audit fees was relatively consistent for all companies analyzed with a 5% increase for small-cap companies, a 4% increase for mid-cap companies and a 6% increase for S&P 500 companies.

[1] For example, in May of 2007, Financial Executives International (FEI) released the results of their study which analyzed 200 public companies and found that the cost of complying with the Sarbanes-Oxley Act dropped 23% in FY 2006 driven primarily by "increased efficiencies in complying with Section 404." The FEI study also noted relatively flat audit fees between FY 2005 and FY 2006, which our data supports. See www.fei.org for more information.

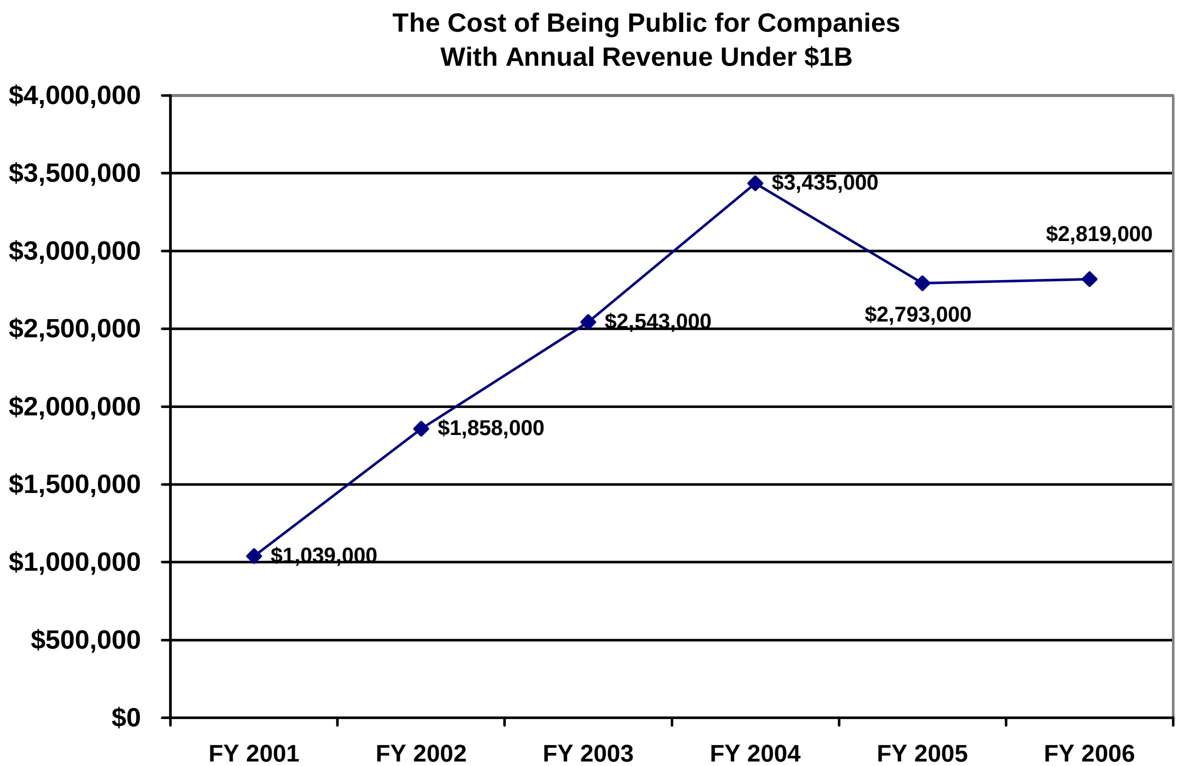
Executive Summary (continued)

- 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 70% for small-cap companies, 98% for mid-cap companies and 93% for S&P 500 companies between FY 2001 and FY 2006.

- Consistent with results from previous years, nearly one in four survey respondents (23%) are considering going-private transactions as a result of corporate governance and public disclosure reforms. Additionally, respondents to our 2007 survey continue to consider other options, including selling the company (16%) and merging with another company (14%).

    - It is interesting to note that respondents, who are asked to check all options that apply for this question, are increasingly seeking alternatives to going private. We believe this is driven by increased awareness among the business community of the attractive prices currently being paid by private equity funds in the mergers and acquisitions market.

- There is clearly a desire within the business community to exempt smaller public companies from Section 404 of the Sarbanes-Oxley Act. Respondents were also relatively aggressive in their definition of “smaller” public companies, believing that the threshold should be set at a $250M market cap and under.



- The chart above reflects costs for companies with annual revenue under $1 billion and illustrates both the dramatic increase that occurred in connection with the implementation of Section 404 and the sustained fees that have remained even after the impact of 404 has been realized and absorbed.

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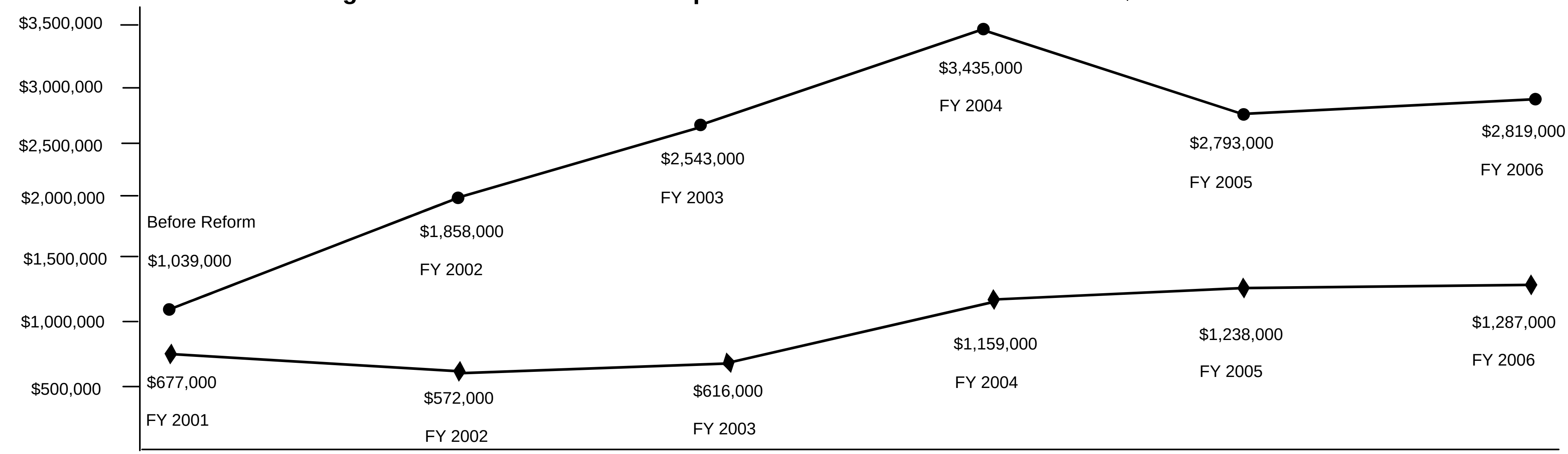
Total Cost of Being Public FY 01-FY 06 for Companies with Annual Revenue Under $1 Billion



Total Fees Paid to Auditors FY 01-FY 06 for Companies with Annual Revenue Under $1 Billion

June, 2001 - Enron files for Chapter 11 bankruptcy after it revised its financial statements for the past five years to account for $586 million in losses.

June, 2002 - WorldCom reveals that it has overstated earnings by $7.2 billion in the previous five quarters.

July, 2002 - The Sarbanes-Oxley Act is enacted and signed into law; The Act prohibits outside auditors from engaging in non-audit consulting work for audit clients.

August, 2002 - Arthur Andersen surrenders its licenses and its right to practice before the SEC pending the result of prosecution by the Department of Justice over the firm's handling of the auditing of Enron, the energy corporation.

August, 2002 - CEO/CFO certifications fully phased-in.

January, 2003 - Final rules requiring audit committee financial expert.

June, 2003 - SEC estimates $91,000 will be the aggregate annual cost of Implementing Section 404 of the Sarbanes-Oxley Act.

June, 2003 - Revised listing standards for companies listed on the NYSE and NASDAQ.

August, 2003 - Congress directs the SEC to enforce provisions under Section 404 and 302 of the Act.

June, 2004 - Larger domestic companies begin to comply with Section 404 of the Act.

June, 2005 - The CEO of HealthSouth, Richard Scrushy, is acquitted on all 36 of the accounting fraud counts against him, most notably one count in violation of the Sarbanes-Oxley Act.

April, 2006 - The Advisory Committee on Smaller Public Companies introduces an initiative to exempt smaller public companies from Section 404.

June, 2006 - The SEC rejects Advisory Committee on Smaller Public Companies' recommendations of 404 exemptions.

November, 2006 - New executive compensation disclosure rules go into effect.

WORLDCOM ANDERSEN ENRON HEALTHSOUTH

Verbatims

On how corporate governance and corporate disclosure reform should be modified . . .

- *As a relatively new public company we have not felt oppressed by SOX etc. and actually found 404 to be a useful exercise for us.*

- *Don't impose the same requirements on all companies regardless of size. Consider the benefit of the cost we incur.*

- *Provide for clear, meaningful disclosure and let stockholders decide by investing or not investing; not by giving them rights to run the corporation.*

- *One solution might be to insist that accountants and regulators learn microeconomics. Teaching it to senators is hopeless.*

- *Set up different compliance standards - for example Grades A, B & C. If you want to be an "A" Company (like a GE) you have the most stringent standards you have to meet - if you are comfortable being labeled a "C" Company and have the market treat you appropriately, you will not have as stringent requirements as an "A" or "B" Company.*

- *The disclosures have become so detailed and immaterial that the burden on companies is large and the ability of investors to understand what is truly material compromised. Quantity is currently overshadowing quality.*

- *Revisit disclosure requirements and accounting principles from the point of view of the user of financial statements. What is meaningful and of value to them as opposed to what the regulators want or think is of value?*

On whether it is appropriate to offer relief from Section 404 and the most appropriate method to do so . . .

- *Get rid of it.*

- *404 does serve to ensure appropriate processes and controls, but a more rational approach is needed. In particular, there needs to be coordination of the PCAOB auditing standards and the PCAOB inspections. We have found the inspection standards driving our independent auditor's requirements more than the auditing standards.*

- *Do NOT make size a criterion for the change. Smaller companies are typically worse at financial reporting [and] it would create a safe haven for negligence. Change 404 to [a] risk-based audit, both internal and external. Far too much time and money was spent on minutiae.*

- *Provide for a meaningful analysis of internal controls and not what amounts to a tally sheet of minutiae that gives rise to deficiencies that in reality are meaningless to the operation and results of the corporation and serve no benefit for investors.*

- *The repetition of testing controls performed over and over must be considered in a more sensible and realistic light and eliminated. In addition, too much time on non-high risk areas. It is very expensive and serves little or no purpose other than to drive investment capital off shore.*

- *TOTAL REPEAL - as a 30 year partner in a big-4 accounting firm who now sits on public company boards, I am intimately familiar with controls, etc. 404 has become a "check the box" checklist exercise where inexperienced people go through lots of motions with minimal return on investment. The verifications the CEO and the CFO make are the most important aspects. To make these verifications the enterprise needs to have appropriate processes and controls in place. I believe this is the most powerful component of SOX.*

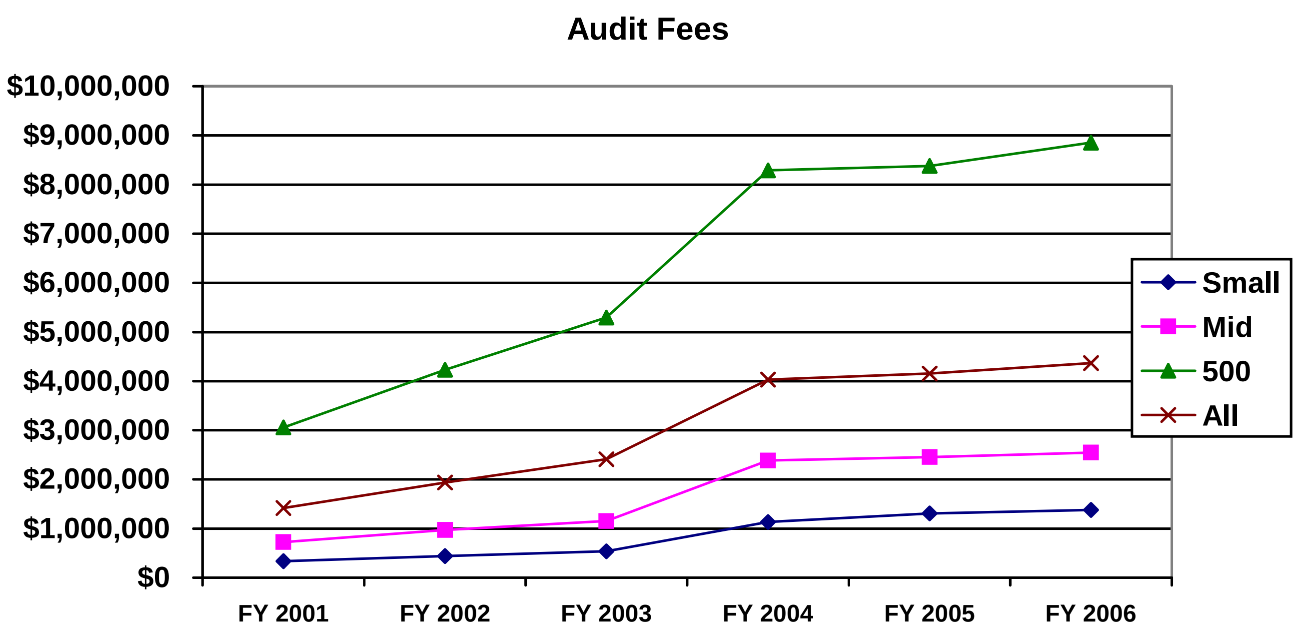
Analysis of Standard & Poor's Database

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 1,000 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 2007 annual shareholder meetings filed with the Securities and Exchange Commission through May 18, 2007.

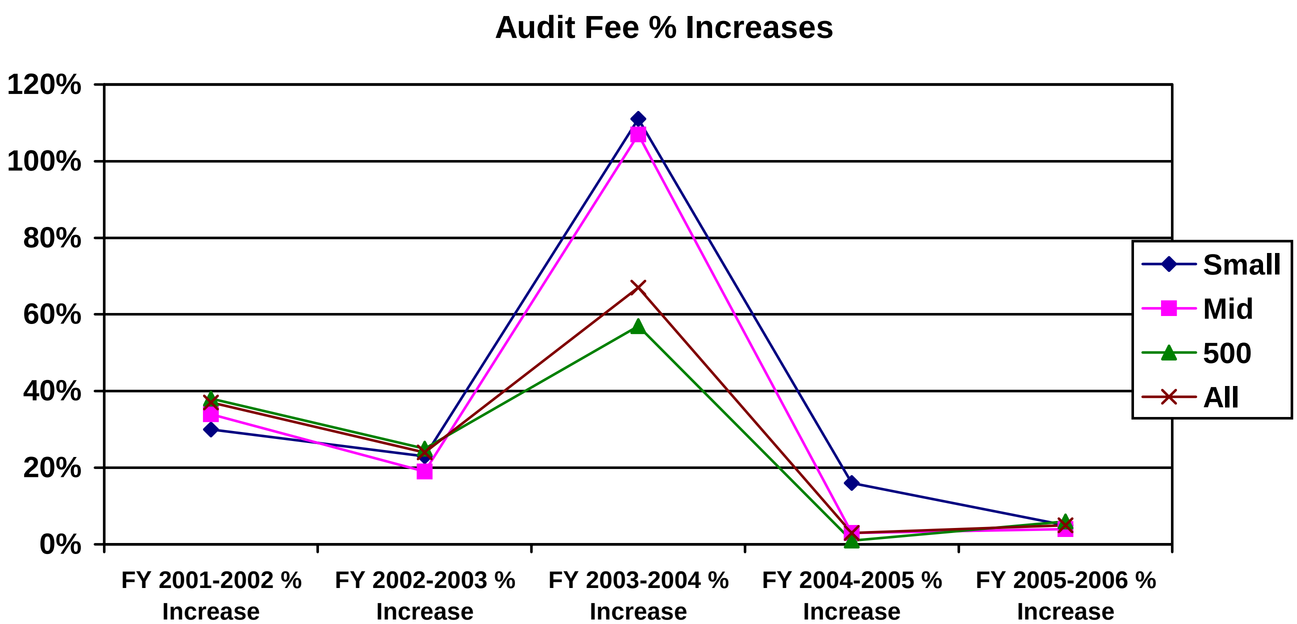
The S&P database represents a random sample of public companies included in the S&P 500, S&P Mid-Cap 400 and S&P Small-Cap 600 indices. The margin of error for each category was used to calculate a confidence interval - the range in which the average audit fees of companies in the indicated market cap 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)	FY 2006 Confidence Interval[1] (YOY % increase)
S&P Small-Cap	$336,000 +/- $29,000	$438,000 +/- $37,000 (30% increase)	$537,000 +/- $53,000 (23% increase)	$1,133,000 +/- $83,000 (111% increase)	$1,310,000 +/- $96,000 (16% increase)	$1,380,000 +/- $99,000 (5% increase)
S&P Mid-Cap	$724,000 +/- $98,000	$969,000 +/- $132,000 (34% increase)	$1,153,000 +/- $153,000 (19% increase)	$2,386,000 +/- $350,000 (107% increase)	$2,456,000 +/- $280,000 (3% increase)	$2,544,000 +/- $273,000 (4% increase)
S&P 500	$3,062,000 +/- $424,000	$4,232,000 +/- $539,000 (38% increase)	$5,293,000 +/- $793,000 (25% increase)	$8,287,000 +/- $1,065,000 (57% increase)	$8,381,000 +/- $1,065,000 (1% increase)	$8,851,000 +/- $1,082,000 (6% increase)
All	$1,418,000 +/- $173,000	$1,941,000 +/- $223,000 (37% increase)	$2,409,000 +/- $317,000 (24% increase)	$4,033,000 +/- $441,000 (67% increase)	$4,153,000 +/- $437,000 (3% increase)	$4,372,000 +/- $447,000 (5% 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 2006 have been significant for companies of all sizes:

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- In FY 2006, audit fees have plateaued for companies of all sizes with relatively modest year-over-year increases. In FY 2006, the percentage increase in average audit fees was relatively consistent for all companies analyzed with a 5% increase for small-cap companies, a 4% increase for mid-cap companies and a 6% increase for S&P 500 companies.

- Prior to FY 2005 and FY 2006, 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 attribute 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]

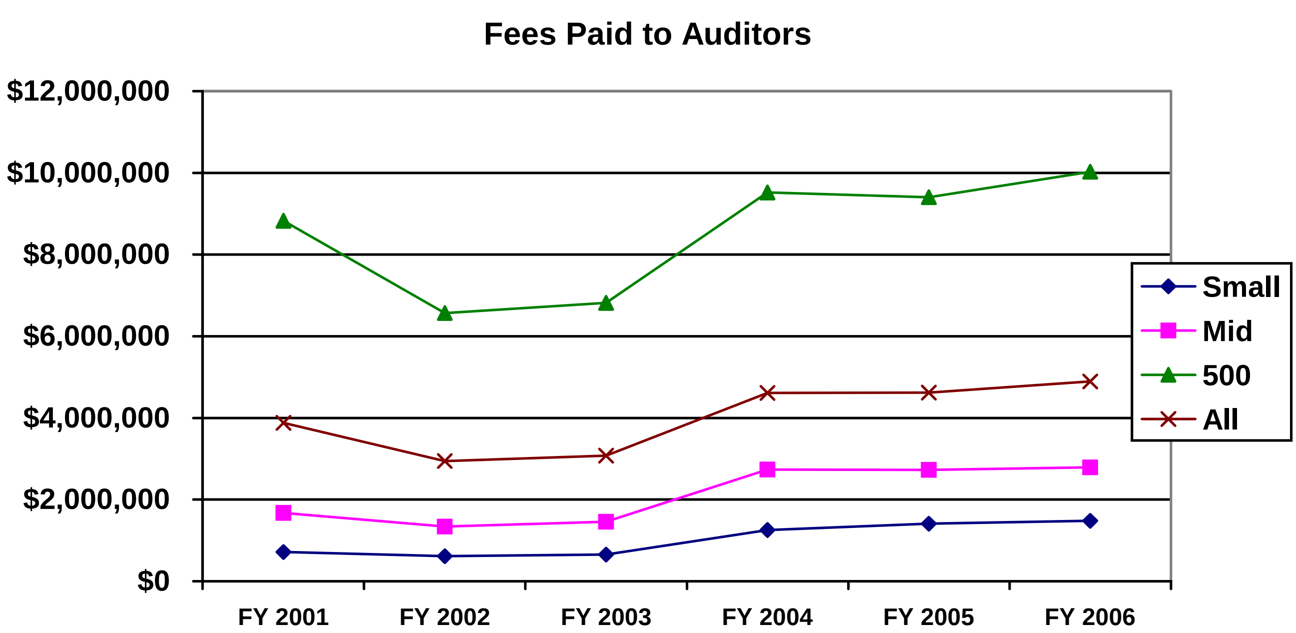
  - In FY 2005, percentage increases continued at less dramatic levels than witnessed in FY 2004. For S&P Mid-Cap and S&P 500 companies, these percentage increases were the smallest since the enactment of the Sarbanes-Oxley Act. This trend continues in FY 2006 as companies in every category experienced similar year-over-year percentage increases.

[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.

- However, it is important to note that while these year-over-year increases are relatively modest, the average audit fees are substantially greater than the average audit fees paid prior to the enactment of the Sarbanes-Oxley Act and remain a significant expense for companies of all sizes.

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)	FY 2006 Confidence Interval[2] (YOY % change)
S&P Small-Cap	$713,000 +/- $63,000	$612,000 +/- $63,000 (14% decrease)	$658,000 +/- $65,000 (8% increase)	$1,253,000 +/- $93,000 (90% increase)	$1,409,000 +/- $106,000 (12% increase)	$1,480,000 +/- $106,000 (5% increase)
S&P Mid-Cap	$1,679,000 +/- $291,000	$1,337,000 +/- $276,000 (20% decrease)	$1,454,000 +/- $213,000 (9% increase)	$2,735,000 +/- $441,000 (88% increase)	$2,726,000 +/- $341,000 (No change)	$2,790,000 +/- $324,000 (2% increase)
S&P 500	$8,827,000 +/- $1,238,000	$6,571,000 +/- $966,000 (26% decrease)	$6,816,000 +/- $982,000 (4% increase)	$9,525,000 +/- $1,211,000 (40% increase)	$9,405,000 +/- $1,182,000 (1% decrease)	$10,025,000 +/- $1,245,000 (7% increase)
All	$3,881,000 +/- $505,000	$2,942,000 +/- $391,000 (24% decrease)	$3,078,000 +/- $396,000 (5% increase)	$4,610,000 +/- $504,000 (50% increase)	$4,624,000 +/- $487,000 (No change)	$4,891,000 +/- $514,000 (6% 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.

- Total fees paid to auditors increased in FY 2006. These fees continued their upward trend and continue to exceed the total fees paid to auditors prior to the Sarbanes-Oxley Act, despite the fact that the pre-Sarbanes-Oxley Act amounts include fees for consulting work that is no longer permitted per auditor independence rules.

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 70% for small-cap companies, 98% for mid-cap companies and 93% for S&P 500 companies between FY 2001 and FY 2006.

	FY 2002 Fees (YOY % Increase)	FY 2003 Fees (YOY % Increase)	FY 2004 Fees (YOY % Increase)	FY 2005 Fees (YOY % Increase)	FY 2006 Fees (YOY % Increase)	FY 2001 – 2006 (Overall % Increase)
S&P Small-Cap	$ 20,000 (17%)	$ 21,000 (2%)	$ 24,000 (16%)	$ 25,000 (7%)	$ 29,000 (15%)	$ 12,400 (70%)
S&P Mid-Cap	$ 19,000 (7%)	$ 23,000 (18%)	$ 26,000 (16%)	$ 32,000 (19%)	$ 36,000 (12%)	$ 18,000 (98%)
S&P 500	$ 32,000 (7%)	$ 40,000 (27%)	$ 49,000 (21%)	$ 50,000 (3%)	$ 58,000 (14%)	$ 26,000 (93%)

- We believe changes in the accounting rules requiring the expensing of stock options have affected the behavior of many corporations by discouraging the granting of stock options to directors, resulting in increased cash compensation for directors.

Analysis of Public Company Survey

In March of 2007, Foley distributed public company surveys via e-mail to approximately 10,000 CEOs, CFOs, General Counsel, Chief Compliance Officers, Board Members and Directors. Most recipients completed the Web-based version of the survey, but a few filled out the survey and faxed it back to KRC Research.

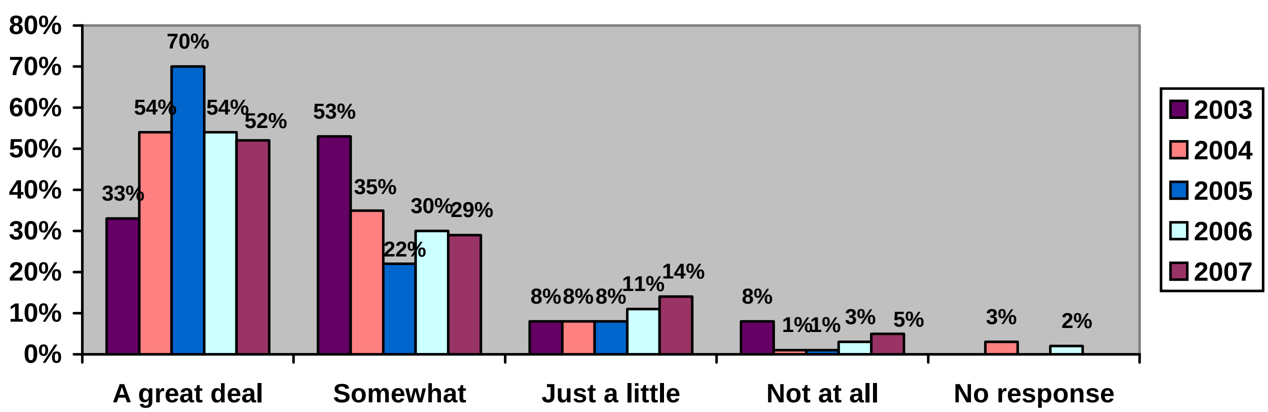
A total of 93 public company surveys were returned. A total of 36 surveys were returned from public companies with annual revenue of $1 billion and over, and 53 surveys were returned by public companies with annual revenue under $1 billion (Four companies did not provide an answer regarding their annual revenue).

The survey addressed many of the same questions and issues as the surveys conducted by Foley in 2003, 2004, 2005 and 2006. 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 remained consistent between the 2006 and 2007 surveys.
  - Responses to the 2006 and 2007 survey were similar to responses seen in FY 2004, which we attribute to the realization of the financial impact of Section 404 in FY 2005 and a relative return to "steady state" in 2006 and 2007.

	2007	2006	2005	2004	2003
A great deal	52%	54%	70%	54%	33%
Somewhat	29%	30%	22%	35%	53%
Just a little	14%	11%	8%	8%	8%
Not at all	5%	3%	1%	1%	8%
Don't know/ No answer	-	2%	-	3%	-



- In five 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.”

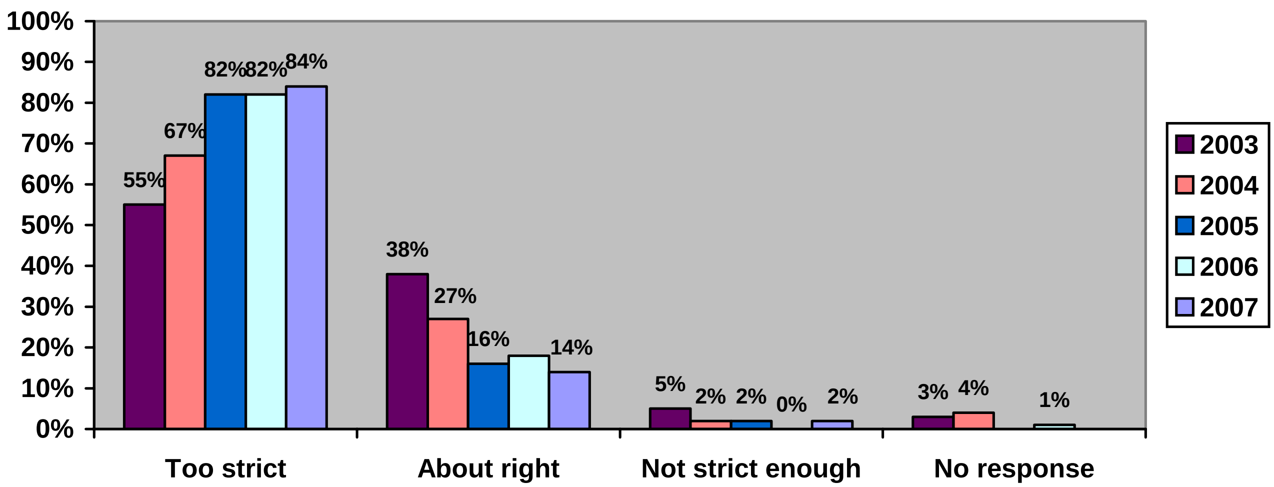
  - In 2006, we have returned to a “steady state” in which the costs of compliance are still significant but are no longer increasing at the rates witnessed in previous years.

  - In 2007, the “steady state” has again been reinforced by the data.

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 third straight year, a vast majority (84%) of respondents felt that corporate governance and public disclosure reforms are too strict.

	2007	2006	2005	2004	2003
Too strict	84%	82%	82%	67%	55%
About right	14%	18%	16%	27%	38%
Not strict enough	2%	-	2%	2%	5%
Don’t know/ No answer	-	1%	-	4%	3%

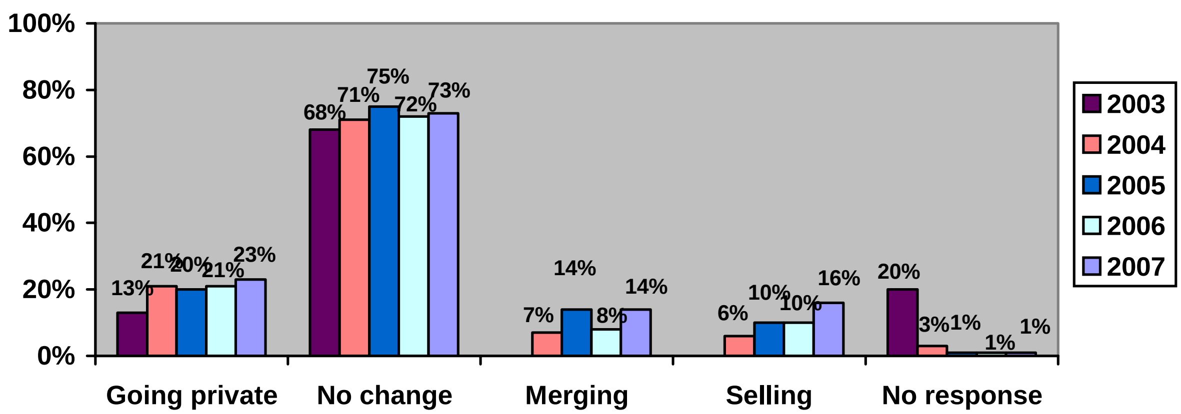


As a result of the new corporate governance and public disclosure reforms implemented since the enactment of the Sarbanes-Oxley Act in 2002, is your company considering any of the following? (Check all that apply.)

- Consistent with results from previous years, nearly one in four survey respondents (23%) are considering going-private transactions as a result of corporate governance and public disclosure reforms. Additionally, respondents to our 2007 survey continue to consider other options, including selling the company (16%) and merging with another company (14%).

    - It is interesting to note that respondents, who are asked to check all options that apply for this question, are increasingly seeking alternatives to going private. We believe this is driven by increased awareness among the business community of the attractive prices currently being paid by private equity funds in the mergers and acquisitions market.

	2007	2006	2005	2004	2003
Going private	23%	21%	20%	21%	13%
Selling your company	16%	10%	10%	6%	N/A[1]
Merging with another company	14%	8%	14%	7%	N/A[1]
No change	73%	72%	75%	71%	68%
Don't know/No answer	1%	1%	1%	3%	20%



[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 fifth 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 (66%) agree that they are better able to predict costs associated with Sarbanes-Oxley Act related reforms. After the phase-in of Section 404, we are witnessing sustained predictability in costs associated with Sarbanes-Oxley Act reforms.

- 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.

	2007	2006	2005	2004
Strongly agree	5%	7%	5%	4%
Agree	61%	58%	39%	35%
Disagree	24%	29%	40%	50%
Strongly disagree	10%	5%	16%	10%
Don't know/No answer	-	1%	1%	2%
Net agree	***66%***	***65%***	***44%***	***38%***
Net disagree	***34%***	***34%***	***56%***	***60%***

Do you think smaller public companies should be exempted from Section 404 of the Sarbanes-Oxley Act?[1]

	2007
Yes	68%
No	32%
No answer	-

- There is clearly a desire within the business community to exempt smaller public companies from Section 404 of the Sarbanes-Oxley Act.

What do you believe the criteria should be to define a "smaller" public company? (Please check just one.)[1]

	2007
Market cap of $75M and under	13%
Market cap of $150M and under	27%
Market cap of $250M and under	40%
Other	19%
No answer	2%

- Respondents were relatively aggressive in their definition of "smaller" public companies, believing that the threshold should be set at a $250M market cap and under.

[1] This question was asked only in our 2007 survey.

In the past year, has the amount paid to your auditors for the 404 audit and audit fees increased, remained the same or decreased? (Please check just one.)[1]

	2007
Increased	52%
Remained the same	34%
Decreased	12%
No answer	2%

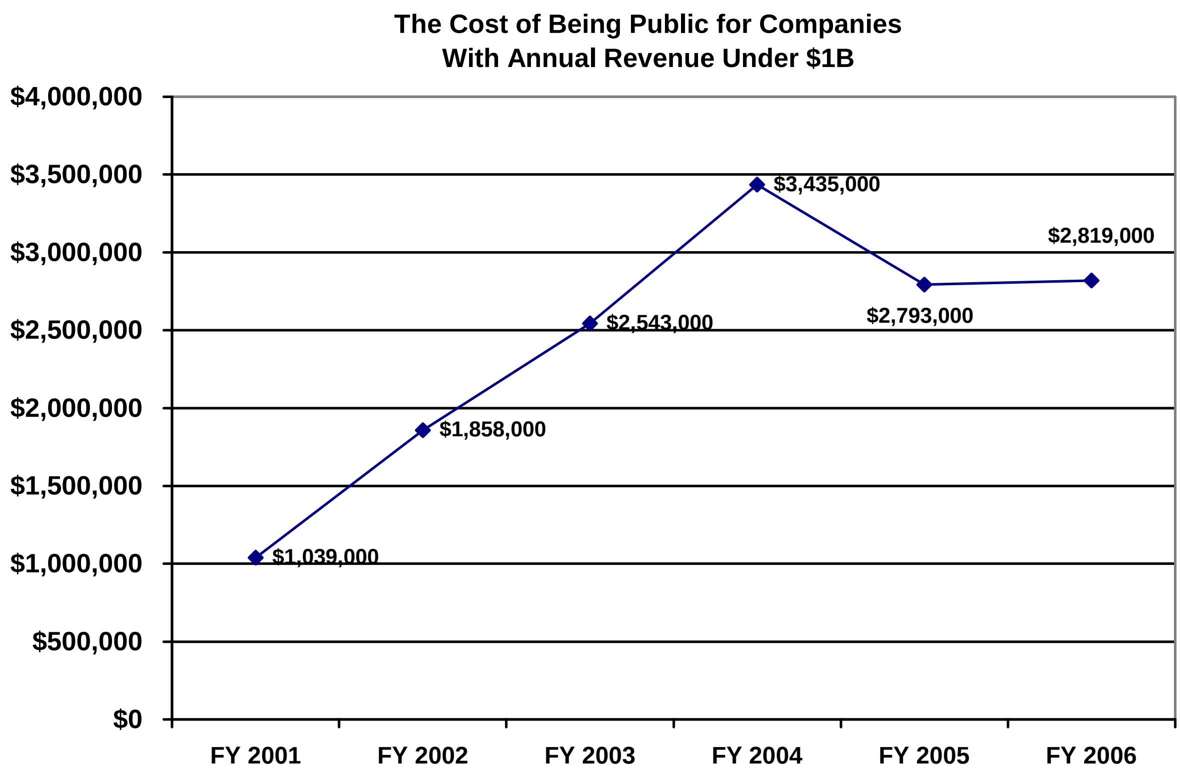
- A majority of respondents (52%) cited increases in the amount paid to auditors for their Section 404 audits. This increase averaged 36%.
  - Only a small percentage of respondents (12%) cited a decrease, and for those respondents the average decrease was 18%, which is below recent public predictions.

[1] This question was asked only in our 2007 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 five 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]	Estimated FY 2006 Costs [% change]	FY 2001 – FY 2006 % Change
D&O Insurance	$ 329,000	$ 639,000 [+94%]	$ 850,000 [+33%]	$ 407,000 [-52%]	$ 414,000 [+2%]	$ 356,000 [-14%]	+8%
Audit [1]	$ 319,000	$ 427,000 [+34%]	$ 505,000 [+18%]	$ 1,058,000 [+110%]	$ 1,142,000 [+8%]	$ 1,184,000 [+4%]	+271%
Legal	$ 212,000	$ 404,000 [+91%]	$ 468,000 [+16%]	$ 213,000 [-54%]	$ 131,000 [-38%]	$ 200,000 [+53%]	-6%
Board Compensation	$ 107,000	$ 212,000 [+98%]	$ 313,000 [+48%]	$ 222,000 [-29%]	$ 295,000 [+33%]	$ 371,000 [+26%]	+247%
Lost Productivity	$ 46,000	$ 93,000 [+102%]	$ 160,000 [+72%]	$ 1,050,000 [+556%]	$ 563,000 [-46%]	$ 290,000 [-48%]	+530%
Other SOX Costs	$ 26,000	$ 83,000 [+219%]	$ 100,000 [+20%]	$ 300,000 [+200%]	$ 171,000 [-43%]	$ 177,000 [+4%]	+581%
Corporate Governance Set-Up Costs [2]	N/A	N/A	$ 147,000	$ 185,000 [+26%]	$ 77,000 [-58%]	$ 241,000 [+213%]	N/A
Total	**$1,039,000**	**$1,858,000 [+79%]**	**$2,543,000 [+37%]**	**$ 3,435,000 [+35%]**	**$ 2,793,000 [-19%]**	**$ 2,819,000 [+1%]**	**+171%**



- The chart above reflects costs for companies with annual revenue under $1 billion and illustrates both the dramatic increase that occurred in connection with the implementation of Section 404 and the sustained fees that have remained even after the impact of 404 has been realized and absorbed.

[1] Audit fee amounts were obtained using the 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.

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 five 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 2006 Costs [% Change]	Estimated FY 2003 – FY 2006 % Change
D&O Insurance	$ 707,000	$ 1,350,000 [+91%]	$ 1,820,000 [+35%]	$ 1,252,000 [-31%]	+77%
Audit[1]	$ 3,413,000	$ 5,601,000 [+64%]	$ 5,738,000 [+2%]	$ 6,050,000 [+5%]	+77%
Legal	$ 841,000	$ 403,000 [-52%]	$ 226,000 [-44%]	$ 455,000 [+101%]	-46%
Board Compensation	$ 247,000	$ 475,000 [+92%]	$ 743,000 [+56%]	$ 848,000 [+14%]	+243%
Lost Productivity	$ 2,500,000	$ 2,938,000 [+18%]	$ 2,460,000 [-16%]	$ 2,471,000 [NC]	NC
Other SOX Costs	$ 246,000	$ 1,100,000 [+347%]	$ 222,000 [-80%]	$ 710,000 [+220%]	+189%
Corporate Governance Set-Up Costs	$ 174,000	$ 496,000 [+185%]	$ 226,000 [-54%]	$ 704,000 [+212%]	+305%
Total	**$ 8,128,000**	**$ 12,363,000 [+52%]**	**$ 11,435,000 [-8%]**	**$ 12,490,000 [+9%]**	**+54%**

- 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 $1.7 million to approximately $2.8 million, representing a 171% overall increase since the adoption of the Sarbanes-Oxley Act.

- 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 and FY 2006. On average, audit fees have increased 271% between FY 2001 and FY 2006 for companies with **under** $1 billion in revenue.

- We attribute the 2006 increase in corporate governance set-up costs for all companies analyzed in our survey to the 2006 changes to executive compensation disclosure rules.

- Companies with annual revenue of $1 billion and over experienced a dramatic increase (220%) in “other SOX costs” in FY 2006 which we also attribute to the costs associated with executive compensation disclosure.

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

- Our study, like other recent studies, found a decrease in overall Sarbanes-Oxley Act compliance costs during FY 2006.[1]

    - However, despite this decrease in FY 2006, since FY 2003 companies of all sizes have experienced a significant increase in Sarbanes-Oxley Act compliance costs, with costs associated with compliance with Section 404 of the Act responsible for most of that increase.

    - Total fees paid to auditors increased 59% for all companies analyzed in our S&P data between FY 2003 and FY 2006.

    - It is important to note that the majority of cost savings experienced by public companies after their initial implementation of Section 404 are driven by increased internal efficiency reducing lost productivity. Nevertheless, out-of-pocket costs associated with Sarbanes-Oxley Act compliance continue to increase.

[1] For example, in May of 2007, Financial Executives International (FEI) released the results of their study which analyzed 200 public companies and found that the cost of complying with the Sarbanes-Oxley Act dropped 23% in FY 2006 driven primarily by "increased efficiencies in complying with Section 404." The FEI study also noted relatively flat audit fees between FY 2005 and FY 2006, which our data supports. See www.fei.org for more information.

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]	Estimated FY 2006 Costs [% change]	FY 2001 – FY 2006 % Change
$993,000	**$ 1,765,000 [+78%]**	**$ 2,383,000 [+35%]**	**$ 2,385,000 [NC]**	**$ 2,230,000 [-7%]**	**$ 2,529,000 [+13%]**	**+155%**

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 2006 Costs [% Change]	Estimated FY 2003 – FY 2006 % Change
$ 5,628,000	**$ 9,425,000 [+67%]**	**$ 8,975,000 [-5%]**	**$ 10,019,000 [+12%]**	**+78%**

- While overall costs associated with Sarbanes-Oxley Act compliance have plateaued the out-of-pocket costs facing public companies have increased between FY 2005 and FY 2006. The increased cost of audit fees, board compensation and legal fees has driven these out-of-pocket percentage increases.

- Audit fees alone now represent more than 47% of out-of-pocket costs associated with corporate governance compliance for public companies with under $1 billion in annual revenue and 60% for companies with $1 billion and over in annual revenue.

[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 2007, Foley & Lardner LLP worked with national research firm KRC Research in a fifth 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 2007 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 March of 2007, Foley distributed public company surveys via e-mail to approximately 10,000 CEOs, CFOs, General Counsel, Chief Compliance Officers, Board Members and Directors. Most recipients completed the Web-based version of the survey, but a few filled out the survey and faxed it back to KRC Research.

A total of 93 public company surveys were returned. A total of 36 surveys were returned from public companies with annual revenue of $1 billion and over, and 53 surveys were returned by public companies with annual revenue under $1 billion. Four companies did not provide an answer regarding their 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 1,000 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 2007 annual shareholder meetings filed with the Securities and Exchange Commission through May 18, 2007.

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.