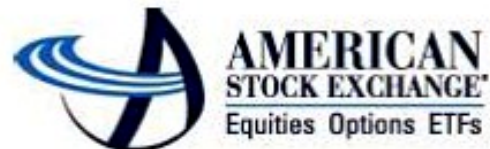


**U.S. Chamber of Commerce
Center for Capital Markets Competitiveness
Cost of SOX 404 Survey
November 8, 2007**

Prepared by:

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CENTER FOR CAPITAL MARKETS

C O M P E T I T I V E N E S S

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Introduction

In October 2007, the U.S. Chamber's Center for Capital Markets Competitiveness (CCMC) with the assistance of the U.S. Chamber's Research and Analysis Center (RAC) conducted an on-line survey to compile data on the projected cost of Sarbanes-Oxley (SOX) Section 404 and its impact on small businesses. Section 404 requires management and the external auditor to report on the adequacy of the company's internal control over financial reporting. This report provides an overview of those survey results.

The Methodology

An electronic survey was developed and emailed to approximately 5000 contacts provided by the CCMC and other organizations including, American Banker's Association, American Stock Exchange, and the Institute of Management Accountants. The survey was launched on October 10, 2007 and remained open until October 26, 2007, with one reminder sent on October 15, 2007. During that time, 177 people completed the survey. Of the 5000 potential participants, 16 addresses were invalid (14 bounced, 2 opted out), leaving a universe of 4984 potential participants. 3.6% of this group completed the questionnaire during the response period.¹

The online survey was emailed to the CCMC small business contacts that could potentially be affected by the implementation of SOX Section 404.

The survey employed Likert scales for some of the questions. The Likert scale is the most commonly used scale in survey research, as it allows respondents to easily rate items. For example, respondents in this survey were asked to rate to which extent (great, moderate, very little) companies would be able to detect and prevent material fraud by complying with SOX 404.

Each response was added to calculate a single score for each program area. Using the Likert scale allows the CCMC to easily understand the relative importance of each issue. Additionally, questions were a mix of multiple-choice or self-responding segments, in which respondents could write their own comments/opinions on the subject matter.

In addition, respondents were not required to answer the questions, which dispersed possible "factor fusion." Factor fusion restricts perceptions and desires of survey respondents into a smaller space. Since factor fusion was not present in this survey, overall results are more accurate.

Survey responses were anonymous and completion of the survey was voluntary. No incentive was offered. Some total percentages do not equal 100% due to rounding.

Based on the response rate and varied demographics of participants, the Research and Analysis Center at the U.S. Chamber of Commerce is confident that the research results presented within this report can be considered to be generally representative of thoughts, opinions and perceptions of the small business universe.

¹ The margin of error is $\pm 3\%$, with a confidence level of 95%. The results can be considered to be statistically significant due to the response rate (3.6%) and number of viable cross tabulations.

The Respondents

- The majority of the respondents (89.8%) are public companies.
- Respondents primarily work in the financial services industry (24.7%), followed by the manufacturing industry (15.7%). Over one-third of respondents (36.1%) report working in an industry not listed, and included in that group are 11.4% of total respondents indicating their primary industry is mining and/or mineral exploration.
- Exactly 50% of the respondents describe their company's public float as \$75 million or less, and nearly three-quarters (74.1%) describe it as less than \$200 million.

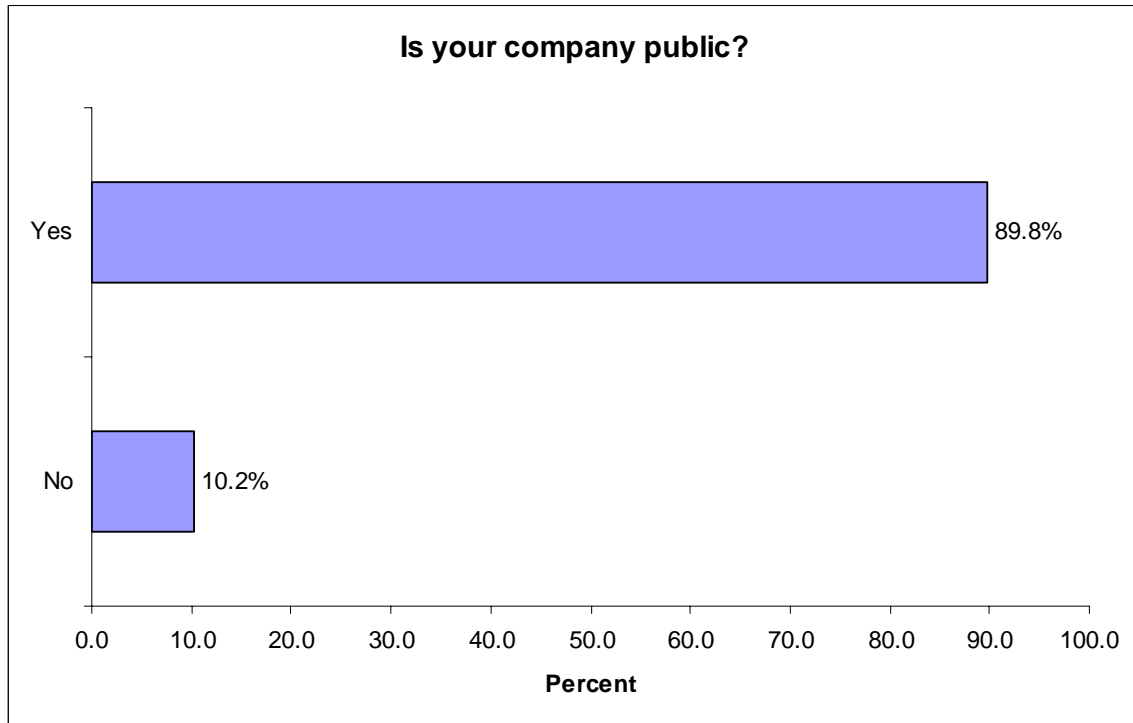
Key Highlights

A total of 177 surveys were received. The findings as stated in this document are only indicators of the opinions of the respondents. Please note that percentages throughout this document may not total 100%, as some respondents did not answer all questions and/or due to rounding.

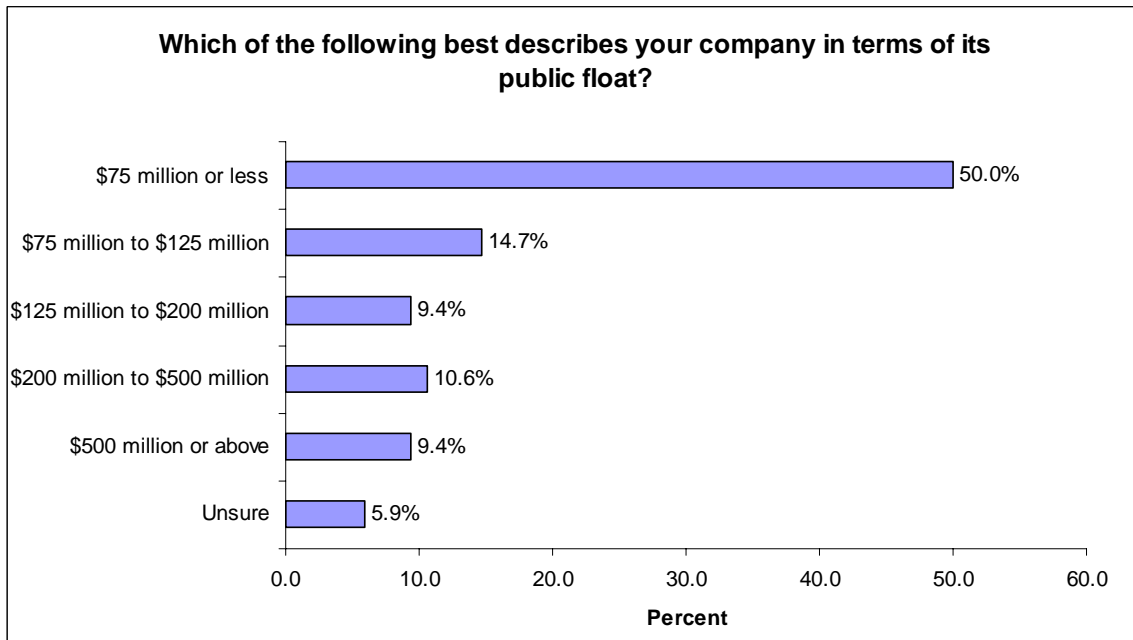
- Nearly two thirds (64%) of respondents expect an increase in costs in 2008 and 2009 due to compliance with 404(a) and 404(b).
- Almost half (47%) of the respondents expecting an increase in costs due to compliance are anticipating those costs to exceed \$100,000.
- Approximately nine out of ten respondents (89%) expect costs will "greatly exceed" or "moderately exceed" the benefits of SOX 404 compliance.
- Fifty-nine percent of respondents when asked "to what extent do you expect compliance with SOX 404 will allow your company and your company's auditors to detect and prevent material fraud?" indicated "very little at all".
- The majority of respondents (84%) have engaged an auditor as they prepare to comply with SOX 404(a) requirements to be filed in 2008 and two-thirds (66%) have engaged an auditor to comply with SOX 404(b) requirements to be filed in 2009.
- Over half of respondents, with public float less than 75 million (52%) expect internal and external costs to implement SOX 404(a) this year to exceed \$200,000 while forty-four percent of respondents expect implementation costs of 404(b) to also exceed \$200,000.
- The majority of respondents (79%) feel a delay in the compliance deadline for SOX 404(a) and 404(b) would be helpful to their company.

Findings

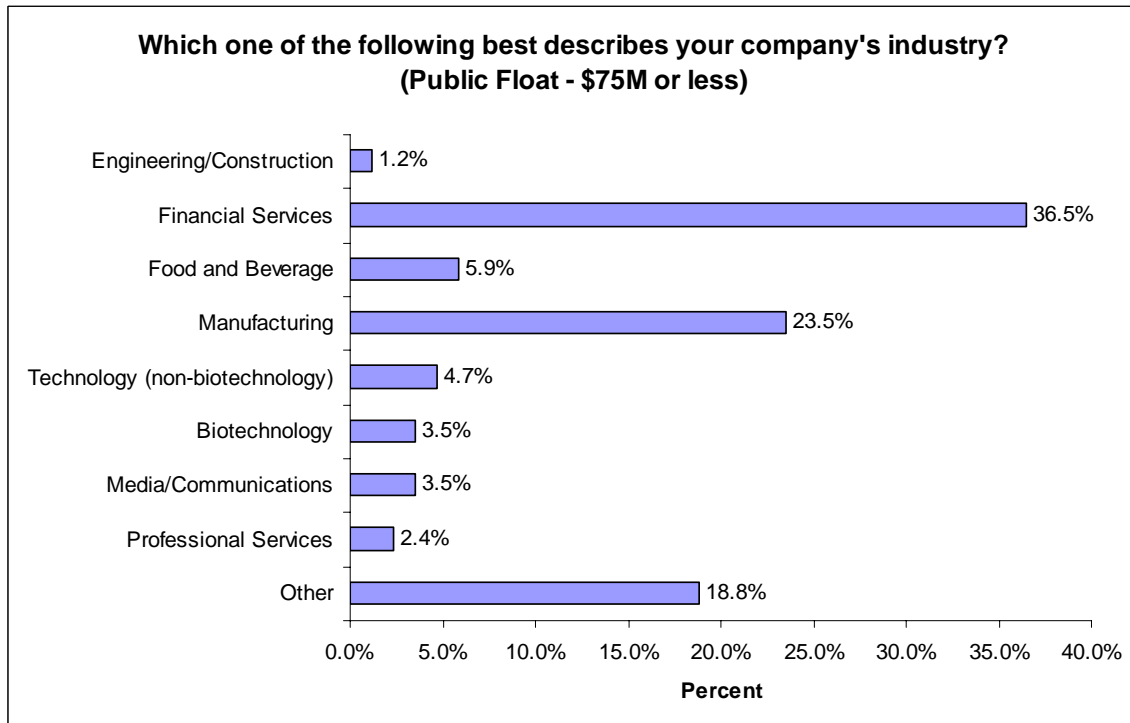
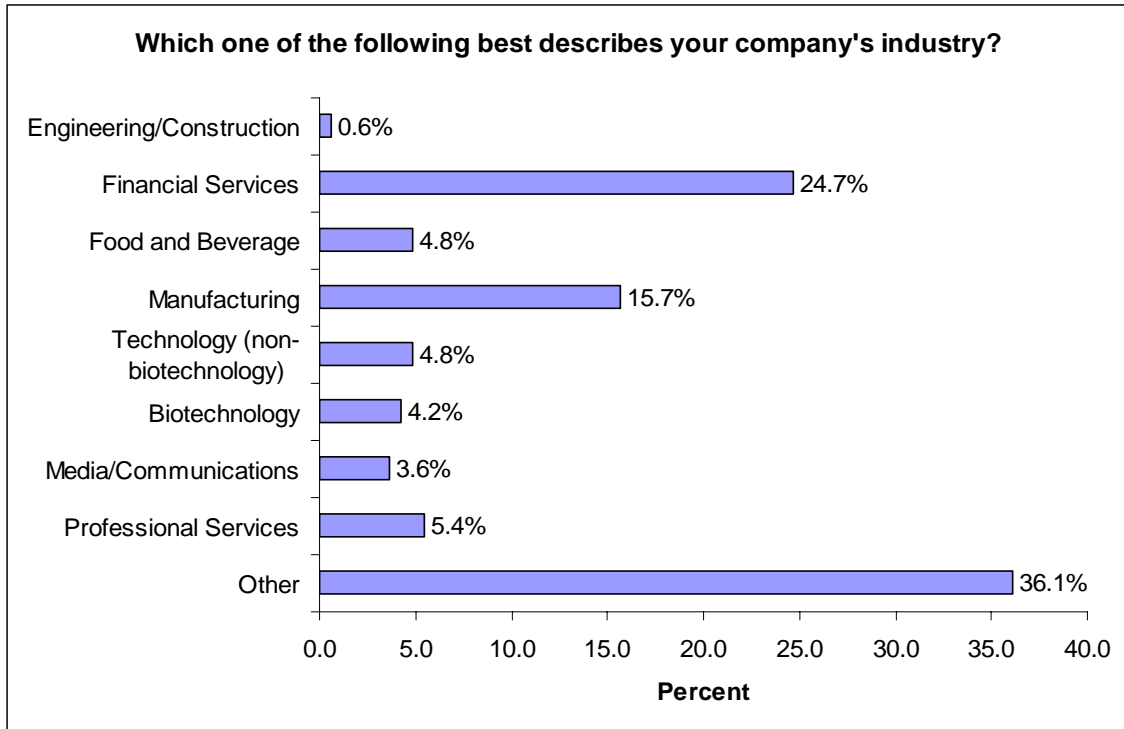
Type of Company



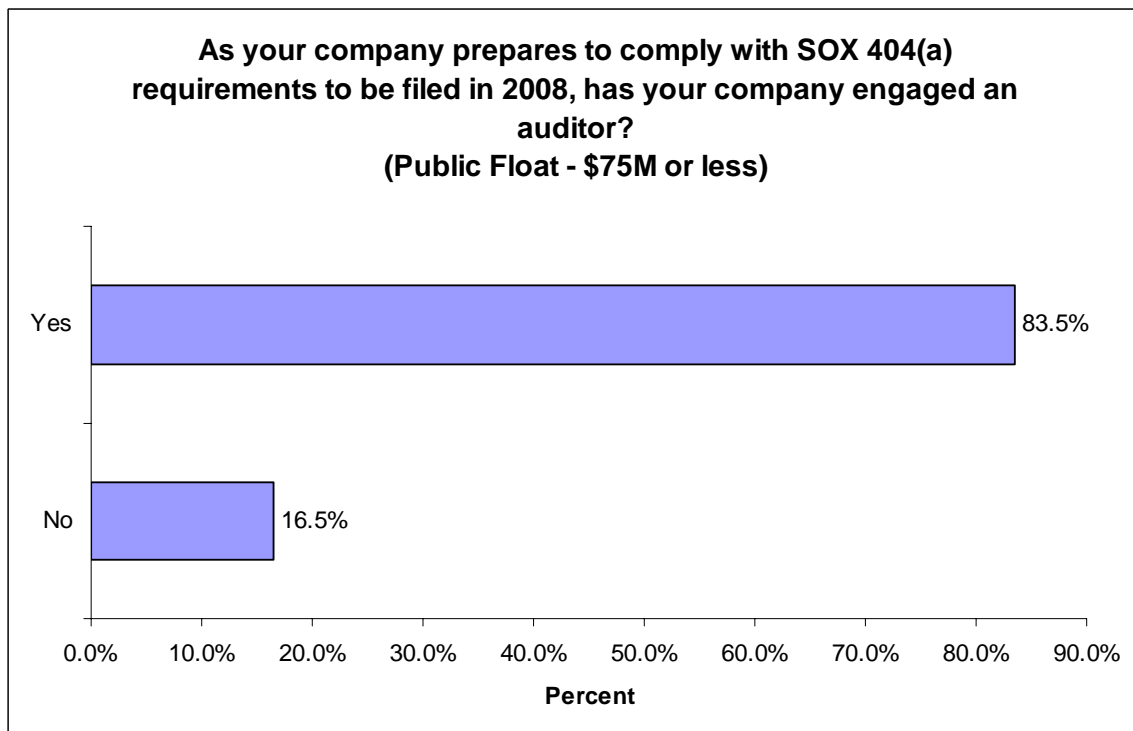
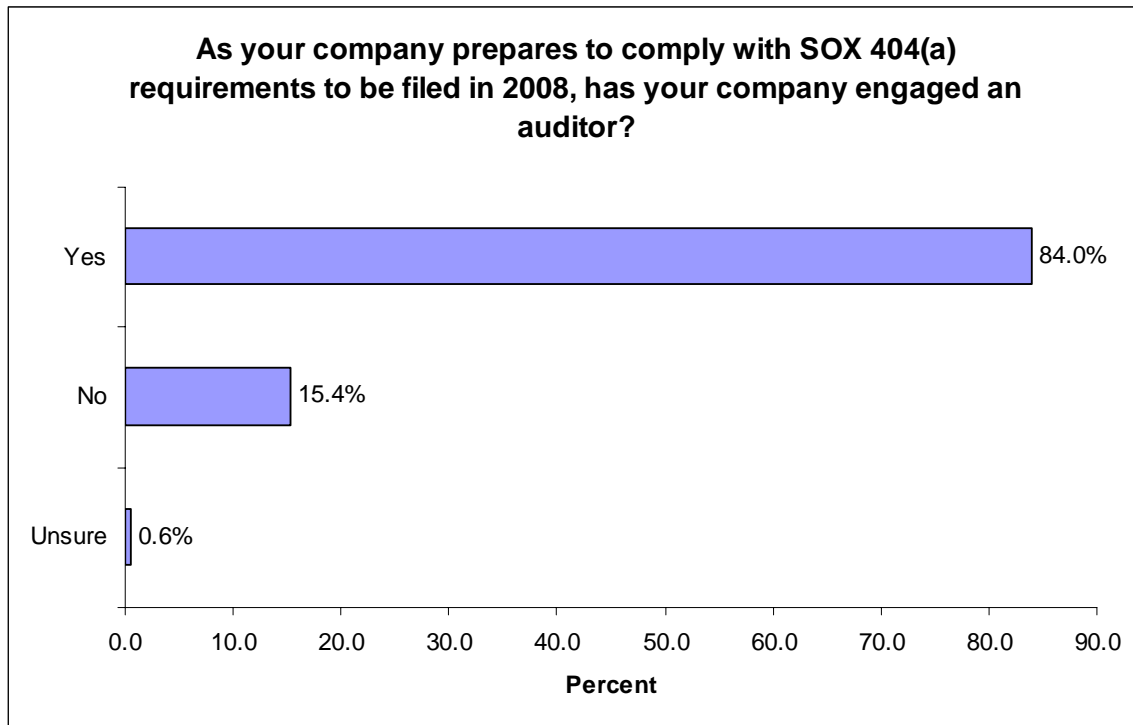
Public Float



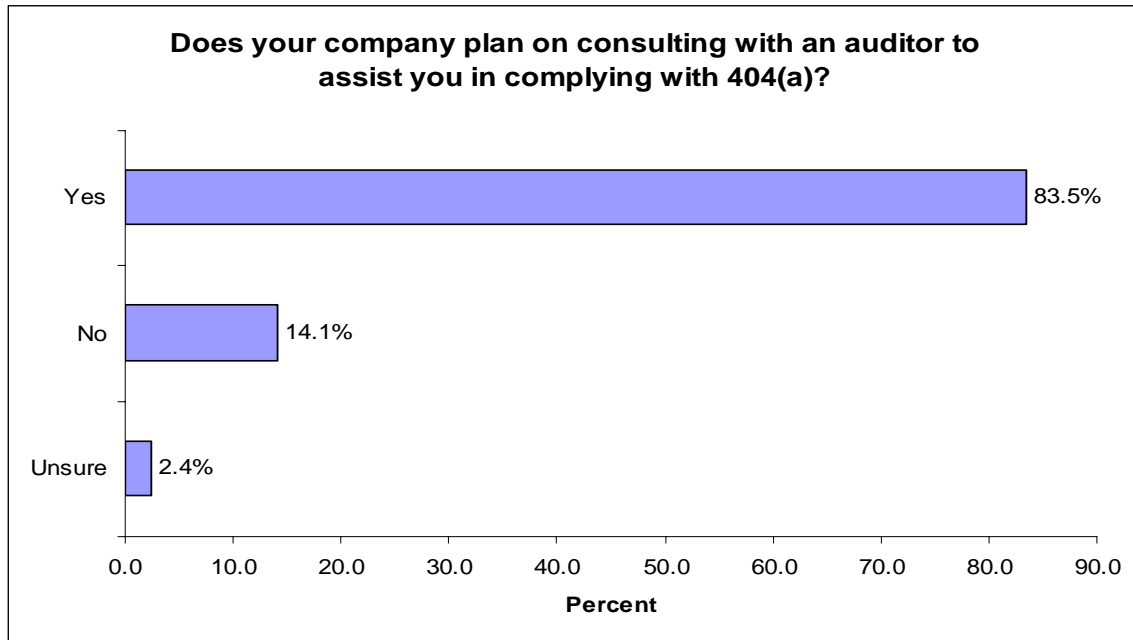
Industry



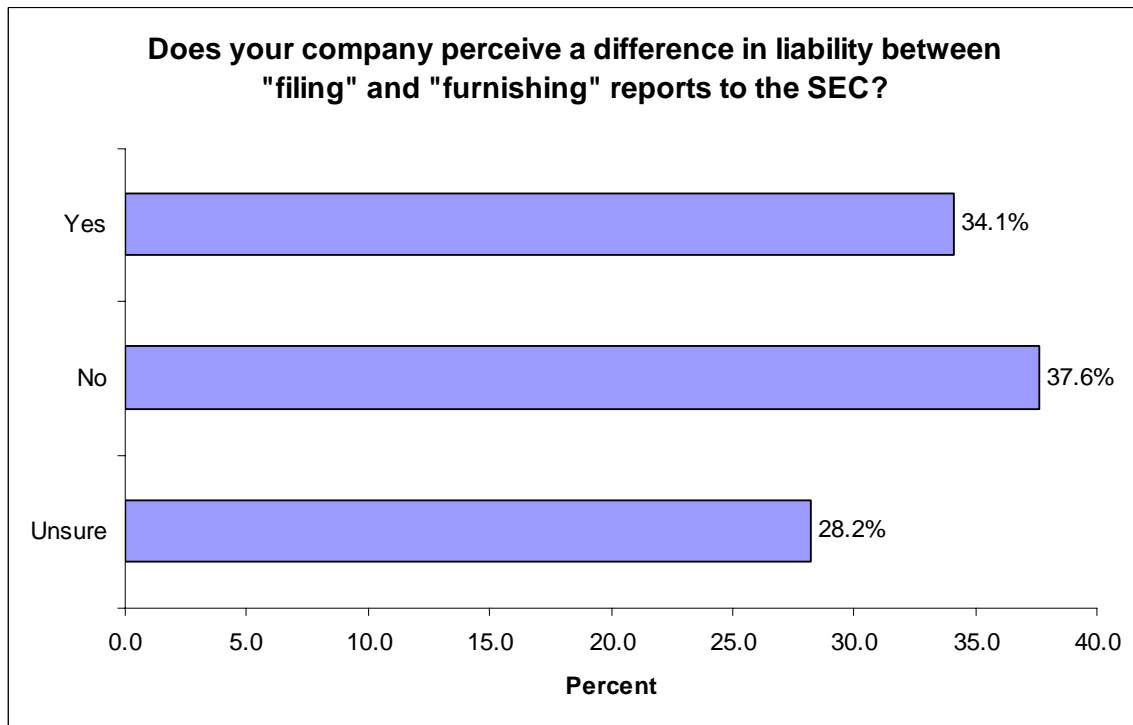
Engagement of an auditor in 2008



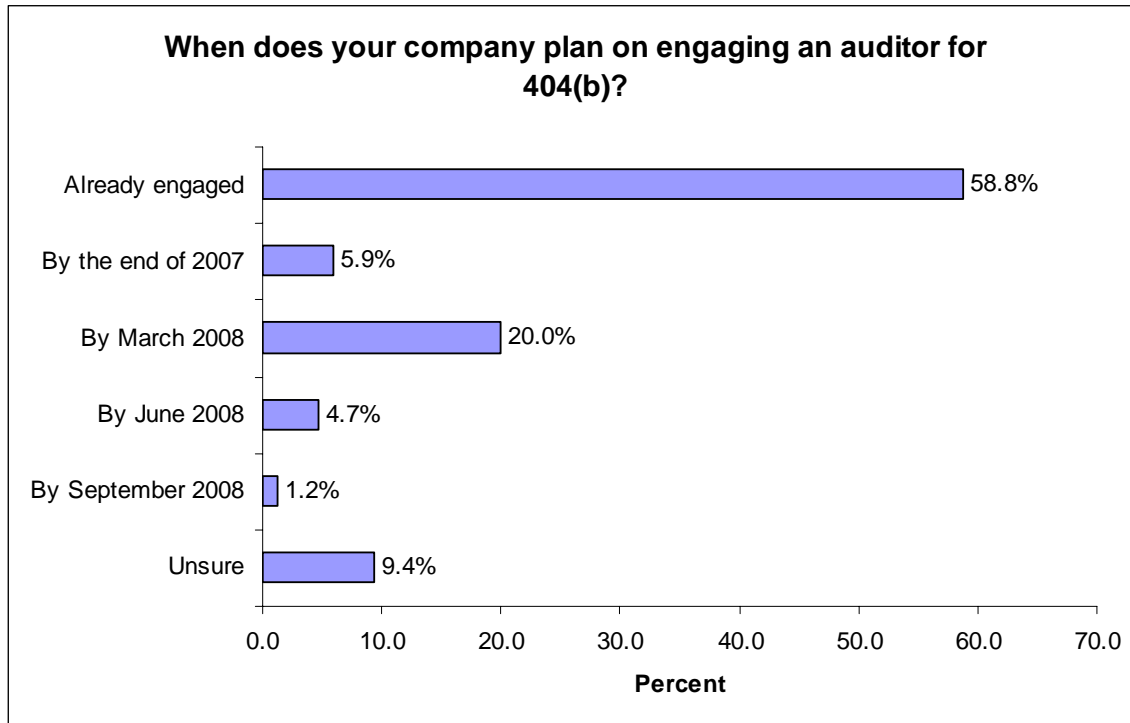
**Consultation with an auditor regarding 404(a)
(Public Float - \$75M or less)**



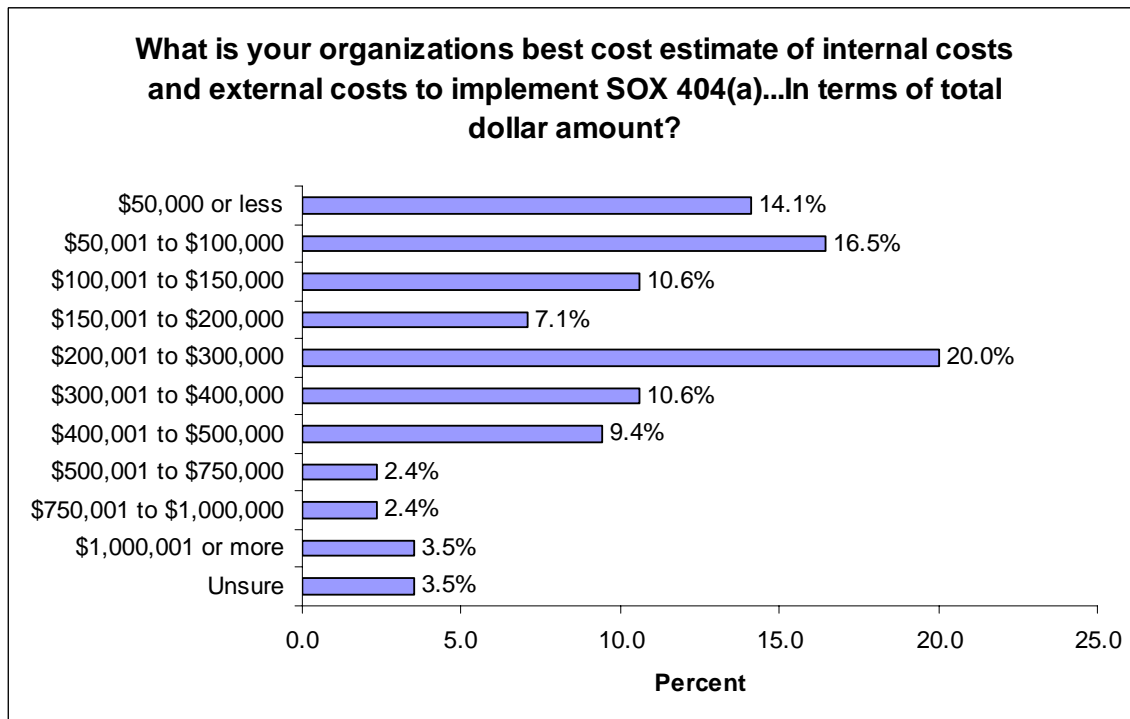
**Difference in liability between "filing" and "furnishing" SEC reports
(Public Float - \$75M or less)**



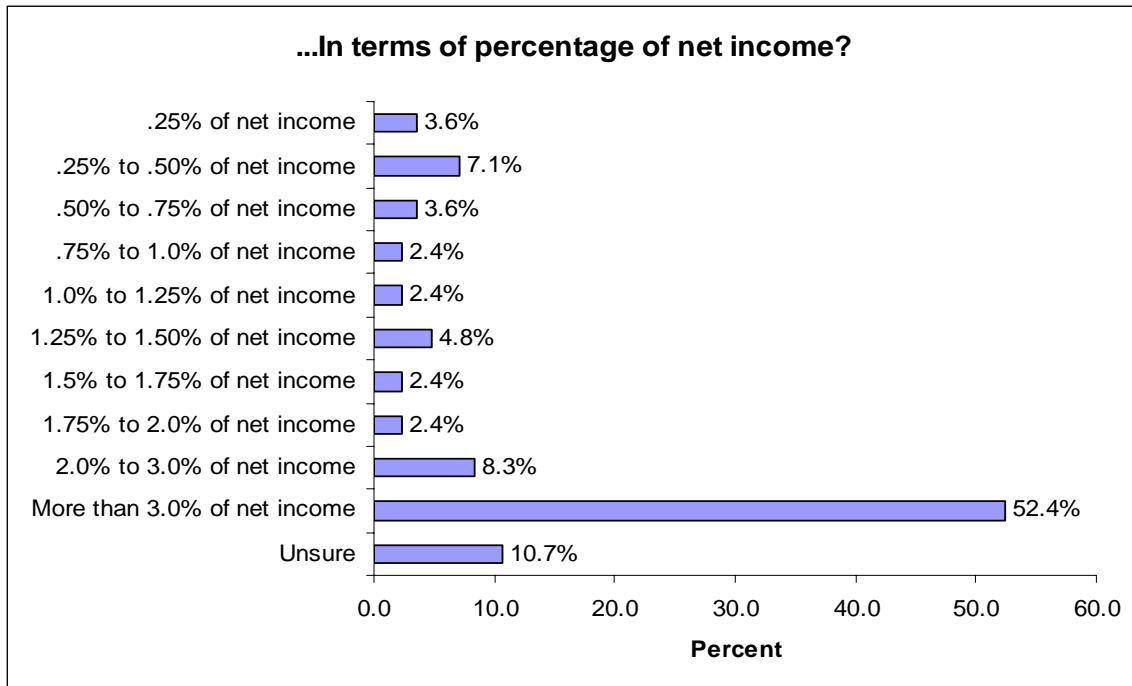
**Timing of engaging an auditor for 404(b)
(Public Float - \$75M or less)**



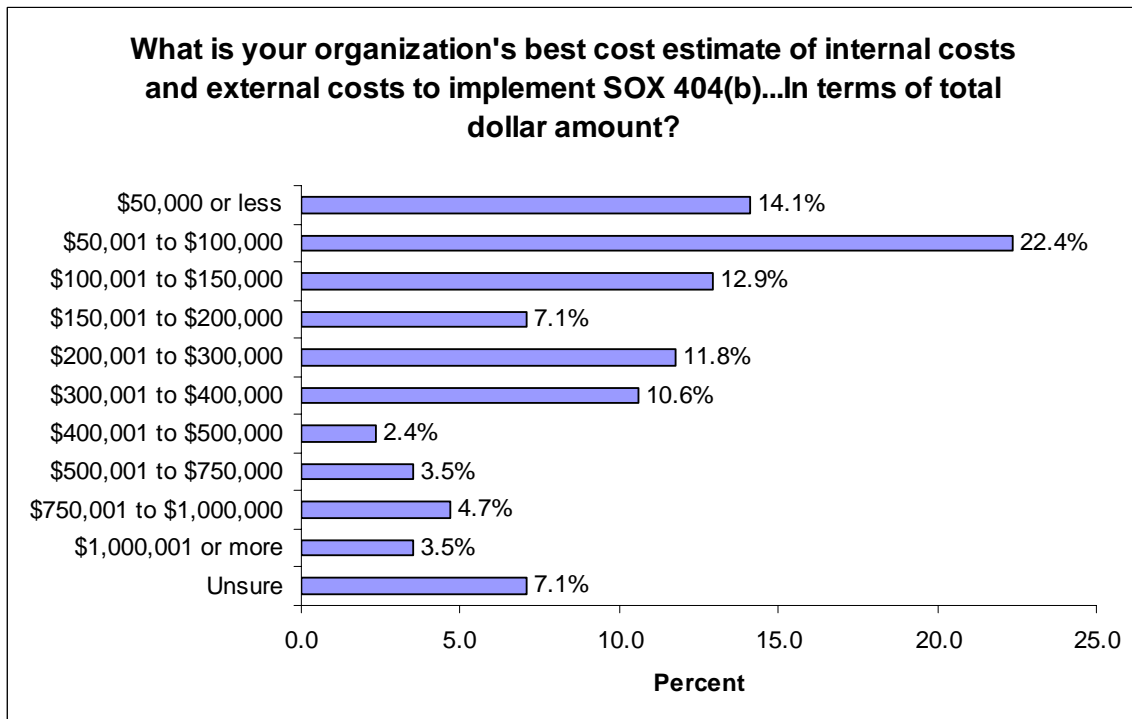
**Implementation of SOX 404(a) – Dollar Amount
(Public Float - \$75M or less)**



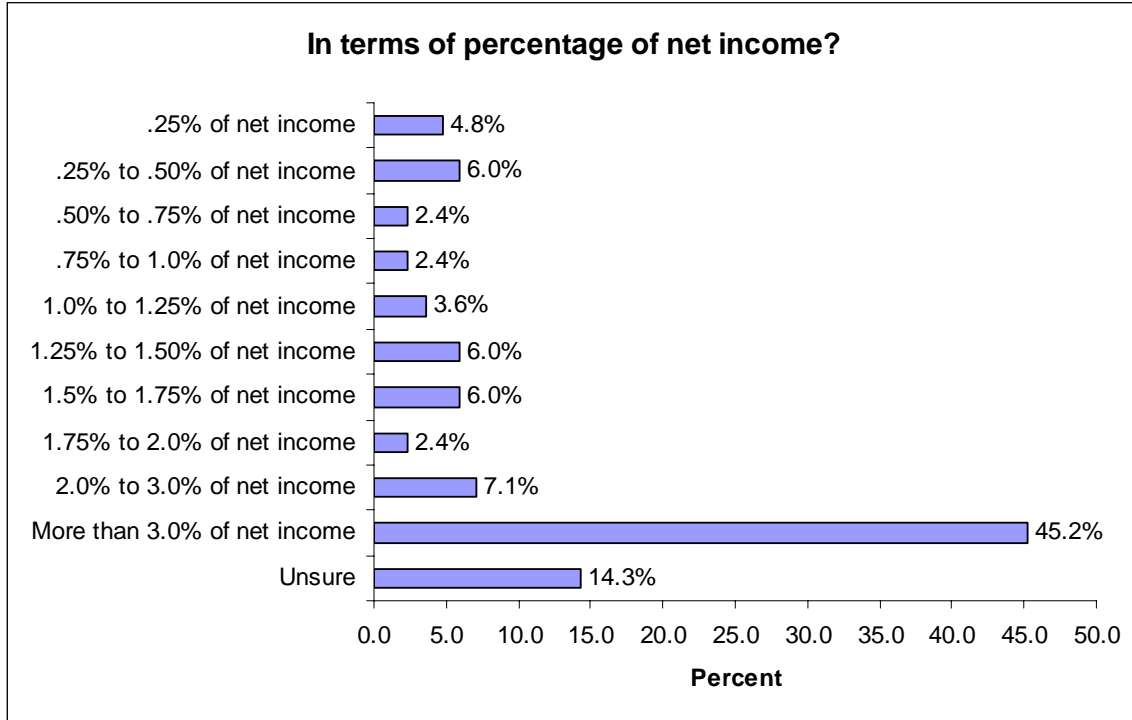
**Implementation of SOX 404(a) – Percentage of Net Income
(Public Float - \$75M or less)**



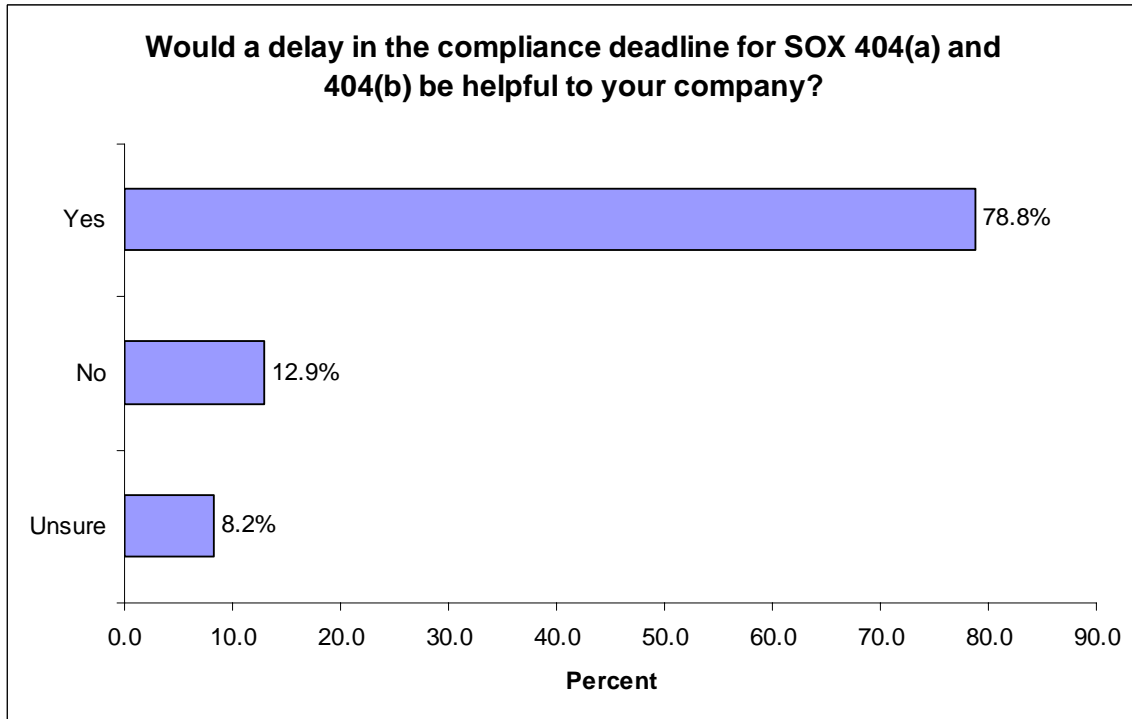
**Implementation of SOX 404(b) – Dollar Amount
(Public Float - \$75M or less)**



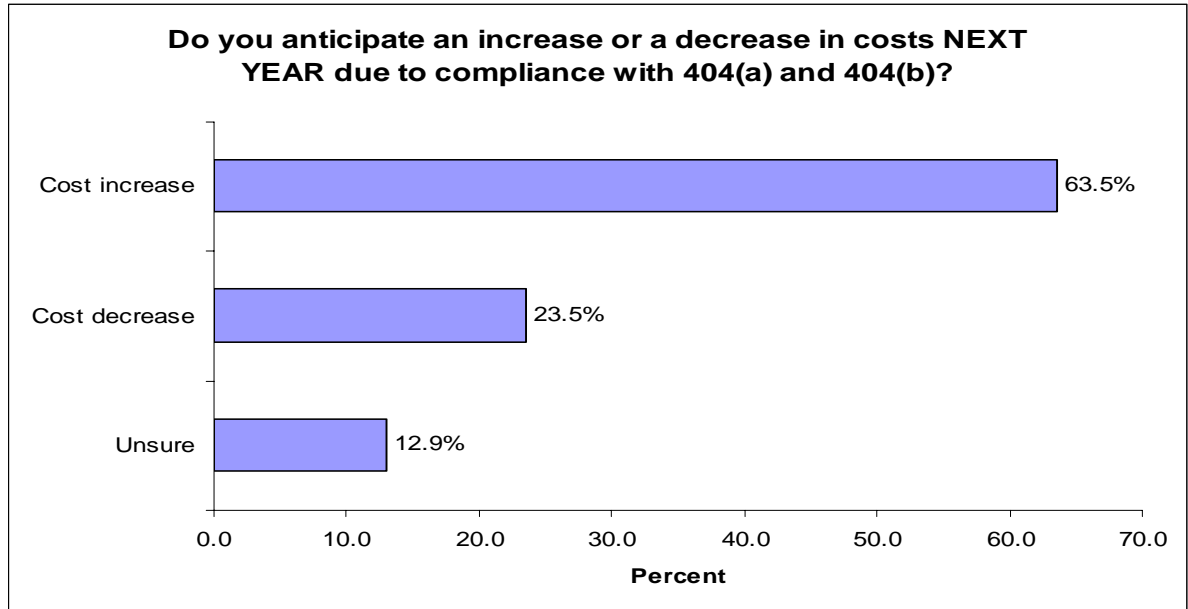
**Implementation of SOX 404(b) – Percentage of Net Income
(Public Float - \$75M or less)**



**Delay in the compliance deadline
(Public Float - \$75M or less)**



**Fluctuation of costs next year
(Public Float - \$75M or less)**



Cross Tabulation 1

“Do you anticipate an increase or a decrease in costs NEXT YEAR due to compliance with 404(a) and 404(b)?”

“Based on your answer to the previous question, please quantify the increase/decrease your organization expects in terms of dollar amount.”

	\$50,000 or less	\$50,001 to \$100,000	\$100,001 to \$150,000	\$150,001 to \$200,000	\$200,000 to \$300,000	\$300,001 to \$400,000	\$400,001 to \$500,000	\$500,001 to \$750,000
Cost Increase	18.9%	15.4%	9.5%	8.3%	4.7%	3.5%	1.2%	2.4%
Cost Decrease	8.1%	5.8%	3.5%	2.3%	2.3%	0%	1.2%	0%

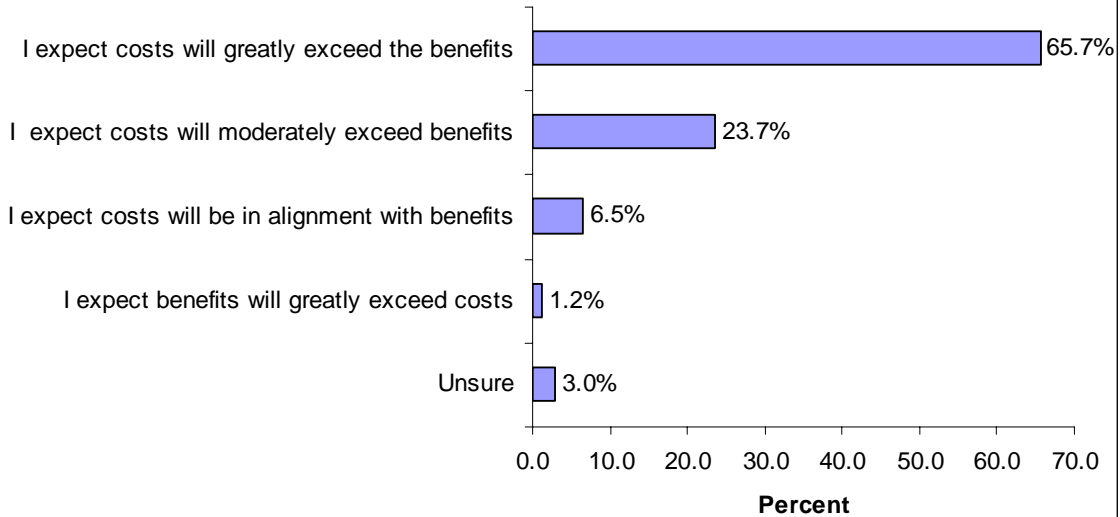
Cross Tabulation 2

“Please quantify the increase/decrease your organization expects in terms of net income.”

	.25% of net income	.25% to .50%	.50% to .75%	.75% to 1.0%	1.0% to 1.25%	1.25% to 1.50%	1.50% to 1.75%	1.75% to 2.0%	2.0% to 3.0%	More than 3.0%
Cost Increase	8.4%	1.2%	3.6%	3.6%	8.4%	1.2%	3.6%	.0%	6%	27.8%
Cost Decrease	4.6%	.0%	1.2%	2.3%	2.3%	.0%	1.2%	2.3%	1.2%	8.1%

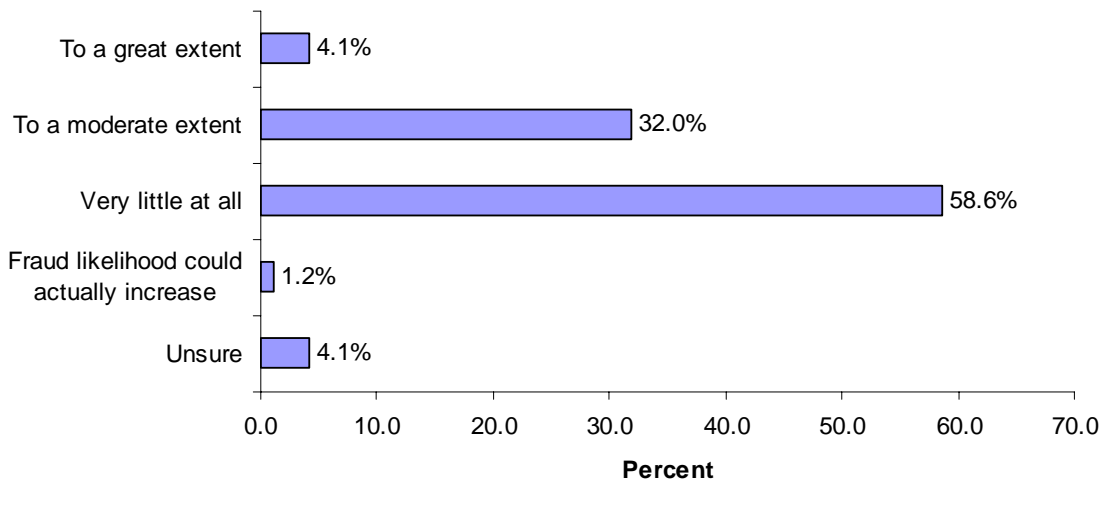
**Costs vs. Benefits
(Public Float - \$75M or less)**

Looking ahead to December 2008, do you expect that the costs associated with your company's compliance with section 404 will be in alignment with the benefits of SOX 404 compliance?



**Degree of detecting and preventing material fraud
(Public Float - \$75M or less)**

Looking ahead to December 2008, to what extent do you expect compliance with SOX 404 will allow your company and your company's outside auditors to detect and prevent material fraud?



Demographics

This survey includes 177 respondents, consisting of 90% from public companies with 50% public float of less than \$75 million.

Public Company

Yes	90%
No	10%

Public Float

\$75 million or less	50%
\$75 million to \$125 million	25%
\$125 million to \$200 million	9%
\$200 million to \$500 million	11%
\$500 million or above	9%
Unsure	6%

Respondents represent varying industries and company types. One in four respondents work in the financial services industry (25%), while the second largest industry grouping is manufacturing at 16%. "Mining and Mineral Exploration" was not listed as a specific category, but 11% of the respondents indicated this as the industry in which they work.

Type of Industry

Financial Services	25%
Manufacturing	16%
Mining and Mineral Exploration	11%
Food and Beverage	5%
Technology (non-biotechnology)	5%
Professional Services	5%
Media/Communications	4%
Biotechnology	4%
Engineering/Construction	1%
Other	25%

Comments

The respondents were asked to “provide additional information regarding their company’s experience with SOX Section 404 compliance, including their asset size information.” Below please find the respondent’s answers (unedited).

- SOX was well-intentioned but its implementation was misplaced and impractical. The costs have far outstripped the benefits. More importantly, SOX necessitates a level of bureaucracy that is severely hampering small entrepreneurial companies that I fear will stifle innovation and competition. SOX is a revenue generator for the accounting firms but adds little value to the business environment resulting in inefficiencies. To give you an example, a small company might spend \$300K to hire an audit firm to help them implement or maintain SOX compliance for one reporting period, or alternatively that same company could spend that \$300K on a phase 1 study that might prove the viability of a particular drug candidate that is critical to filling an unmet need, as the CEO of that fictional company where would you rather spend your shareholders investment? If one were to evaluate SOX on a ROI basis I suspect it would rarely be positive.
- We are finding that we already have many controls in place; we just lack physical proof or documentation to show someone we did those procedures. Thus SOX is nothing more than overkill and a busy-work maker that kills office productivity.
- Multiple shareholders have asked if it is possible to opt out of SOX compliance as it is a waste of corporate resources.
- We are currently a SOX compliant accelerated filer. It does not appear that PCAOB No. 5 will result in a material decrease in our SOX compliance costs.
- \$925MM in assets. We have been SOX 404 compliant since its inception and have found it to be very costly with minimal benefit to detect fraud. It has provided some focus on creation or improvement of internal procedures; however, it is written without clarification of control processes that are material (ie: Lending, IT, etc.).
- We are a 2.5 billion dollar community banking organization and have been reporting under 404 for 4 years. Our external audit costs have doubled under 404 and our internal costs have exceeded that. Our external auditing firm (Big 4) has not reduced fees as expected with the 2007 SEC and PCAOB reforms.
- While evaluating controls for SOX is a good exercise, financial institutions are already scrutinized to a great degree by external auditors and state and federal examiners This seems to be a redundant exercise that has not shown a great amount of benefit to the operations. Controls have always been key in the banking industry.
- The first year was very time consuming and expensive as we are now in year 2 and we have found the time and cost have decrease and expect this trend to continue.
- Cure is worse than the disease. Enron broke existing laws. They are the exception not the rule. Small cap companies are leaving the US public markets in droves. This is not good for the US economy.

- We find some procedures to be very helpful and beneficial and others to be unnecessary in that the return on doing them is difficult at best to quantify, if at all.
- Due to time constraints we engaged an outside firm to assist with SOX internal control documentation and testing. The work was performed by junior staff. Educating our consultants about our business took time away from actually managing the business. I do not believe that a binder full of flow charts and narratives is a meaningful addition to intelligent management nor is it a panacea for poor management.
- I thought that the laws and rules regarding the audit of the company were sufficient before SOX; all the SOX act did was combine the already existing rules and create an additional oversight body.
- After three years, now pretty much in order. Would like to see SOX self-assessed and complied with, without need for external audit opinion.
- There is a significant cost, and for a company of our size, it has consumed a significant amount of time resources as well.
- I still believe the audit standards are way too out of line to reality and that minor issues are reviewed at the audit level as if they were major mistakes. SOX effort regarding controls will continue to be a big debate as well mitigation efforts of those controls. We need more guidance toward dollar amounts and transaction amounts that would be relevant, not just interesting.
- We are an accelerated filer. So, we have already experienced the 404 compliance process. It is costly, and does not seem to provide more assurance about the integrity of the financial statements than would be achieved without the 404 requirements. We have been undergoing a significant growth phase within our company for the past several years, though; and being required to comply with 404 has enforced a level of discipline we might very well have neglected otherwise.
- Costs significantly outweigh benefits for our organization. Auditors have lost sight of the big picture and focused too much on the minutia.
- The objectives of SOX could be accomplished through the traditional internal audit function as opposed to having a separate compliance effort. Also, the value that the external audit provides in providing their opinion on the internal controls over financial reporting is minimal.
- We are a small cap multinational company with 9 locations all of which require documentation of controls. The problem is depending who you ask and when you ask you get a variety of answers. Everyone thinks they know what the auditors want and the auditors don't even know what they want. What a waste of time and money.
- Terrible waste of costs. We are a very simple company to get our hands around and nothing bad that would be material could be done without being noticed by many internal and external people. A few entity level controls could easily cover any material risk. Instead we will be paying a sum equal to our audit fee (approximately the costs of 4 engineers) to test key controls at the detail level.
- The additional time required of senior and mid-level management, as well as the board of directors, significantly reduces time available toward more productive, growth oriented

efforts and initiatives. As well, the compliance efforts have negatively impacted our relationship with our auditors, and have caused us to hire other firms to assist with accounting and control-related matters.

- AS5 should help. However, the top down implementation approach for implementing SOX remains very expensive for a small company. Most non-financial executives believe SOX is the full employment act for CPA's.
- It is exorbitant cost that outweighs benefits, does little for market reaction, and restricts certain investment and growth.
- We are in our third year of compliance. In year one, our audit cost doubled. It has not diminished since.
- It is very difficult to articulate to line managers and supervisors (those outside of the accounting profession) the concepts and definitions within the context of SOX.
- Asset size \$2.3 billion. We have been compliant since 2004. Our experience has been that the focus on SOX 404 is simply documentation of what most financial institutions have maintained as controls historically. The benefits, now that there is better guidance from the SEC (see August Reg. release) and the Independent Auditors (AS 5), far outweigh the costs. While initially cumbersome, our system now focuses on excellent Internal Controls over Financial Reporting. We do not even use "SOX" any longer. There are really two choices: Embrace the documentation as best practices or whine.
- Very small public company; with net losses; the SOX costs, with the amount of internal expertise required is unrealistic for our size and profitability.
- Our bank has an asset size of \$45 million. We will incur a direct external expense in 2007 of approximately \$75,000 to document and comply with 404a. While the purpose of SOX is well-intended to put in place reliant control structure, compliance for an institution of our size and structure has created extremely negative earnings consequences because there has been little to no consideration for asset size, human or dollar resources. Enhancing shareholder value is our main goal through safe, sound, effective and efficient controls and operations. Very little about SOX is efficient. Let's hope it will at least be somewhat effective.
- We are a \$138MM asset community bank. 404 did not add anything to our internal control system, but it does add significant cost. We are already audited (internal and external) and examined so much that this does not do much but require us to re-document everything in another format. Controls should be in place to enable you to run your business in a safe and sound manner, understanding the risks. Our philosophy is not to grow so fast that we outpace our infrastructure-- therefore we did not need 404 to document or test our controls. We do it all the time. This is a waste of time and money. Criminals get around controls anyway, so you are only punishing the people who normally comply anyway just because it is the right thing to do.