

Sarbanes-Oxley Implementation Costs

What companies are reporting in their SEC Filings

February 2005



$$X(x) = A_x \sin(k_x x) + B_x \cos(k_x x) \quad E_x = \hbar^2 k_x^2$$

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"We are incurring additional expenses to document our Internal Control over Financial Reporting as contemplated in Sarbanes-Oxley Section 404". "We are uncertain about the total costs we will incur, although we roughly estimate that the costs in fiscal year 2005 could be approximately one to two percent of the current revenues"

*Microsemi Corp filed this 10-Q on February 11th 2005
Annual sales = US\$ 244 million*

Introduction

This report outlines the results of A.R.C. Morgan's analysis of costs provided by registrants in their SEC Filings related to Sarbanes-Oxley Section 404 compliance.

The analysis was started to provide our clients with indications of what their peers are stating as the **actual** cost of their Section 404 efforts. Many have estimated the cost of initial Section 404 compliance with an often repeated quote estimate of US\$ 1 million per US\$ 1 billion in revenue – is this the case or is there any other number that can be used to better guide budgets for smaller companies and foreign filers who must complete their initial compliance in 2005 and 2006?

Our analysis aims to provide a more accurate understanding of what Section 404 is costing filers and further seeks to provide advice on what lessons can be learned from the costs quoted and planning of Section 404 projects.

Further we seek to answer a much asked question by clients, prospects, journalists and we believe the regulatory bodies themselves:- "What is a good guideline to estimate the amount of costs associated with initial compliance of Sarbanes-Oxley Section 404 preparation"

Additional purpose of this analysis

Earlier this month (7th and 22nd February 2005) the Securities and Exchange Commission (SEC) announced it would host a Roundtable (scheduled for April 13th 2005) and solicit feedback from registrants, auditors, investors and others on their experiences with implementing and evaluating the Section 404 requirements. Our purpose in releasing this analysis is to:

- a) provide feedback to the SEC; while
- b) adding guidance to smaller companies and foreign filers
- c) seek to provide more accurate data about the costs of implementing Section 404 of the Sarbanes-Oxley Act

Announcing the Roundtable SEC Chairman William H. Donaldson stated "It (Section 404) offers significant long-term benefit in helping to prevent fraud and misdirection of corporate resources and in improving the accuracy of financial reporting. Companies and their auditors are required to report publicly on the effectiveness of internal controls over financial reporting and to describe any material weaknesses in such controls. This should lead to better input for management decisions and higher quality information and stronger protection for investors. **While these benefits are clear, it is also important that we evaluate the implementation of our rule and the standard issued by the PCAOB to ensure that these benefits are achieved in the most effective way**".

"The Company strongly believes that the compliance cost for small companies under SOX 404 are prohibitive. It also believes that many small companies are not yet aware of the costs they will be facing"

Beard Company filed this 8K on December 13th 2004

Findings

Our analysis is based on data mined from filings by approximately 280 companies we found to have included a cost of complying with Sarbanes-Oxley Section 404 in their SEC filings and public announcements.

Many more companies indicate in their filings that the cost of complying with Sarbanes-Oxley Section 404 in particular is a burden but do not provide an actual figure (actual cost or estimate), for example, while discussing Section 404 of the Sarbanes-Oxley Act in their filing on 14th February 2005, Westborough Financial Services Inc. state *"management believes increased costs associated with compliance will have a material effect upon the level of operating expenses and, accordingly, the level of future net income"*, yet they do not provide a cost. We found many companies stating "Selling, General and Administrative expenses increased primarily for the following reasons" ***"Costs related to work performed for our Sarbanes Oxley Section 404 compliance and attestation fees"*** but did not associate a direct number to this cost.

We were surprised by how few large companies (Annual sales greater than US\$ 10 billion) have put a cost on Sarbanes-Oxley Section 404 in their filings

To date few companies are divulging the costs of Sarbanes-Oxley Section 404. This is surprising particularly given the vocal negative statements against the cost/benefits associated with Section 404 compliance - we do believe there is a question to be answered as to the lack of detail disclosed around the costs incurred by companies during 2004 – "Do they know the cost of the work undertaken for Sarbanes-Oxley Section 404?".



The majority of costs disclosed relate to costs for external consultants and professional advisers. Probably because companies found these costs easier to measure than internal resource costs. Few companies have disclosed the increased external audit fees for the Audit of Internal Control Over Financial Reporting Conducted in Conjunction With an Audit of Financial Statements at this time.

We were able to decipher an initial overview of average costs associated with Section 404 compliance for companies with less than US\$ 2 billion in annual sales. We do not believe the data is available in sufficient detail and by a broad enough cross sector of companies to provide any real conclusion about what initial Section 404 compliance is costing SEC registrants, particularly larger companies. Nevertheless we can conclude that Section 404 has cost many companies significantly more than widely anticipated. We can also conclude that many companies costs were incurred in the second half of the year, causing a shortage in external resources, which may provide some understanding of why costs were higher.

"Sarbanes-Oxley costs, excluding internal labor, amounted to 0.5% of sales in the third quarter of fiscal 2005"

Monro Muffler Brake, Inc. filed this 10-Q on February 3rd, 2005. Sales were US\$ 80.5 million for the third quarter

Deciphering the numbers

Most companies that have disclosed costs for Sarbanes-Oxley Section 404 compliance do so in their Managements Discussion and Analysis. Often companies place a lump sum amount for Sarbanes-Oxley compliance with other cost items associated with Selling, General, and Administrative expenses. In order to ascertain the cost organizations are stating for Section 404 compliance we have **not** included costs in our analysis when we are unable to decipher the exact number for Section 404 compliance. The following is a typical example of a filer discussing compliance costs but not given a definitive cost for their compliance work:-

"For the three months ended December 31, 2004, general and administrative expense, excluding stock based compensation, increased by \$2.8 million and increased to 13% as a percentage of revenue compared to 9% in the prior year period. For the nine months ended December 31, 2004, general and administrative expense, excluding stock based compensation, increased by \$3.8 million and increased as a percentage of revenue compared to the prior year period. In both the three and nine month periods ended December 31, 2004, the increases were primarily due to an increase in accounting and legal services associated with the internal investigation of the Company's Japanese subsidiary as discussed in Note 2 above, as well as additional personnel costs, Sarbanes-Oxley Act compliance costs and costs related to an employment matter".

webMethods, Inc. filed this 10-Q on February 14th 2005

Forecasts versus Actual

Many companies are including forecasts in their filings, we have not analyzed these forecasts preferring to focus on the actual costs. We are however slightly surprised by the range of forecasts being declared by companies as advance guidance to their investors. Companies are changing these forecasts from quarter to quarter, for example on the 8th November 2004 one business services company with US\$1.33 billion in annual sales stated "We consider the implementation of Sarbanes-Oxley Section 404 to be part of our plan to improve controls and are well into implementation, including expenditures of approximately **\$5.0 million anticipated** in fiscal year 2005". The same company had revised this amount by a 9th February 2005 filing stating "We consider the implementation of Sarbanes-Oxley Section 404 to be part of our plan to improve controls and are well into implementation. We anticipate expenditures on outside resources of approximately **\$7 million to \$8 million in fiscal year 2005**". We also noted many smaller companies offering guidance of estimated costs with quite wide variances such as this US\$ 210 million annual sales Consumer Goods company "Beginning with fiscal year 2005, the direct and indirect costs associated with Sarbanes-Oxley Section 404 compliance will add significantly to that cost. We have received estimates of the expenses associated with implementing the additional processes and procedures necessary for Section 404 compliance and the fiscal year 2005 required attestation of those controls. **These estimates have ranged from \$700,000 to approximately \$1.7 Million**".

“Corporate expense of \$40.3 million was up from \$37.3 million in the year earlier due entirely to higher spending related to Sarbanes Oxley Section 404 compliance”

FMC Corp filed this 8-K on January 28th, 2005.
 Annual Sales = \$2 billion

Average Fees

Our findings to date from the analysis of filings indicates that smaller companies are incurring higher costs than larger companies as a percentage of sales. To put an average fee against the dollar value of sales using the US\$ 1 million for US\$ 1 billion analogy our findings indicate for smaller companies (less than US\$ 2 billion) it is closer to an average cost of US\$ 1.8 million for US\$ 1 billion in sales. This figure does not take into account the increase in external audit fees for an Audit of Internal Control over Financial Reporting nor does it include managements time and internal resource time – adding these numbers will more than likely bring the average cost of first year compliance to around US\$ 3 to US\$ 3.2 million per US\$ 1 billion in sales for companies with less than US\$ 2 billion in sales.

The larger the company (US\$ 10 billion plus) the less the cost against the same analogy above – the data as we have indicated earlier is sparse for larger entities but seems to back up the previous forecasts of US\$ 1 million in compliance costs for every US\$ 1 billion in sales.

87% of companies included in our findings have annual sales of less than US\$ 2 billion, providing a more accurate representative sample size of companies in this category

Disclosed Fees by Company Size

Average Company Annual Sales in US\$	Average Cost of Section 404 Compliance for External Resources only
0 – 250 Million	US\$ 1.56 million
250 – 500 Million	US\$ 1.71 million
500 – 750 Million	US\$ 1.78 million
750 – 1 Billion	US\$ 2.03 million
1 – 2 Billion	US\$ 2.4 million
2 – 7 Billion	Insufficient data
7 - 10 Billion	US\$ 10 million

The majority of companies that have declared costs show the highest percentage of costs in the second half of the year. We further found an increasing trend to be as much as two thirds of the costs being declared as incurred costs in the fourth quarter. This gives some indication of why the costs have far exceeded initial estimates. Summed up as follows by one filer *“There is great demand for consultants in the relevant area, and their fees reflect the short supply, which was caused by thousands of companies concurrently dealing with the requirement”*.

"Costs associated with the implementation of Sarbanes-Oxley Section 404 (\$2.0 million in the fourth quarter and \$3.0 million for the full year 2004)"

*Journal Register Co. filed this 8-K on February 18th 2005.
Annual Sales = US\$ 406 million*

Lessons for Smaller Companies and Foreign Filers

What Smaller Companies and Foreign Filers can take away from this analysis

Our analysis indicates that many companies waited until the second half of the financial year before truly embarking on Sarbanes-Oxley Section 404 projects, with an even higher percentage leaving the majority of the work until the last quarter before putting the necessary resource, time and commitment into initial Section 404 compliance. Some of this can be explained by the fact that the PCAOB Audit Standard Number 2 was not approved by the SEC until June 17th, 2004, the end of the second quarter. In many cases the actual work materially exceeded the estimates companies put on their projects. Unforeseen challenges were and are encountered that require additional work, as well as additional time, testing controls took significantly longer than anticipated and as material weaknesses began to emerge from other filers companies also recognized that they required in-house expertise for tax work and GAAP knowledge requiring additional resources and training.

Project Management

Resource planning is a critical element to overcoming the high spending many have incurred with last minute scheduling of Sarbanes-Oxley Section 404 projects. It is imperative that companies use the time still available to assess their Sarbanes-Oxley plan and create contingency arrangements with internal or external resources.

Many companies felt that they had to use a big 4 firm for their Sarbanes-Oxley projects and incurred significant costs flying people across the globe instead of seeking out local professionals. A crucial part of a Project Manager's role is to select a partner with the ability to provide local resources which will result in additional cost savings due to lower or minimal travel costs. Organizations should aim to recruit professionals dedicated to Sarbanes-Oxley with industry, and practical experience who can immediately step in to get the work done, thus further helping to keep the costs down.

Final Thought

A final thought and timely reminder from Andrew Bailey Deputy Chief Accountant from the SEC "We are aware that 404, AS 2 and the Independence Rules add to costs for both registrants and auditors. It is, of course, easier, particularly today, to measure and feel the costs and pains of implementation. It is much harder, particularly in the short-term, but even in the long-term, to measure and feel the benefits of successful implementation and maintenance of good internal controls and high levels of independence. **We are all incurring the costs of lost public trust, a trust that cost nothing to lose, but requires significant expenditures of time, talent and money to reclaim**".

"Sarbanes-Oxley 404 implementation costs totaled \$0.3 million and \$0.6 million for the fourth quarter and full year of 2004, respectively. These expenses only represent costs incurred with external parties"

Independent Bank Corporation filed this 8-K on January 26th 2005.

Sample Filer Cost Statements

"For the first nine months of 2004, we recorded approximately \$2,900,000 for SOX related expenses. We currently estimate an additional \$3,000,000 of costs associated with SOX for the fourth quarter of 2004. For the third quarter of 2004, we recorded approximately \$1,200,000 for SOX related expenses"

Watts Water Technologies, Inc. 10-Q on 11/05/2004

Annual Sales = US\$ 706 million

Third Quarter 2004 Operating Highlights – "approximately \$1.3 million of costs related to compliance with Sarbanes-Oxley Section 404"

Curtiss Wright Corp 8-K on 10/29/2004

Annual Sales = US\$ 955 million

"in the three months ended September 30, 2004 The remaining \$0.8 million increase was mainly due to an increase in expenses related to Sarbanes-Oxley Section 404 preparations"

MICROS Systems, Inc. 10-Q on 11/09/2004

Annual Sales = US\$ 487 million

"This number also includes over 1.25 million for compliance with the 404 regulation and other regulations pertaining to the Sarbanes-Oxley Act"

MICROS Systems, Inc 8-K on 02/01/2005

Annual Sales = US\$ 487 million

"Through six months of 2004, SG&A expenses were \$153.1 million as compared to \$144.1 million through the first six months of 2003. As a percent of net revenue the 2004 SG&A expenses were 22.5 percent and the 2003 expenses were 23.3 percent. The 2003 expenses included \$4.2 million of restructuring-related costs. The foreign exchange impact increased the SG&A expenses \$5.5 million in 2004 as compared to 2003. Costs related to the Lean Six Sigma SM and other growth and cost-savings initiatives added \$3.4 million to the SG&A expenses in the first half of 2004. Other SG&A expense increases in the first half of 2004 as compared to the first half of 2003 were expenses related to the Probos business of \$1.4 million and Sarbanes-Oxley costs of \$0.7 million"

H. B. Fuller Company 10-Q on 07/02/2004

Annual Sales = US\$ 1.4 billion

"In addition, our worldwide Sarbanes-Oxley 404 implementation costs in the quarter were \$1.3 million or about 6 cents per share"

Black Box Corporation 8-K on 02/01/2005

Annual Sales = US\$ 520 million

"Additionally, in this (4th) quarter we incurred and recorded pre-tax charges of approximately \$2,973,000 for costs to comply with the requirements of Section 404 of the Sarbanes-Oxley Act"

Watts Water Technologies filed this 8-K on February 23rd 2005.

Sample Filer Cost Statements

"Project-to-date external SOX costs, which include \$0.2 million of costs expensed in 2003, totaled \$1.3 million at September 30, 2004. In addition to costs associated with the use of internal resources, management currently estimates its total external SOX costs related to 2004 Section 404 compliance will be in the range of \$1.8 million to \$2.0 million. Certain of these costs are expected to be incurred during the first quarter of 2005"

Michael Baker Corporation 10-Q on 11/08/2004
Annual Sales = US\$ 426 million

"Allocated Corporate overhead costs expressed as a percentage of total contract revenues decreased for the first nine months of 2004 versus the first nine months of 2003 as a result of cost reductions associated with the Company's new information systems, as partially offset by 2004 external SOX costs totaling \$1.1 million"

Michael Baker Corporation 10-Q on 11/08/2004
Annual Sales = US\$ 426 million

"Total general and administrative expenses for the third quarter 2004 were \$6.5 million (9% of net sales), as compared to \$4.2 million (7% of net sales) for the corresponding period in 2003. The increases in general and administrative expenses from the third quarter 2003 to the third quarter 2004 reflect non-cash charges incurred in 2004 and \$1.1 million of Sarbanes-Oxley Section 404 implementation costs in the third quarter 2004. Excluding the non-cash charges and the Section 404 implementation costs, general and administrative expenses for the third quarter 2004 were \$4.7 million (6% of net sales)"

DDI Corporation 8-K on 10/27/2004
Annual Sales = US\$ 243 million

"Costs to comply with the requirements of Sarbanes-Oxley Section 404 were approximately \$1.8 million, or \$0.04 per share in 2004. These costs will continue in 2005. Our external auditors have not yet completed their audit of our internal control system and so we are not able to comment on the results"

CLARCOR, Inc. Press-Release 12th January 2005

"\$1.8 million for external consulting services related to compliance with Sarbanes-Oxley Section 404"

CLARCOR, Inc. 10-K on 02/10/2005
Annual Sales = US\$ 787 million

"There was \$1.6 million or 4 cents a share and one time SG&A charges primarily associated with Sarbanes Oxley section 404 compliance work"

Caraustar Industries, Inc. 8-K on 02/15/2005
Annual Sales = US\$1,06 billion

The average US\$ 250 million company is spending US\$ 1.56 million on external resources for compliance with Section 404 of the Sarbanes-Oxley Act

A.R.C. Morgan research
February, 24th 2005

Sample Filer Cost Statements

"Net income decreased to \$11.1 million, or \$.37 per diluted share, from net income of \$15.5 million, or \$.52 per share for the same quarter a year ago due to a number of unusual expenses. These items included: an additional \$2.4 million (\$1.6 million in General and Administrative expense and \$800,000 in interest expense) of accruals to reflect settlement discussions with the Department of Justice and the Securities and Exchange Commission's Staff regarding the Company's Chinese subsidiary; \$600,000 in related legal fees; \$2.0million in General and Administrative expense related to Sarbanes-Oxley Section 404 compliance"

Diagnostic Products Corporation 8-K on 02/11/2005

Annual Sales = US\$ 443 million

"Sarbanes-Oxley Section 404 Compliance – despite work undertaken in prior quarters, Viisage experienced higher than anticipated costs related to its Sarbanes-Oxley compliance efforts. In the fourth quarter alone, compliance-related costs totaled \$550,000. These expenses are expected to decrease dramatically going forward"

Viisage Technology, Inc. 8-K on 02/08/2005

Annual Sales = US\$ 37.4 million

"This reduction in general and administrative expenses was offset by \$615,000 in costs relating to our Sarbanes-Oxley Section 404 implementation in the second quarter of fiscal 2005 "

"This reduction in general and administrative expenses was offset by \$806,000 in costs relating to our Sarbanes-Oxley Section 404 implementation in the first six months of fiscal 2005"

Cree, Inc. 10-Q on 02/02/2005

Annual Sales = US\$ 307 million

"Returning for a moment to Sarbanes-Oxley; as I mentioned, we spent in excess of \$1 million this year on consulting services to complete our own internal control testing and documentation"

Power Integrations, Inc. 8-K on 01/31/2005

Annual Sales = US\$ 137 million

"Another significant factor contributing to the \$1.0 million increase in non interest expense for the fourth quarter was \$316,000 of higher professional fees primarily associated with the work required under Sarbanes Oxley Section 404"

Enterprise Financial Services Corporation. 8-K on 01/28/2005

Annual Sales = US\$ 53.3 million

The average US\$ 500 million company is spending US\$ 1.71 million on external resources for compliance with Section 404 of the Sarbanes-Oxley Act

*A.R.C. Morgan research
February, 24th 2005*

Sample Filer Cost Statements

"Sarbanes-Oxley Section 404 compliance costs of approximately \$1.3 million were also incurred during the year"

Schweitzer Mausuit International, Inc. 8-K on 01/27/2005

Annual Sales = US\$ 657 million

"Corporate expense of \$40.3 million was up from \$37.3 million in the year earlier due entirely to higher spending related to Sarbanes Oxley Section 404 compliance"

FMC Corporation 8-K on 01/28/2005

Annual Sales = US\$ 2 billion

"General and administrative expenses for the current quarter were \$1.9 million in both the third quarter of 2004 (11.2 percent of revenues) and 2003 (12.0 percent of revenues). We incurred approximately \$0.4 million in external costs in connection with our efforts to comply with Sarbanes-Oxley section 404 during the third quarter of 2004. We anticipate approximately \$0.3 million in additional external costs associated with our 404 efforts to be incurred during the fourth quarter of 2004. The increase in general and administrative expenses as a result of Sarbanes-Oxley compliance costs were partially offset by a \$0.3 million reduction in our sales tax reserves initially established in 2001. We estimate professional service fees associated with our Latin America investigation (See Item 4-Controls and Procedures) will total \$1.0 million during the fourth quarter of 2004, up from our initial estimate of \$0.5 million"

BindView Development Corporation 10-Q on 12/21/2004

Annual Sales = US\$ 73 million

"General and administrative expenses for the nine months ended September 30, 2004 included approximately \$1.7 million in costs associated with our implementation of the requirements of Sarbanes-Oxley Section 404"

Tempur Pedic International, Inc. 424B1 on 11/18/2004

Annual Sales = US\$ 685 million

"Items impacting the results for the third quarter of 2004 include third party expenses of \$0.6 million for systems development and \$1.1 million for Sarbanes-Oxley Section 404 preparedness charges"

Ionics, Inc. 8-K on 11/10/2004

Annual Sales = US\$ 347 million

"for the third quarter and the first nine months of 2004, Sarbanes-Oxley Section 404 compliance efforts of approximately \$0.9 million and \$1.6 million, respectively"

Lydall, Inc 10-Q on 11/09/2004

Annual Sales = US\$ 271 million

The average US\$ 750 million company is spending US\$ 1.78 million on external resources for compliance with Section 404 of the Sarbanes-Oxley Act

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Sample Filer Cost Statements

"Nine Months Ended September Change = US\$ 28.2 or 19.7%

Sales, general and administrative expense increased US\$ 28.2 (or 19.7%) during the nine months ended September 30, 2004, primarily due to an increase in employees or employee costs, consulting, rent, insurance and other professional fees. Over a third of the variance is directly attributable to the Sarbanes-Oxley Section 404 internal control project and related audit work"

Calpine Corporation 10-Q on 11/09/2004

Annual Sales = US\$ 8.9 billion

"Additionally, an increase in general and administrative expenses of \$2.2 million due to higher professional fees largely related to Sarbanes Oxley implementation in the nine month period ended September 30, 2004"

Gulfmark Offshore, Inc 10-Q on 11/09/2004

Annual Sales = US\$ 130 million

"*General, Administrative and Other Expenses:* General and administrative expenses of \$6.3 million and \$23.3 million for the three and nine months ended September 30, 2004, respectively, increased \$2.9 million or 84% and \$13.8 million or 145% for the three and nine months ended September 30, 2004, respectively. Our consolidation of Shurgard Europe accounted for \$1.2 million and \$4.4 million of the increase. Of the remaining \$9.4 million increase for the nine months ended September 30, 2004, \$2.3 million is due to exit costs incurred in connection with the closing of our containerized storage business, approximately \$1.7 million relates to increases in stock compensation expenses and the remainder (US\$ 5.4 million) consists primarily of increased audit and other professional fees incurred in connection with accounting, Sarbanes-Oxley Section 404 compliance and financial reporting, as well as compensation expenses resulting from newly created management positions. The increase in stock compensation expense results from our increased use of restricted shares grants instead of stock option grants to compensate our executives. For the three months ended September 30, 2004, the remaining \$1.7 million increases consists of audit and other professional fees incurred in connection with accounting, Sarbanes-Oxley Section 404 compliance and financial reporting as well as increases in compensation expenses resulting from creating new positions in finance and accounting"

Shurgard Storage Centers, Inc. 10-Q on 11/09/2004

Annual Sales = US\$ 297 million

"Excluding costs associated with the implementation of Sarbanes-Oxley Section 404 (\$2.0 million in the fourth quarter and \$3.0 million for the full year 2004)"

Journal Register Co. 8-K on 02/18/2005

Annual Sales = US\$ 406 million

The average US\$ 1 billion company is spending US\$ 2.03 million on external resources for compliance with Section 404 of the Sarbanes-Oxley Act

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February, 24th 2005

Sample Filer Cost Statements

“General and administrative expenses consist primarily of costs associated with the Company’s executive, financial, human resources and information services functions. The increase in absolute dollars for the three months ended September 30, 2004, as compared to the same period in 2003, is primarily due to the acquisition of Scala in June 2004, which added approximately \$4.3 million in additional expenses in the third quarter of 2004 and additional professional fees of approximately \$1.1 million primarily related to the Company’s Sarbanes Oxley Section 404 requirements”

“The increase in absolute dollars for the nine months ended September 30, 2004, as compared to the same period in 2003, is primarily due to (i) the acquisition of Scala in June 2004, which added approximately \$5.2 million in additional expenses in 2004, (ii) additional professional fees of approximately \$1.3 million related to the Company’s Sarbanes Oxley Section 404 requirements”

Epicor Software Corporation 10-Q on 11/09/2004
Annual Sales = US\$ 226 million

“Additionally, for the nine months ended September 30, 2004, we incurred a net increase of \$1.8 million in costs related to the implementation of Sarbanes-Oxley Section 404 procedures”

“Included in net Corporate expenses in the three months ended September 30, 2004 is an increase of \$0.8 million in expenses related to the implementation of Sarbanes-Oxley Section 404 procedures”

U.S.I. Holdings Corporation 10-Q on 11/09/2004
Annual Sales = US\$ 352 million

“Corporate expense totaled \$8,710,000; an increase of \$571,000 or 7% compared to \$8,139,000 for the nine months ended September 30, 2003. The increase was primarily due to increased professional fees relating to Sarbanes-Oxley Section 404 compliance”

Granite Broadcasting Corporation 10-Q on 11/10/2004
Annual Sales = US\$ 108 million

“Barry Barkley, the Company’s Chief Financial Officer, stated, “Our compliance plan encompasses the identification, documentation and testing of a sweeping set of controls. To date, we have invested approximately \$1 million in this process and have spared no effort to meet these requirements. Notwithstanding all of this, at this point, we believe there is more than a remote chance that we will not complete all of 404’s requirements by the dates due. We do not anticipate that an inability to satisfy all of the requirements of SOX 404 would affect our ability to complete our financial audit”

Encore Capital Group, Inc. 8-K on 12/06/2004
Annual Sales = US\$ 118 million

“Other expense for the six months period ended December 31, 2004 included \$400,000 of consulting fees primarily for Sarbanes-Oxley Section 404 compliance”

SWS Group, Inc. 10-Q on 02/09/2005
Annual Sales = US\$ 273 million

The average US\$ 2 billion company is spending US\$ 2.4 million on external resources for compliance with Section 404 of the Sarbanes-Oxley Act

A.R.C. Morgan research
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Sample Filer Cost Statements

"General and Administrative. For the three-months ended September 30, 2004, total general and administrative cost increased 93% to \$2.9 million, as compared to \$1.5 million for the three-months ended September 30, 2003. Expenses relating to general and administrative personnel for the three-months ended September 30, 2004 increased 46% to \$1.9 million, as compared to \$1.3 million for the three-months ended September 30, 2003. The increase is a result of \$0.5 million for the addition of nineteen Docent general and administrative personnel on March 18, 2004 resulting from the acquisition of Docent. In addition, we incurred \$0.4 million in accounting expenses associated with compliance with Section 404 of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Section 404") and \$0.4 million in legal expenses associated with post-merger activities and other legal matters.

For the nine-months ended September 30, 2004, total general and administrative cost increased 86% to \$7.8 million, as compared to \$4.2 million for the nine-months ended September 30, 2003. Expenses relating to general and administrative personnel for the nine-months ended September 30, 2004 increased 50% to \$5.7 million, as compared to \$3.8 million for the nine-months ended September 30, 2003. The increase is a result of \$1.9 million for the addition of an average of twenty-five Docent general and administrative personnel on March 18, 2004 resulting from the acquisition of Docent. In addition, we incurred \$0.7 million in stock-based compensation, including \$0.5 million in stock-based compensation related to the acceleration of stock options to certain employees, \$0.6 million associated with post-merger activities and other legal matters and \$0.4 million in accounting expenses associated with compliance with Sarbanes-Oxley Section 404.

We expect general and administrative expenses to increase slightly on a quarterly basis through the end of fiscal 2004 due primarily to Sarbanes-Oxley Section 404 certification procedures and litigation expenses"

SumTotal Systems, Inc. 10-Q on 11/15/2004

Annual Sales = US\$ 55 million

"Other operations expense increased \$0.3 million for the six months ended June 30, 2004 compared to the same period last year primarily due to (i) increased pension and benefits expense of \$1.3 million resulting from plan asset performance and decreasing discount rates; and (ii) increased legal and consulting fees of \$0.8 million primarily related to implementing Sarbanes-Oxley Section 404"

EI Paso Electric Company 10-Q/A on 11/22/2004

Annual Sales = US\$ 664 million

"The approximate \$0.8 million increase in general and administrative expenses was primarily related to higher Section 404 implementation costs in 2004"

Arden Realty Limited Partnership. 10-Q on 11/09/2004

Annual Sales = US\$ 414 million

A US\$ 7 – 10 billion company is spending US\$ 10 million on external resources for compliance with Section 404 of the Sarbanes-Oxley Act

A.R.C. Morgan research
February, 24th 2005

Sample Filer Forecast Statements

"The Company incurs certain costs associated with being a publicly traded company. Beginning with fiscal year 2005, the direct and indirect costs associated with Sarbanes-Oxley Section 404 compliance will add significantly to that cost. We have received estimates of the expenses associated with implementing the additional processes and procedures necessary for Section 404 compliance and the fiscal year 2005 required attestation of those controls. These estimates have ranged from \$700,000 to approximately \$1.7 million. The cost of initial implementation and on-going compliance is particularly high for the Company due to the multiple geographic areas in which it operates. Moreover, Section 404 compliance will inevitably result in a diversion of management time and attention from other duties"

Catalina Lighting, Inc. 10-Q on 02/14/2005

Annual Sales = US\$ 210 million

"The Company anticipates the expense associated with Sarbanes-Oxley requirements, specifically Sarbanes-Oxley section 404, will increase materially in future quarters until the Company is in compliance. The exact amount is not known, but as of the date of this report, is anticipated to exceed \$500,000"

The Sands Regent 10-Q on 02/14/2005

Annual Sales = US\$ 62 million

"We are in the process of documenting and testing our internal control over financial reporting in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act and the related SEC rules, which require annual management assessments of the effectiveness of our internal control over financial reporting and a report by our Independent Registered Certified Public Accounting Firm addressing management's assessments. We consider the implementation of Sarbanes-Oxley Section 404 to be part of our plan to improve controls and are well into implementation. We anticipate expenditures on outside resources of approximately \$7 million to \$8 million in fiscal year 2005"

Danka Business Systems PLC. 10-Q on 02/09/2005

Annual Sales = US\$ 1.3 billion

"The Company incurs certain costs associated with being a publicly traded company. Beginning with fiscal year 2005, the direct and indirect costs associated with Sarbanes-Oxley Section 404 compliance will add significantly to that cost. The expenses associated with implementing the additional processes and procedures necessary for Section 404 compliance and the fiscal year 2005 required attestation of those controls have been estimated at approximately \$1.9 million, several times the entire cost of the fiscal 2004 year-end audit. The cost of initial implementation and on-going compliance is particularly high for the Company due to the multiple geographic areas in which it operates"

PriceSmart, Inc. 10-Q on 01/14/2005

Annual Sales = US\$ 609 million

Most initial costs for Section 404 compliance – over two thirds - were incurred in the second half of 2004

A.R.C. Morgan research
February, 24th 2005

Sample Filer Concerns

"The costs of being a small to mid-sized public company have increased substantially with the introduction of Sarbanes Oxley Act. Audit fees and audit related fees have doubled in fiscal 2004. The increased costs include the effects of acquisitions and additional costs related to compliance with various financing agreements. We expect the costs to comply with Sarbanes Oxley Section 404 alone will double the audit and audit related costs again. We estimate that we will incur expenses of \$1.9 million in relation to audit fees in fiscal 2005, excluding the internal cost and diversion of focus away from operating the business. Our audit fee in 2002 was approximately \$0.4 million. This is a significant increase for a company of our size to bear"

The Fairchild Corporation 10-K on 12/14/2004
Annual Sales = US\$ 338 million

"Encore Provides SOX 404 Update

SAN DIEGO — (BUSINESS WIRE)—December 6, 2004 — Encore Capital Group, Inc. (Nasdaq: ECPG), a leading accounts receivable management firm, today provided an update of the status of its efforts to comply with Section 404 of the Sarbanes-Oxley Act, commonly referred to as "SOX," which requires companies to satisfy certain internal controls requirements. In substance, Section 404 requires annual management assessments of the effectiveness of the company's internal controls over financial reporting, and a report by its independent auditors addressing these assessments.

The rules implementing SOX require that "accelerated filers" comply with the new Item 404 requirements for the fiscal year ending December 31, 2004. Non-accelerated filers have until the end of 2005 to comply with these new rules. Effective June 30 of this year, Encore became an "accelerated filer" under the SEC's guidelines because of its significant share price appreciation, as well as the increased float resulting from the Company's October 2003 public offering.

Encore reported that it has a plan to satisfy SOX 404 requirements for the fiscal year ending December 31, 2004 which it is aggressively pursuing, and recently added additional resources dedicated to this task. The Company also noted, however, that it may not be able to timely achieve all of the objectives of the rule for this fiscal year. Barry Barkley, the Company's Chief Financial Officer, stated, "Our compliance plan encompasses the identification, documentation and testing of a sweeping set of controls. To date, we have invested approximately \$1 million in this process and have spared no effort to meet these requirements. Notwithstanding all of this, at this point, we believe there is more than a remote chance that we will not complete all of 404's requirements by the dates due. We do not anticipate that an inability to satisfy all of the requirements of SOX 404 would affect our ability to complete our financial audit"

Encore Capital Group, Inc. 8-K on 12/06/2004
Annual Sales = US\$ 113 million

The average 1st year total compliance cost (including internal and external personnel and external audit fees) is estimated at US\$ 3 to US\$ 3.2 million per US\$ 1 billion in sales for companies with less than US\$ 2 billion in annual sales.

A.R.C. Morgan research
 February, 24th 2005

Research Data

	A	B	C	D	E	F
1			Exchange	Listing	Industry	Sector Based on SIC Code
2	SIC CODE	Company Name	Ticker Symb			
4	SIC: 6022	BRYN MAWR BANK CORP	BMTC	Nasdaq	Financial	State Commercial Banks
5	SIC: 3490	WATT'S WATER TECHNOLOGIES INC	WTS	NYSE	Manufacturing	Miscellaneous Fabricated Metal Products
6	SIC: 7500	MONRO MUFFLER BRAKE INC	MNRO	Nasdaq	Consumer Services	Services-Automotive Repair, Services & Parking
7	SIC: 7373	MICROS SYSTEMS INC	MCRS	Nasdaq	Technology	Services-Computer Integrated Systems Design
8	SIC: 3845	ZOLL MEDICAL CORPORATION	ZOLL	Nasdaq	Health Care	Electromedical & Electrotherapeutic Apparatus
9	SIC: 5171	MARTIN MIDSTREAM PARTNERS LP	MMLP	Nasdaq	Transportation	Wholesale-Petroleum Bulk Stations & Terminals
10	SIC: 3590	CURTISS WRIGHT CORP	CW	NYSE	Aerospace & Defence	Misc Industrial & Commercial Machinery & Equipment
11	SIC: 2891	FULLER H B CO	FUL	NYSE	Chemicals	Adhesives & Sealants
12	SIC: 3714	CLARCOR INC	CLC	NYSE	Automotive	Motor Vehicle Parts & Accessories
13	SIC: 4941	PENNICHUCK CORP	PNNW	Nasdaq	Energy & Utilities	Water Supply
14	SIC: 8741	BAKER MICHAEL CORP	BKR	AMEX	Construction	Services-Management Services
15	SIC: 6022	INDEPENDENT BANK CORP	IBCP	Nasdaq	Financial	State Commercial Banks
16	SIC: 4813	WARWICK VALLEY TELEPHONE CO	WWWY	NYSE	Telecom	Telephone Communications (No Radiotelephone)
17	SIC: 3576	BLACK BOX CORP	BBOX	Nasdaq	Technology	Computer Communications Equipment

Using 10K Wizard data mining we analyzed filings for costs of Section 404 compliance and built a database including Company Name, SIC Code, Ticker Symbol, Exchange Listing, Industry and Sector based on SIC Code.

	A	B	G	H	I	J	K	L
1			Country	Annual Sales (US\$)	Net Income (US\$)	Employ	Fiscal Year End	Independent Auditor
2	SIC CODE	Company Name						
4	SIC: 6022	BRYN MAWR BANK CORP	USA	55,800,000	9,400,000	258	December	PwC
5	SIC: 3490	WATT'S WATER TECHNOLOGIES INC	USA	706,000,000	33,400,000	5,100	December	KPMG
6	SIC: 7500	MONRO MUFFLER BRAKE INC	USA	278,000,000	17,000,000	3,210	March	PwC
7	SIC: 7373	MICROS SYSTEMS INC	USA	487,400,000	33,300,000	2,892	June	PwC
8	SIC: 3845	ZOLL MEDICAL CORPORATION	USA	211,800,000	9,000,000	973	September	Ernst & Young
9	SIC: 5171	MARTIN MIDSTREAM PARTNERS LP	USA	192,700,000	12,000,000	299	December	KPMG
10	SIC: 3590	CURTISS WRIGHT CORP	USA	955,000,000	67,700,000	4,655	December	Jeloitte & Touche
11	SIC: 2891	FULLER H B CO	USA	1,409,600,000	35,600,000	4,500	November	PwC
12	SIC: 3714	CLARCOR INC	USA	787,700,000	64,000,000	5,035	November	PwC
13	SIC: 4941	PENNICHUCK CORP	USA	21,400,000	1,200,000	82	December	PwC
14	SIC: 8741	BAKER MICHAEL CORP	USA	426,000,000	2,100,000	4,335	December	PwC
15	SIC: 6022	INDEPENDENT BANK CORP	USA	155,300,000	38,600,000	1,219	December	KPMG
16	SIC: 4813	WARWICK VALLEY TELEPHONE CO	USA	28,800,000	7,900,000	122	December	PwC
17	SIC: 3576	BLACK BOX CORP	USA	520,400,000	47,200,000	2,800	March	Ernst & Young

We added critical research data such as Annual Sales, Net Income, Number of Employees, Fiscal Year End and the External Auditor.

	A	B	M	N	O	P	Q	R	S
1			Costs announced (note if in a Quarter they are costs just for that Quarter)						
2	SIC CODE	Company Name	1st Qtr	2nd Qtr	6 Months	3rd Qtr	4th Qtr	9 months	Full Year
4	SIC: 6022	BRYN MAWR BANK CORP				161,000			
5	SIC: 3490	WATT'S WATER TECHNOLOGIES INC				1,200,000	3,000,000	2,900,000	5,900,000
6	SIC: 7500	MONRO MUFFLER BRAKE INC				402,500			
7	SIC: 7373	MICROS SYSTEMS INC				800,000			1,250,000
8	SIC: 3845	ZOLL MEDICAL CORPORATION				350,000			
9	SIC: 5171	MARTIN MIDSTREAM PARTNERS LP				300,000			
10	SIC: 3590	CURTISS WRIGHT CORP				1,300,000			
11	SIC: 2891	FULLER H B CO			700,000				
12	SIC: 3714	CLARCOR INC		700,000					
13	SIC: 4941	PENNICHUCK CORP	140,000						
14	SIC: 8741	BAKER MICHAEL CORP						1,300,000	2,000,000
15	SIC: 6022	INDEPENDENT BANK CORP					300,000		600,000
16	SIC: 4813	WARWICK VALLEY TELEPHONE CO	375,000					503,000	
17	SIC: 3576	BLACK BOX CORP				1,300,000			

We extracted the exact costs per period and assessed the results of costs stated against annual sales. Our analysis further allows us to collate costs by Industry, employee size, cost against Net Revenue and percentage of Sales.

Sarbanes-Oxley Implementation Costs What companies are reporting in their SEC Filings

About A.R.C. Morgan

A.R.C. Morgan is a provider of Consultants and Advisory Services focused on Sarbanes-Oxley regulatory compliance, financial process improvement and financial and internal control management.

A growing company with our head-office in The Hague, The Netherlands and subsidiary in the USA.

A.R.C. Morgan consultants are stationed across Europe in the Benelux, (The Netherlands, Luxembourg and Belgium), the United Kingdom, France, Spain, Italy, Norway, Denmark, Germany and Switzerland.

We serve our US clients via our Texas office with consultants and partners across the country.

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