

*Increased Financial Costs of Corporate Governance After
Sarbanes-Oxley for Florida Public Companies*

September 23, 2003

Prepared by:

Steven Vazquez
Foley & Lardner

Lance Jon Kimmel
Foley & Lardner

Overview

In April 2003, national law firm Foley & Lardner conducted a national study of small-cap, mid-cap, and large-cap public companies to measure the financial impact of compliance with the Sarbanes-Oxley Act (SOX). This first-of-its-kind study quantifies the actual costs of being public, as well as the increased costs associated with corporate governance compliance.

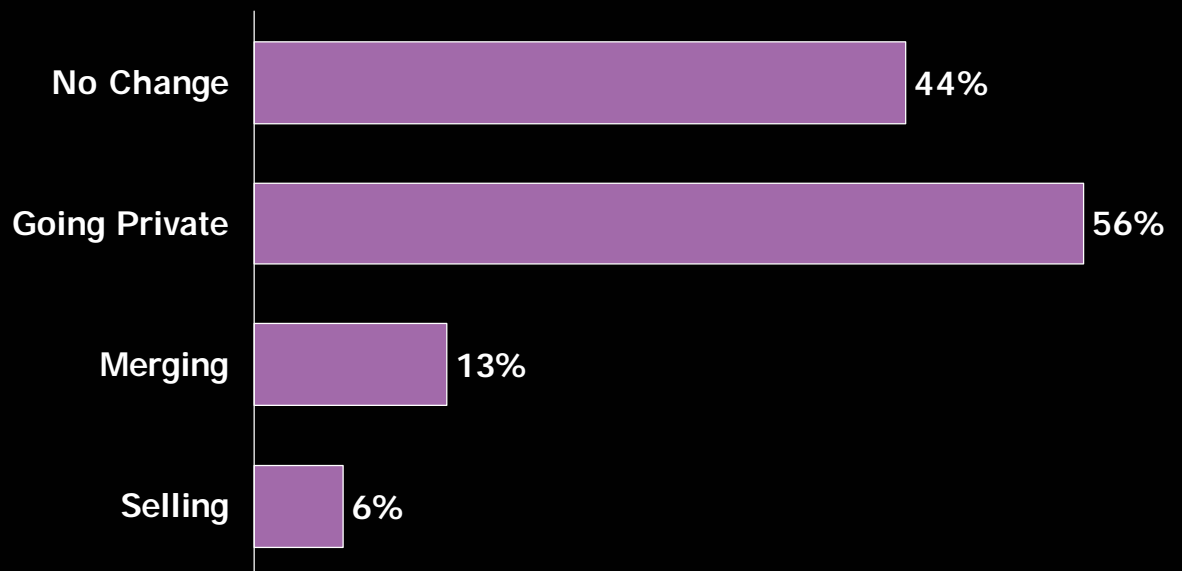
In September 2003, Foley & Lardner conducted a similar study now focusing exclusively on public companies with headquarters in Florida. The goal was to measure the increased costs of corporate governance after SOX on Florida-based public companies. The Florida study focused mainly on mid-cap, small-cap, and micro-cap companies.

Key Findings

- SOX compliance is having a significant financial impact on Florida public companies, most notably in the areas of audit fees and director compensation where double-digit percentage increases have occurred following the adoption of SOX.
- These double-digit increases are consistent with trends witnessed among small-cap, mid-cap, and large-cap companies across the country, as shown in the national Foley & Lardner study. The national study showed a mean 90.4% increase in the cost of being public for middle market companies (small-cap and mid-cap public companies) following the adoption of SOX.
- While the Florida study focuses on a cross-section of Florida public companies, the study is the first evaluation anywhere of the financial impact that SOX has had on micro-cap companies.
- The Florida public companies that were studied experienced a mean double-digit increase in audit fees between 2001 and 2002. The percentage increase in audit fees was less for the micro-cap companies than the small-cap companies, but still represents a significant double-digit overall increase of 16% and 29% respectively.
- Approximately 25% of the Florida public companies that were reviewed increased compensation paid to outside directors in 2003. Of these companies, the annual retainer for directors increased by a mean of approximately \$11,000, or 54%, in 2003.
- The costs of complying with SOX are falling disproportionately on smaller companies, particularly micro-cap companies. This increase is expected to be even more significant when companies must begin complying with the new SOX Section 404 accountant attestation rules.
- As a result of new corporate governance and public disclosure reforms under SOX, 56% of Florida companies surveyed said they will consider alternatives to remaining public. Among the alternatives cited, all of these companies reported that they will consider going private. Other alternatives cited include selling the company or merging with another company.



As a result of the new corporate governance and public disclosure reforms, is your company considering any of the following?



* Totals exceed 100% as respondents were asked to choose all options that apply.



Audit Fees

Methodology: Review of Proxy Statements

Foley & Lardner conducted a review of proxy statements filed by 283 Florida public companies. The companies were chosen randomly from a database maintained by Standard and Poor's Investment Services Custom Business Unit. All companies with a fiscal year ending July 31, 2002, or earlier were removed, as were those companies from which data was missing on key metrics for any of the years 2000, 2001, or 2002. Once these companies were removed from the database the total sample size was 81 Florida public companies.

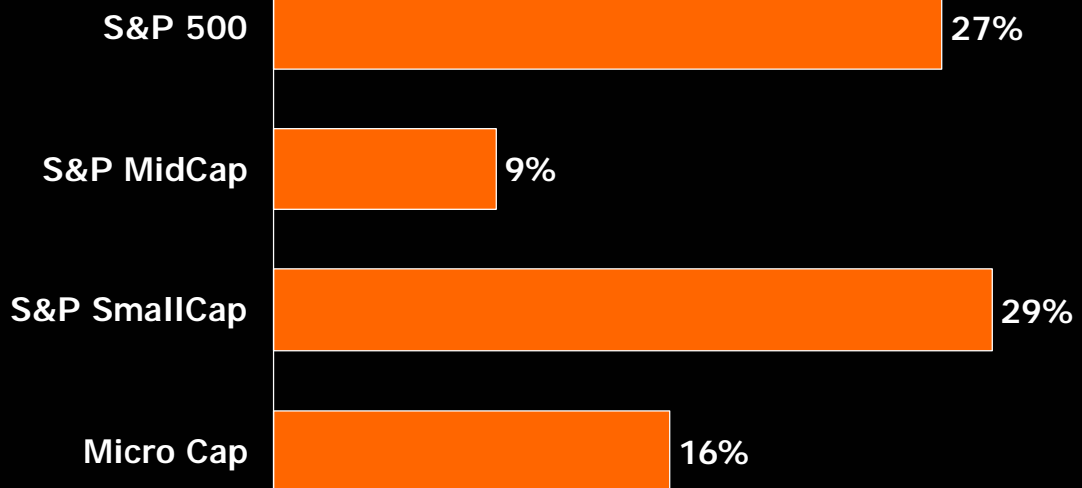
Key Findings

- The Florida public companies that were studied experienced a mean double-digit increase in audit fees between 2001 and 2002. The percentage increase in audit fees is less for the micro-cap companies than the small-cap companies, but still represents a significant double-digit overall increase of 16% and 29% respectively.
- These double-digit increases are consistent with trends witnessed among small-cap, mid-cap, and large-cap companies across the country, as shown in the national Foley & Lardner study.
- In FY 2002, mean total audit fees for the Florida public companies that were surveyed were as follows:

	2001	2002	% increase
- Micro-cap:	\$251,000	\$292,000	16%
- Small-cap:	\$350,000	\$452,000	29%
- Mid-cap:	\$1.03M	\$1.1M	9%
- Large-cap:	\$1.36M	\$1.73M	27%

- The costs of complying with SOX are falling disproportionately on smaller companies, particularly micro-cap companies. This increase is expected to be even more significant when companies must begin to comply with the new SOX Section 404 accountant attestation rules.
- This data is supported by the local public accounting industry. In personal interviews conducted with the Florida offices of national accounting firms, the consensus expected increases in audit fees of at least 25% to 40% following the adoption of SOX.

Increase In Audit Fees For Public Companies (2001-2002)



Director Compensation

Methodology: Review of Director Compensation

Foley & Lardner reviewed 2002 and 2003 proxy statements for 150 Florida public companies. The research consisted of a review of each company's reported compensation for outside directors in 2002 and 2003 to track year over year increases.

- Approximately 25% of Florida public companies that were reviewed increased the compensation paid to outside directors in 2003.
- Of the 25% of the companies that increased the compensation paid to outside directors in 2003, the mean increases were approximately as follows:

<u>Form of Compensation</u>	<u>Increase per Year</u>
Annual Retainer:	\$11,000
Retainer for Audit Committee Chair:	\$ 5,000
Retainer for Other Audit Committee Members:	\$ 1,400
Retainer for Other Committee Chairs:	\$ 1,800
Retainer for Other Committee Members:	\$ 600

- The annual retainer for directors increased by 54% for the companies that increased the compensation paid to outside directors in 2003. Many of these companies also established for the first time in 2003 meaningful retainers for committee chairs and other committee members, rather than relying on per meeting compensation and in some cases a nominal retainer for these positions.

Survey of Costs and Attitudes Among Florida Companies

Methodology: Survey of Corporate Executives

In August 2003, Foley & Lardner mailed a detailed survey regarding the increased costs related to SOX to CEOs, CFOs, general counsel, chief compliance officers, and other corporate executives at 250 Florida companies. Surveys from 16 micro-cap, small-cap, and mid-cap companies were returned.

Key Findings

- Of the 16 Florida public companies that were surveyed:
 - 75% expect accounting expenses to increase 26% or more as a result of SOX.
 - 50% expect D&O insurance costs to increase by 26% or more as a result of SOX.
 - 44% expect board compensation to increase by 26% or more as a result of SOX.
- As a result of the new corporate governance and public disclosure reforms under SOX, 56% of respondents said they will consider alternatives to remaining public. Among the alternatives cited, all of these companies reported that they would consider going private. Other alternatives cited include selling the company or merging with another company.
- Nationally, there has been a significant increase since 2002 in going private transactions and the vast majority of these companies have cited the increased costs of SOX compliance as one of the motivating factors.
- 63% of the Florida public companies that were surveyed feel that new corporate governance and public disclosure reforms will increase overall administrative expenses “a great deal.”
- 63% of the Florida public companies that were surveyed feel that the new corporate governance and public disclosure reforms are too strict.

Do you feel the new corporate governance and public disclosure reforms will increase your company's overall administrative expenses:

