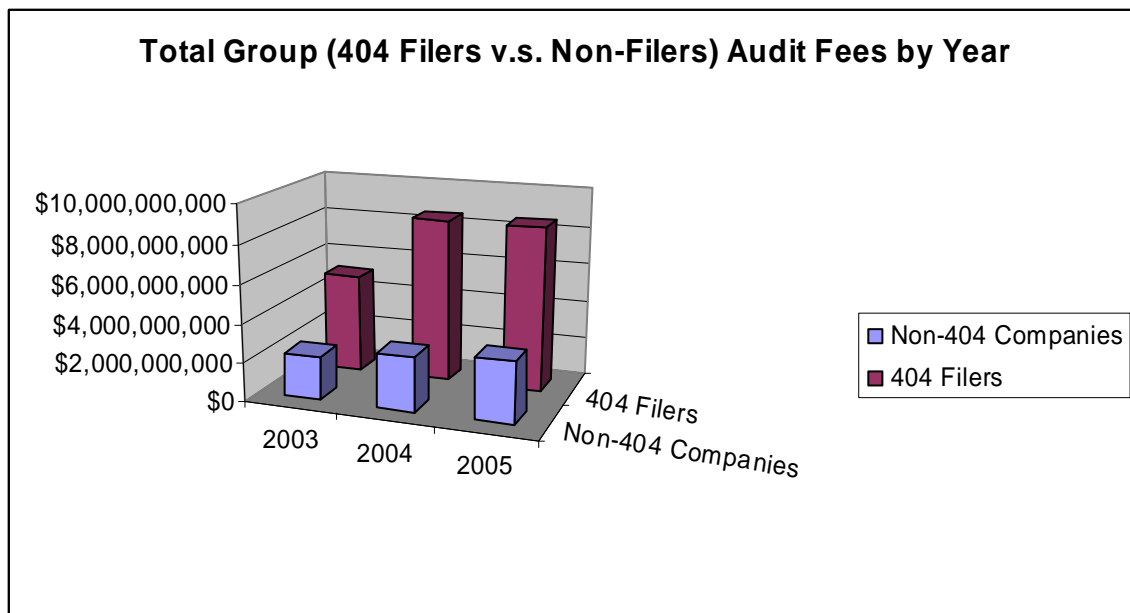


## SURPRISED BY AUDIT FEES

### A COMPARISON OF AUDIT FEE CHANGES EXPERIENCED BY SOX SECTION 404 FILERS AND NON-FILERS.



### AUDIT ANALYTICS BRIEFING: FEBRUARY 2007

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## About The Audit Analytics Audit Fee Database & Analysis

### Overview:

The AuditAnalytics.com auditor fees database contains fee data for over 15,000 companies with information dating back to 2000, when these disclosures first became an SEC requirement. The data is presented in each of the categories disclosed: audit fees, audit related fees, benefit plan fees, financial information and design (FISDI) fees, other/miscellaneous fees, total non-audit fees, and total fees. The audit fee information is supplemented continuously as current data is disclosed in annual reports and proxy fillings. This data may be searched and parsed by company, audit firm and other demographic criteria such as industry, financial size, filing designation, location, or peer groups.

In addition to audit fees, the Audit Analytics database contains separate and distinct information regarding Auditor Changes, Auditor Engagements, Audit Opinions, Benefit Plan Opinions, Director & Officer Changes, Restatements, Disclosure Controls (SOX 302), Internal Controls (SOX 404), Late Filers (Non-timely Disclosures), and Litigation. The relational nature of the database gives the researcher the ability to analyze how audit fees are affected by the occurrence of other events contained in this range of data sets, such as the filing of a negative financial restatement or SOX 404 disclosure. The ability to integrate and compare multiple data sets allows the analyst to identify anomalies and market patterns that would not be readily apparent, to even other AuditAnalytics.com users, without performing this layered approach to the research. Given the content, functionality and relational nature of the database, in addition to its web-based distribution system, risk analysis and market research can often times be completed in minutes instead of hours or weeks.

### Methodology:

This 2006 Audit Fee Briefing Paper was compiled from data searched, categorized, and extracted from the [www.AuditAnalytics.com](http://www.AuditAnalytics.com) database. Fee records are obtained primarily from annual or proxy filings and this data covers all types of filers: accelerated filers, non-accelerated filers, funds and trusts, shell corporations, new company registrations, small business filers and foreign registrants. For the purposes of this analysis, the non-accelerated filer population was limited to those registrants with revenues greater than 1 million dollars.

For comparison purposes, this population is divided into two primary groups: (1) companies that filed a 404 disclosure in both Year 1 and Year 2 while also disclosing its fees those 2 years and the year prior ("404 Filers"); and (2) companies with revenues greater than 1 million dollars that did not file a 404 disclosure in Year 1 or Year 2, but disclosed its fees those 2 years and the year prior ("Non-404 Filers"). The category of 404 Filers includes companies that were not under the purview of SOX 404, but nevertheless filed voluntarily. Since, companies that filed only one 404 disclosure did not meet the definition of 404 Filers or the definition of Non-404 Filers, they fall out of the population with respect to this analysis. In addition to small U.S. filers, the Non-404 Filers include large foreign filers who did not have to comply, at the time of this research, with relevant Sarbanes Oxley requirements and, thus, certain aspects of this analysis are largely dominated by their presence. In developing the results of this analysis and the comparison tables, the study reviewed fee levels over a three-year period<sup>1</sup> for more

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<sup>1</sup> Since we are analyzing both 404 Filers and Non-404 Filers, the three-year periods reviewed are offset slightly between the two groups. The Non-404 filers' analysis is based on a typical calendar year (e.g., 2005). In slight contrast, the 404 Filers' analysis is based on a year that begins on November 15<sup>th</sup> and ends November 14<sup>th</sup>. This offset year is consistent with the SEC requirement that accelerated filers first comply with Section 404 in the annual report for fiscal year ending on or after Nov. 15, 2004. By adopting this offset-year approach, the analysis compares all 404 Filer fees incurred under the same regulatory implementation status and duration period.

than 5,600 registrants with total reported audit fees and audit related fees exceeding \$10.6 billion. The combined market capitalization of the companies under analysis exceeded \$21.5 trillion as of their most recent fiscal year. Consequently, the vast majority of all significant registrants are included in this study.

## Study Purpose:

The purpose of the study is to compare the audit fee<sup>2</sup> increases of the “404 Filers” with that of the “Non-404 Filers” with the intent to shed light on what percentage of the increase appears to be attributable to the SOX 404 implementation/adherence and what percentage appears to be attributable to other environmental pressures and economic forces that are common to both the 404 Filers and Non-404 Filers. The 404 Filers comprise of 3,130 companies<sup>3</sup> and the Non-404 Filers comprise of 2,555 companies,<sup>4</sup> a group that includes both non-accelerated filers and many large foreign registrants. The goal was to identify, at least in part, the overall effect that Sarbanes Oxley Section 404 requirements have had on external audit fee changes. The Non-404 Filer fee increases could be viewed as a benchmark for audit fee increases that resulted from influences other than those directly attributable to SOX Section 404 related services.

## Executive Summary:

The results of the audit fee analysis have been surprising in that the overall difference in fee increases between 404 Filers and Non-404 Filers does not appear to be considerable, representing slightly less than 15% of total audit fees paid by 404 Filers last year.<sup>5</sup> The equivalent percentage was 11%<sup>6</sup> of total audit fees for large accelerated filers<sup>7</sup> and 27%<sup>8</sup> of total audit fees for small accelerated filers.<sup>9</sup> Given that auditors were required to perform sufficient testing to independently assess a company’s internal controls over financial reporting, one could reasonably have expected a much bigger spread in audit fee increases. In addition, with respect to smaller accelerated filers, the fact that Section 404 work required a higher percentage of the overall audit fees should be expected as a lesser priority had been given to

<sup>2</sup> When referring to audit fees, this study combines the amounts disclosed for both the audit fees and the audit related fees. The analysis uses the aggregate figure because many companies characterize the fees associated with the cost of SOX 404 implementation as audit related fees.

<sup>3</sup> As noted in the Method section, the group of 404 Filers used in this analysis is comprised of those companies that disclosed their audit fees over the past three years and filed a SOX 404 disclosure in both year 1 and year 2.

<sup>4</sup> The group of Non-404 Filers used in this analysis is comprised of those companies that have at least \$1 million in current revenue and have disclosed their audit fees over the past three years while not filing any 404 disclosures.

<sup>5</sup> This figure is calculated by noting that Non-404 Filers experienced a 41.57% increase in fees over a two-year period while not being exposed to SOX 404 requirements (see pg. 11). During the year prior to SOX 404’s implementation, the 404 Filers paid a total of \$5,121,346,131 in audit fees (see pg. 8). Assuming that 404 Filers would have experienced the same increase as Non-404 Filers if SOX 404 had not been implemented, the 404-Filer increase would have been \$2,128,943,587 [ $\$5,121,346,131 \times 0.4157$ ] and the 404 Filers would have paid \$7,250,289,718. Instead, the 404 Filers paid \$8,508,904,713 (see pg 8), an additional payment of \$1,258,614,995, which the analysis attributes to SOX 404 implementation and adherence. Of the \$8,508,904,713 paid by 404 Filers, the sum of \$1,258,614,995 represents 14.79% (the percentage attributable to SOX 404 implementation and adherence). [ $\$1,258,614,995 \div \$8,508,904,713 = 0.1479$ .] (See also, fn. 14)

<sup>6</sup> The calculation is similar to that explained in footnote 5. [ $3,936,025,949$  (see pg. 10)  $\times 0.4157 = 1,636,205,987$ ; would have paid 5,572,231,936; but instead, paid 6,257,339,626 (see pg 10); thus the amount of 685,107,690 (10.95%) is attributable to SOX 404.]

<sup>7</sup> A large accelerated filer is a company with a public float of \$700 million or more. (see Rule 12b-2 of the Securities Exchange Act of 1934).

<sup>8</sup> The calculation is similar to that explained in footnote 5. [ $823,469,821$  (see pg. 10)  $\times 0.4157 = 342,316,404$ ; would have paid 1,165,786,225; but instead paid 1,598,915,151 (see pg 10); thus the amount of \$433,128,925 (27.09%) is attributable to SOX 404.]

<sup>9</sup> In this report, small accelerated filers are accelerated filers that do not meet the definition of large accelerated filer. Therefore, a small accelerated filer has a public float of \$75 million but less than \$700 million (see Rule 12b-2 of the Securities Exchange Act of 1934).

their internal controls in the past. This cost is not without corresponding benefits. The improvement in procedures has removed volatility in reporting and this, in turn, has contributed to the recent dramatic decrease in security class action claims against companies. In addition, as explained more thoroughly in the bullet points below, the Market Capitalization to Revenue Ratio of companies with good financial reporting procedures and filings experience higher stock values in return.

- On average, the external audit work associated with Section 404 implementation and adherence made up 14.79% of the total audit fees that a 404 Filer paid last year.<sup>10</sup> For large accelerated filers this figure was 10.95%<sup>11</sup> and for small accelerated filers it was 27.09%.<sup>12</sup>
- The average 2-year audit fee increase for all 404 Filers (comparing fees disclosed during the year prior to 404 requirements with fees disclosed during the 2<sup>nd</sup> year of Section 404 compliance) was 66.15% (see pg. 8).
- The average audit fee increase for all Non-404 Filers, including many large foreign filers, when comparing the fees in 2003 to those in 2005 (a 2 year span) was 41.57% (see pg. 11).
- Over a 2-year period, 404 Filers experience a 66.15% (see pg. 8) increase in audit fees while Non-404 Filers experienced an increase of 41.57% (see pg. 11). The difference of 24.58% represents the additional amount of fee increase experienced by the 404 Filers and can be attributed to, in most part, the 404 Filers' need to implement and adhere to SOX 404 disclosure requirements. This assertion assumes that all other forces affecting audit fees impact both 404 Filers and Non-404 Filers equally.<sup>13</sup> The difference of 24.58% amounts to 14.79% of the \$8,508,904,713 paid by 404 Filers in 2006.<sup>14</sup>
- With respect to companies that have had major financial reporting issues,<sup>15</sup> fee increases over the two-year period of review averaged 72.50% for 404 Filers (see pg. 9) and 55.17% for Non-404 Filers (see pg. 12). The 72.50% two-year increase represents a 16.07% premium over the 62.46% increase experienced by those 404 Filers that did not disclose a financial reporting issue.<sup>16</sup> The equivalent two-year increase for all Non-404 Filers with issues was 55.17%, which represents a more dramatic premium of 41.46% over the 39.00% fee increase experienced by those Non-404 Filers without issues.<sup>17</sup> This difference in premium between the 404 Filers and Non-404 Filers can be explained, in most part, due to the fact that all Non-404 issues are caused exclusively by restatements and restatements are more costly to address than the typical 404 issue. In addition, the lower premium paid by 404 Filers may be due to the presence of better procedures that allow the auditor to become satisfied with the fairness of the restated financial more efficiently.
- Among Section 404 Filers, companies a significant difference exists with respect to audit fee increases between Large Accelerated filers<sup>18</sup> and Regular Accelerated filers.<sup>19</sup> Fee increases over the two year period in review was 58.98% for Large Accelerated Filers (1,463 in total companies) and 94.17% for Regular Accelerated filers (1,558 companies) (see pg. 10). These

<sup>10</sup> See footnote 5.

<sup>11</sup> See footnote 6.

<sup>12</sup> See footnote 8.

<sup>13</sup> As part of this assumption, it must be remembered that vast majority of fee increases for Non-404 Filers came from larger foreign filers, so it cannot be said that the difference is a large company vs. small company issue.

<sup>14</sup>  $14.79\% = (24.58\% \times \$5,121,346,131 \text{ [paid year prior to 404]} / \$8,508,904,713 \text{ [paid the past year, year 2 of 404]})$ . (See also, fn. 5)

<sup>15</sup> Identified as filing an adverse Section 404 opinion or financial restatement since October 1, 2004.

<sup>16</sup>  $16.07\% = (72.50\% - 62.46\%) / 62.46\%$  (see pg. 9).

<sup>17</sup>  $41.46\% = (55.17\% - 39.00\%) / 39.00\%$  (see pg. 12).

<sup>18</sup> A Large Accelerated filer is defined by Public Float exceeding \$700 million. (See fn. 7.)

<sup>19</sup> A Regular Accelerated filer has a Public Float exceeding \$75 million but falling below \$700 million. (See fn. 9.)

numbers reveal that the companies that experienced the most significant fee increases were those accelerated filers that were at the smaller end of the spectrum.

- A significant difference exists in the Market Capitalization to Revenue Ratio (“MRR,” a broad valuation metric) for the 404 Filers, particularly when comparing those companies with a clean as opposed to an adverse financial reporting experience. The MRR for all clean 404 Filers companies in the population was 145.5% (\$11.36 trillion MC/ \$7.816 trillion rev.; see pg. 9). In contrast, the MRR for all 404 Filers that experienced an adverse financial reporting issue was 120.84% (\$3.75 trillion MC / \$3.105 trillion rev.; see pg. 9). While this correlation does not necessarily prove causation, it nevertheless appears that financial reporting failures are efficiently and harshly expressed in the market and thus the implementation of adequate internal controls over financial reporting (404 procedures) reaps a reward greater than its cost in the form of higher stock values.
- Another significant difference in MRR is found when the group of 404 Filers is bifurcated into the subcategories of Large Accelerated filers and Regular (non-large) Accelerated filers. The MRR of Large Accelerated filers is 142.33% and the MRR of Regular Accelerated filers is 100.76% (see pg. 10). This seems to indicate that with respect to this valuation metric, smaller companies are discounted even more so than even large cap companies that disclose financial reporting issues (120.84%).
- For the most recent one-year period (from the beginning to the end of year 2 of Section 404 compliance) the average audit fee decreased by 0.01% for all 404 Filers (see pg. 8) and 1.55% for 404 Filers experiencing no financial reporting failures (see pg. 9). This real dollar drop in audit fees provides evidence that auditors seemed to be experiencing a Section 404 learning curve. This was one of the reasons why this analysis looks at two year changes in audit fees, as inefficiencies in year one implementation were to be expected.
- The percentage of 404 Filers who had experienced either a financial restatement or an adverse Section 404 opinion since Oct 1, 2004 (“issues”) was 30.32% (949/3,130) (see pg. 8 & 9). The equivalent Non-404 Filer percentage in this data set was 16.67% (422/2,532) (see pg. 11 & 12). As noted above, the dollar value in market capitalization represented by that 30.32% was \$3.75 trillion, meaning that the companies impacted represented a notable part of the market.
- The audit fee increases benchmarked by Non-404 Filers (41.57%) have not been associated with Section 404 implementation and adherence. If audit fee increases for Non-404 Filers companies have grown on average 41.57% and Section 404 Filers by 66.15%, then more significant reasons, other than compliance with the new 404 regulations, must exist for explaining the increases in audit fees. A few of those potential reasons include the following:
  1. Salary Increases: in the audit industry, salaries for entry level and lateral hires have increased much more than in other industry sectors. While a 2% increase was typical in many industries in 2006, a survey by Robert Half International Inc. expected a 9% increase in starting salaries for large auditing firms. Information Technology auditors were expected to do even better, with an 11% increase. Since auditing is a high labor task, such increases must be reflected in audit fees.
  2. Litigation Risk Exposures: the industry was required to make a reassessment of risks inherent in public company audits, including the astounding inventory of class action claims currently faced by auditing firms. The litigation inventory against the Big 4 firms is daunting. For example, while not admitting to any wrongdoing, an auditor recently settled the Parmalat securities class action matter, that was filed in January of 2004, for an amount of \$149 million. These types of payments and the ongoing exposure from outstanding litigation must be factored into the fees.

3. **Fraud Detection and Valuation:** changes in auditing standards require additional work in the areas of fraud detection, understanding the business, and fair value considerations.
4. **Reevaluation of Audit Processes:** a reevaluation of all external audit processes, including a decision to focus more on internal controls (independent of 404 requirements) has increased the scope of many audits.
5. **Restatements and Financial Personnel Changes within Clients:** the last couple of years have seen the filing of restatements and the changes in financial personnel in companies (1,371 CFO departures in 2006 alone) that create a more risky environment for auditors.
6. **SEC Auditor Independence Rules:** Auditor Independence Rules adopted by the SEC to implement Section 208(a) of the Sarbanes-Oxley Act, rules that are not linked to the requirements of Section 404, preclude auditors from performing non-audit services that previously represented a substantial segment of fees. In 2003, Audit and Audit Related Fees for 404 Filers represented 74.56% of total fees with 25.44% of the fees outside this category.<sup>20</sup> In 2005, the percentages shifted to 88.65% and 11.35%.<sup>21</sup> Therefore, in 2003 about 25% of the litigation exposure and other risks were distributed over work that was not audit work or audit related work. Consequently, audit and audit related work carried about 75% of the risk burden. Now, audit firms are forced to be audit focused for independence reasons and the cost of the risks is also audit focused. Now, audit and audit related work must carry the burden of 90% of the risk costs.

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<sup>20</sup> In 2003, the total fees for 404 Filers equaled \$6,868,933,060 (see pg. 8). The audit and audit related fees totaled \$5,121,346,131 (see pg. 8) and the other fees totaled \$1,747,586,929 [6,868,933,060 - 5,121,346,131]. These numbers represent a breakdown of 74.56% [ $5,121,346,131 \div 6,868,933,060 = 0.7456$ ] and 25.44% [ $1,747,586,929 \div 6,868,933,060 = 0.2544$ ].

<sup>21</sup> In 2005, the total fees for 404 Filers equaled \$9,597,875,931 (see pg. 8). The audit and audit related fees totaled \$8,508,904,713 (see pg. 8) and the other fees totaled \$1,088,971,218 [9,597,875,931 - 8,508,904,713]. These numbers represent a breakdown of 88.65% [ $8,508,904,713 \div 9,597,875,931 = 0.8865$ ] and 11.35% [ $1,088,971,218 \div 9,597,875,931 = 0.1135$ ].

## 404 Analysis of Audit Fee Changes During Prior Three Years For Companies Filing SOX Section 404 Disclosures

Fee Analysis by Year: SOX 404 Filers				
	Audit & Audit Related Fees		Total Fees	
Reporting Period	Fees (\$)	% Change per Year	Fees (\$)	% Change per Year
12 Months Prior to 404	\$5,121,346,131		\$6,868,933,060	
1st Year of 404	\$8,509,565,636	66.16%	\$9,909,647,439	44.27%
2nd Year of 404	\$8,508,904,713	-0.01%	\$9,597,875,931	-3.15%

2-Year Overview	Fees (\$)	% Change for 2 Years	Fees (\$)	% Change for 2 Years
12 Months Prior to 404	\$5,121,346,131		\$6,868,933,060	
2nd Year of 404	\$8,508,904,713	66.15%	\$9,597,875,931	39.73%

Group's Total Market Capitalization Compared to Revenue (Most Recent Fiscal Year)		
Market Capitalization	Revenue	% Market Cap. versus Revenue
\$15,120,923,803,738	\$10,921,221,658,943	138.45%

The above chart summarizes the total audit fees (including audit related fees) for the 3,130 companies that fit the criteria for 404 Filers used in this analysis: those companies that disclosed their audit fees over the past three years and filed a SOX Section 404 disclosure in both year 1 and year 2. The “1<sup>st</sup> Year of 404” represents the 12-month period from November 15, 2004 to November 14, 2005. The 2<sup>nd</sup> Year represents the next 12 months. This offset year is consistent with the SEC requirement that accelerated filers first comply with Section 404 in the annual report for fiscal year ending on or after Nov. 15, 2004. By adopting this offset-year approach, the analysis compares all 404 fees that all were incurred under the same regulatory implementation status and duration period. Over a two-year period, this population of 404 Filers experienced a 39.73% rise in total fees and, more particularly, a 66.15% rise in audit fees (including audit related fees). This population represents about 15 trillion in market capitalization and about 11 trillion in revenue.

## Audit Fee Changes of SOX 404 Filers Comparing Those With and Without Financial Reporting Issues

Fee Analysis by Year: SOX 404 Filers with Reporting Issues				
	Audit & Audit Related Fees		Total Fees	
Reporting Period	Fees (\$)	% Change per Year	Fees (\$)	% Change per Year
12 Months Prior to 404	\$1,881,597,488		\$2,450,669,854	
1st Year of 404	\$3,163,739,659	68.14%	\$3,592,887,542	46.61%
2nd Year of 404	\$3,245,728,355	2.59%	\$3,594,031,672	0.03%
2-Year Overview				
Reporting Period	Fees (\$)	% Change for 2 Years	Fees (\$)	% Change for 2 Years
12 Months Prior to 404	\$1,881,597,488		\$2,450,669,854	
2nd Year of 404	\$3,245,728,355	72.50%	\$3,594,031,672	46.66%

Group's Total Market Capitalization Compared to Revenue (Most Recent Fiscal Year)		
Market Capitalization	Revenue	% Market Cap. versus Revenue
\$3,752,264,133,645	\$3,105,157,137,579	120.84%

Fee Analysis by Year: SOX 404 Filers with No Reporting Issues				
	Audit & Audit Related Fees		Total Fees	
Reporting Period	Fees (\$)	% Change per Year	Fees (\$)	% Change per Year
12 Months Prior to 404	\$3,239,748,643		\$4,418,263,206	
1st Year of 404	\$5,345,825,977	65.01%	\$6,316,759,897	42.97%
2nd Year of 404	\$5,263,176,358	-1.55%	\$6,003,844,259	-4.95%
2-Year Overview				
Reporting Period	Fees (\$)	% Change for 2 Years	Fees (\$)	% Change for 2 Years
12 Months Prior to 404	\$3,239,748,643		\$4,418,263,206	
2nd Year of 404	\$5,263,176,358	62.46%	\$6,003,844,259	35.89%

Group's Total Market Capitalization Compared to Revenue (Most Recent Fiscal Year)		
Market Capitalization	Revenue	% Market Cap. versus Revenue
\$11,368,659,670,093	\$7,816,064,521,364	145.45%

The above two charts separate audit fee increases (including audit related fees) for 404 Filers based on whether or not the company disclosed a financial reporting deficiency (an adverse 404 opinion or financial restatement) since October 2004, a period just prior to the beginning of Section 404 compliance requirements. The companies with at least one financial reporting issue disclosed during this period (949) experienced increases of 72.5% versus 62.46% for those with no issues (2181). The premium in audit fees attributed to having encountered one or more of the above two issues is a 16.07% increase above the typical percentage rise  $[(72.5 - 62.46)/62.46 = 0.1607]$ .

## Audit Fee Changes of SOX 404 Filers Comparing Large and Non-Large Accelerated Filers

U.S. Large Accelerated Filers				
Audit & Audit Related Fees			Total Fees	
Reporting Period	Fees (\$)	% Change per Year	Fees (\$)	% Change per Year
12 Months Prior to 404	\$3,936,025,949		\$5,295,671,940	
1st Year of 404	\$6,348,446,067	61.29%	\$7,457,342,665	40.82%
2nd Year of 404	\$6,257,339,626	-1.44%	\$7,101,133,187	-4.78%
2-Year Overview			Fees (\$)	
Reporting Period	Fees (\$)	% Change for 2 Years	Fees (\$)	% Change for 2 Years
12 Months Prior to 404	\$3,936,025,949		\$5,295,671,940	
2nd Year of 404	\$6,257,339,626	58.98%	\$7,101,133,187	34.09%

Group's Total Market Capitalization Compared to Revenue (Most Recent Fiscal Year)		
Market Capitalization	Revenue	% Market Cap. versus Revenue
\$13,892,331,567,590	\$9,760,458,148,277	142.33%

U.S. Regular Accelerated Filers				
Audit & Audit Related Fees			Total Fees	
Reporting Period	Fees (\$)	% Change per Year	Fees (\$)	% Change per Year
12 Months Prior to 404	\$823,469,821		\$1,075,613,666	
1st Year of 404	\$1,627,030,997	97.58%	\$1,833,188,268	70.43%
2nd Year of 404	\$1,598,915,151	-1.73%	\$1,755,108,360	-4.26%
2-Year Overview			Fees (\$)	
Reporting Period	Fees (\$)	% Change for 2 Years	Fees (\$)	% Change for 2 Years
12 Months Prior to 404	\$823,469,821		\$1,075,613,666	
2nd Year of 404	\$1,598,915,151	94.17%	\$1,755,108,360	63.17%

Group's Total Market Capitalization Compared to Revenue (Most Recent Fiscal Year)		
Market Capitalization	Revenue	% Market Cap. versus Revenue
\$760,385,210,018	\$754,684,846,375	100.76%

These two charts compare the fee increase percentages between large accelerated filers (1463 companies with a public float in excess of \$700 million) and small accelerated filers (1558 with a public float between \$75 million and \$700 million). It is clear from this analysis that the smaller accelerated filers have seen considerably higher fee increases (94.17%) than the larger accelerated filers (58.98%). Using the Non-404 Filer fee increases of 41.57% as a bench mark (see pg. 10), it appears that audit fees attributable to Section 404 implementation and adherence made up 10.95% of the total audit fees paid by large accelerated filers last year and 27.08% of fees for small accelerated filers (see footnotes 6 & 8)

## Audit Fee Changes During Prior Three Fiscal Years For Companies That Are Non-404 Filers

Fee Analysis by Year: Non-404 Filers (All)				
	Audit & Audit Related Fees		Total Fees	
Reporting Year	Fees (\$)	% Change per Year	Fees (\$)	% Change per Year
2003	\$2,239,494,840		\$3,001,235,196	
2004	\$2,765,242,459	23.48%	\$3,374,367,699	12.43%
2005	\$3,170,492,225	14.66%	\$3,678,772,813	9.02%

2-Year Overview	Fees (\$)	% Change for 2 Years	Fees (\$)	% Change for 2 Years
2003	\$2,239,494,840		\$3,001,235,196	
2005	\$3,170,492,225	41.57%	\$3,678,772,813	22.58%

Group's Total Market Capitalization Compared to Revenue (Most Recent Fiscal Year)		
Market Capitalization	Revenue	% Market Cap. versus Revenue
\$6,408,261,608,178	\$5,471,238,925,094	117.13%

The above chart summarizes the total audit fees (including audit related fees) for the 2,532 companies that fit the criteria for Non-404 Filers used in this analysis: those companies with revenues greater than 1 million dollars that did not file a 404 disclosure in Year 1 or Year 2, but disclosed its fees those 2 years and the year prior. Over a two-year period, this population of Non-404 Filers experienced a 22.58% rise in total fees and, more particularly, a 41.57% rise in audit fees (including audit related fees). This population represents about 6.4 trillion in market capitalization and about 5.5 trillion in revenue.

## Audit Fee Changes of Non-404 Filers Comparing Those With and Without a Negative Restatement

Fee Analysis by Year: Non-404 Filers with Negative Restatement				
Reporting Year	Audit & Audit Related Fees		Total Fees	
	Fees (\$)	% Change per Year	Fees (\$)	% Change per Year
2003	\$356,689,748		\$472,269,413	
2004	\$444,618,038	24.65%	\$547,510,238	15.93%
2005	\$553,463,616	24.48%	\$643,430,154	17.52%
2-Year Overview	Fees (\$)	% Change for 2 Years	Fees (\$)	% Change for 2 Years
2003	\$356,689,748		\$472,269,413	
2005	\$553,463,616	55.17%	\$643,430,154	36.24%

Group's Total Market Capitalization Compared to Revenue (Most Recent Fiscal Year)		
Market Capitalization	Revenue	% Market Cap. versus Revenue
\$888,960,065,891	\$848,703,803,797	104.74%

Fee Analysis by Year: Non-404 Filers with No Reporting Issues				
Reporting Year	Audit & Audit Related Fees		Total Fees	
	Fees (\$)	% Change per Year	Fees (\$)	% Change per Year
2003	\$1,882,805,092		\$2,528,965,783	
2004	\$2,320,624,421	23.25%	\$2,826,857,461	11.78%
2005	\$2,617,028,609	12.77%	\$3,035,342,659	7.38%
2-Year Overview	Fees (\$)	% Change for 2 Years	Fees (\$)	% Change for 2 Years
2003	\$1,882,805,092		\$2,528,965,783	
2005	\$2,617,028,609	39.00%	\$3,035,342,659	20.02%

Group's Total Market Capitalization Compared to Revenue (Most Recent Fiscal Year)		
Market Capitalization	Revenue	% Market Cap. versus Revenue
\$5,519,301,542,287	\$4,622,535,121,297	119.40%

The above two charts separate audit fee increases (including audit related fees) for Non-404 Filers based on whether or not the company filed a negative restatement since October 2004. The companies with at least one negative restatement (422) experienced increases of 55.17% versus 39.00% for those with no issues (2110). The premium in audit fees attributed to having encountered one or more of the above two issues is a 41.46% increase above the typical percentage rise  $[(55.17 - 39.00)/39.00 = 0.1607]$ .

## AUDIT ANALYTICS™ - PUBLIC COMPANY MARKET INTELLIGENCE

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