

March 31, 2005

Those who have not had to deal with satisfying the act probably have a much different opinion of it than those who have spent the better part of 1 year trying to satisfy an act which was unspecific at best. The thousands of hours being spent by every publicly traded company in this country are indicative of the impact a less than 200 word paragraph can have on everyone. I recently read an interview with Senators Sarbanes and Oxley relating to the act. The interviewer asked them if they thought the implementation issues were greater than they had expected. To my astonishment they indicated that they were very happy with the act and its results. They pointed to the wave of restatements as indicative that the act was working. The truth is that the wave of restatements has been triggered by a series of new interpretations of lease accounting by the SEC. Those restatements will, in fact, create inconsistency in accounting for a transaction that was previously consistently handled by most retailers and restaurateurs. Senators Sarbanes and Oxley should have to spend one month in any company trying to comply with the unclear and monotonous requirements being imposed by the Big Four auditors. Only then will they understand the nightmare they have created. If Congress thought the Enron, WorldCom, and Adelphia fiascos cost the American investor dearly, they should try to tabulate the cost of Sarbanes Oxley. Without question it has cost the American investor far more than the aforementioned frauds combined. And that statement should make someone in Congress stop to consider what they have done.

The following are just a few of the issues with section 404.

- The cost of the work product is staggering with most companies spending well in excess of \$1 million with outside consultants and auditors to satisfy the demands of the act.
- The time invested by internal accounting and operating personnel to satisfy the documentation requirements of the act probably approach the amount spent with outside firms, so again the investor pays for the act.
- Firms are not running their businesses while they try to satisfy miniscule issues identified by outside consultants and audit firms.
- The work product is focused more on documentary evidence than on the true control aspects of a business. In this age when so much is being reviewed and approved electronically, SOX 404 has taken a step backward in requiring everyone to have hard copies with signatures to prove the reports were reviewed. With a few more regulations like this one, U.S. business will become as hamstrung as the U.S. government.
- Guidelines were published very late and much work had to be modified or completely reworked to satisfy the guidelines.
- Guidelines are still not clear and both outside consultants and audit firms are constantly questioning and disagreeing about what is truly required.
- The number of Key Controls identified by companies in my industry range from only 70 in some of the largest companies to over 500 in some of the midsize companies. This range is evidence that the guidelines simply were not and are not clear.
- The interpretation of the act by the accounting profession has become one of self-protection. The accounting firms are much more concerned about having visible documentation to support reviews than they are with the validity of the reviews and the accounting accuracy and control.

It almost appears as though this act was written to give a carrot back to the Big Four auditing firms after Arthur Anderson had been destroyed. This act will provide a nice annuity for all auditing firms for many years and will be a great burden to American business. Someone should probably investigate any personal ties of Senators Sarbanes and Oxley with the accounting profession.

By the way, I believe the prosecution of those responsible for the aforementioned frauds will do far more to clean up financial reporting than one thousand Sarbanes Oxley acts could ever do. The truth is that American business will only be as honest and forthright as the key officers in each business.

Thanks for listening.

Yours truly,

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