The Cost of SOX: Being Public After Sarbanes-Oxley: The Irony of Going Private

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• Forthcoming, 55 Emory Law Journal (2005)
Recent Changes

• Executive Certification of Financials – Sections 302 & 404

• Audit Committee Requirements – Section 10A(m)

• Accelerated Disclosure Requirements – Reg. FD, Forms 4, 8-K, 10-K & 10-Q

• Increased Penalties
The Cost of Regulation

- The Opportunity Costs of Executive Time
- Increases in D & O Insurance Premiums – 25 – 40%
- Increases in Auditing Fees – 58% from 2000 to 2002
- Increased legal costs
<table>
<thead>
<tr>
<th>Year</th>
<th>No. Filings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>25</td>
</tr>
<tr>
<td>1999</td>
<td>52</td>
</tr>
<tr>
<td>2000</td>
<td>41</td>
</tr>
<tr>
<td>2001</td>
<td>65</td>
</tr>
<tr>
<td>2002</td>
<td>59</td>
</tr>
<tr>
<td>2003</td>
<td>101</td>
</tr>
<tr>
<td>2004</td>
<td>114</td>
</tr>
</tbody>
</table>
The LBO Trend

- Numbers
- Of LBOs

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>115</td>
<td>109</td>
<td>(no data)</td>
<td></td>
<td>521</td>
</tr>
</tbody>
</table>

Year
The LBO Trend – Dollar Volume

- LBO Value ($Billions)

- 200
- 158 (projected)
- 150
- 94
- 100
- 50
- 42
- 23
- 41
- 94
- 136

Year

2000 2001 2002 2003 2004 2005

39.6 (Q1)
## Size of 13E-3 Filers in 2004

<table>
<thead>
<tr>
<th>Gross Revenues (millions)</th>
<th>Average</th>
<th>Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>All 13E-3 filers, 2004 (n: 114)</td>
<td>$324</td>
<td>$25</td>
</tr>
<tr>
<td>Reporters of Compliance Costs (n: 44)</td>
<td>56</td>
<td>14</td>
</tr>
</tbody>
</table>
Size of 13E-3 Filers (n= 111)
Total Costs of Compliance for 13E-3 Filers

Average reported cost of compliance with securities laws .............................................. $291,000

Average reported costs added by SOX..........................................................174,000

Average net profit (n: 43).............................................................................545,000 *

Compliance Costs/Net profit (n: 43): ................................................................. 53%

SOX costs as a percentage of other compliance costs ......................................... 148%

* Excluding one filer with net losses of $170 million
Exiting Firms Identifying Disclosure Costs

- Ambassador Food Services Corp.
- American Bancorp La.
- American Retirement Villas Props.
- ASA Int’l, Ltd.
- Avoca, Inc.
- Benchmark Bancshares Inc.
- Bestway Inc.
- Central Federal Corp.
- Commercial Nat’l Financial Corp.
- Crown Andersen, Inc.
- Crown Energy Corp.
- Daleen Technologies
- Darlington County Bankshares
- Edelbrock Corp.
- First Commerce Comm’l Bankshares
- General Bearing Corp.
- Georgian Bancorporation Inc.
- Giant Group, Ltd.
- Hanover Foods Corp.
- Hickock, Inc.
- Home Products International
- Horizon Telcom Inc.

- KS Bancorp.
- Logansport Financial Corp.
- Nicolet Bankshares Inc.
- Opt Sciences Corp.
- Pioneer Railcorp.
- Portland Brewing Co.
- Quality Dining Inc.
- Reeds Jewelers Inc.
- RSI Holdings, Inc.
- Safeguard Health Enterprises Inc.
- Semele Group Inc.
- Southern Michigan Bancorp Inc.
- Star Multi Care Services Inc.
- Sterling Sugars Inc.
- Sturgis Bancorp
- Uni Marts Inc.
- Unified Financial Services Inc.
- Valrico Bancorp Inc.
- Waxman Industries Inc.
- Webco Industries
- Wells Financial Corp.
- West Metro Financial Services Inc.
Going Public, Going Private

• Cycles:
  • 1960s bull market followed by going private in 1970s
  • 1970s stalled market followed by LBOs in 1980s
  • The Great Bull Market of the 1990s (2,555 IPOs 1995 – 2000)
  • Followed by? …
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