



small public company task force

September 13, 2006
Ms. Nancy M. Morris
Federal Advisory Committee Management Officer
U.S. Securities and Exchange Commission
100 F St. N.E.
Washington, D.C. 20549-1090
File Number: S7-06-03

Sent via email to: rule-comments@sec.gov

Dear Ms. Morris,

Financial Executives International's ("FEI's") Small Public Company Task Force ("SPCTF") is pleased to respond to the proposed rule (Release No. 33-8731) issued by the U.S. Securities and Exchange Commission (SEC) on August 9, 2006 entitled, "Internal Control Over Financial Reporting In Exchange Act Periodic Reports of Non-Accelerated Filers and Newly Public Companies." This proposed rule would extend the compliance dates for the management report and auditor's attestation on internal control over financial reporting required by Section 404 of the Sarbanes-Oxley Act ("Section 404") and related rules of the SEC and the Public Company Accounting Oversight Board (PCAOB).

FEI is a leading international organization of 15,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives and other senior financial executives. FEI's SPCTF was created to represent the views of smaller public companies. This document reflects the views of FEI's SPCTF, and not necessarily the views of FEI or its individual members.

FEI's SPCTF commends the SEC for issuing this release. We believe that all public companies, regardless of size, should be subject to the requirements of the Sarbanes-Oxley Act, and are supportive of the additional time being proposed for smaller public companies to implement the SEC and PCAOB rules under Sarbanes-Oxley Section 404. We strongly support the concept that internal controls are fundamental to producing accurate financial statements.

We are also hopeful that additional guidance and potential rule amendments being contemplated by the SEC and PCAOB will support a logical and cost effective approach to internal control reporting which is flexible enough to meet the needs of larger companies, as well as the realities of how smaller business and their internal control systems operate - and should be evaluated.

Additionally, we would encourage you to look at your progress by the end of this year, and consider if the proposed extended compliance dates will still be adequate for smaller companies to implement the new/amended SEC and PCAOB guidance for internal control reporting under Section 404, based on the date such further guidance/amendments are issued.

As stated in previous comment letters filed not only by FEI's SPCTF, but also by FEI's Committee on Corporate Reporting (CCR), as well as Congressional testimony we have provided, we believe the SEC and PCAOB have the regulatory authority – and responsibility – to correct underlying concerns of our members about inefficiencies and ineffectiveness prompted by the current SEC and PCAOB rules on internal control reporting. We believe the SEC and PCAOB have the tools and authority to amend their rules accordingly, to better reflect the intent of the Sarbanes-Oxley Act.

In essence, the proposed extensions simply further the existing phased-in approach for large and small public companies, taking into consideration that regulators and many in the private sector believed it would be unwise to amend the SEC and PCAOB rules prior to completion of the second year experience by larger public companies before contemplating amendments to the rules. As such, without the proposed extension, smaller public companies would have to adopt two sets of rules (the existing rules and potential amended rules noted below) in the space of one year, which would be particularly challenging for them and clearly not lead to efficient or effective implementation by smaller public companies which make up the bulk of our nation's public companies.

Management Report

Specifically, FEI's SPCTF supports the SEC's proposal to extend the compliance dates for small public companies (non-accelerated filers – generally those with less than \$75 million market cap as further defined by the SEC) by an additional 6 months (from fiscal years ending on or after ("FYE") 7/15/07 to FYE 12/15/07) to file their management report on internal control in compliance with the Section 404 and the related rules of the SEC.

We believe this additional time will help smaller public companies adopt more efficiently and effectively the potential further rule amendments to the SEC's rules and the Public Company Accounting Oversight Board's (PCAOB's) standards contemplated in the SEC's recent Concept Release on Management Reporting issued on July 11 (Release No. 34-54122) - which captured many of the key recommendations of the SEC Advisory Committee for Smaller Public Companies - and related amendments to be issued by the PCAOB in accordance with its "Four Point Plan to Improve Internal Control Reporting" announced on May 17 and outlined by PCAOB Chief Auditor Tom Ray at the June, 2006 Standing Advisory Group (SAG) meeting (some of which relate to the auditor's responsibilities regarding management's assessment).

We would however suggest that ***the measurement date for determining accelerated or nonaccelerated filer status be moved to the beginning of the fiscal year*** instead of mid-year. We expect that companies will be more efficient, and thus more cost effective, if they can enter their fiscal year knowing the rules on day one.

Auditor's Report

Additionally, FEI's SPCTF commends the SEC for proposing to extend the compliance date for small public companies (again, non-accelerated filers as defined above) to file their auditor's attestations under Section 404 and the related SEC and PCAOB rules from FYE 7/17/07, to FYE 12/15/08 (one year after the proposed extended deadline for the management report to be filed), since the contemplated amendments to PCAOB's Auditing Standard No. 2 ("An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of the Financial Statements") have not even been issued by the PCAOB yet, and "getting it right" in terms of effective due process including public comment periods on both the SEC and PCAOB proposed rule changes will take some time.

Without the above proposed extensions, small public companies would have less than one year to adopt any potential amendments to the SEC and PCAOB rules, which would further challenge

small public companies that have less financial and human resources available to adopt such rules than accelerated filers or large accelerated filers in particular, posing a challenge to the smaller public companies that make up the bulk of public companies in the U.S. market.

Based on feedback provided to the SEC at their first and second year roundtables on implementation of Section 404 in April 2005 and May 2006 respectively, the fact that there was less than one year between the issuance date of the PCAOB standard (AS2) and the compliance deadline for accelerated filers put an enormous amount of pressure on public companies and their auditors, in which unnecessary duplication of work between auditors and management occurred, and other costs for auditors and related consulting services skyrocketed due to the short time to implement the final rule. We believe the SEC's proposed extension of time for both the management report and auditor's attestation for smaller public companies will make good use of the "learnings" from the first and second year experience of larger public companies to avoid repeating inefficiencies that can be avoided.

The proposed extension will provide needed time for the SEC and PCAOB to issue final rule amendments to make the implementation of Section 404 more efficient and effective for public companies of all sizes without forcing smaller public companies to adopt two sets of rules (today's rules and amended rules) in less than a year.

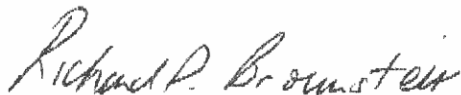
Foreign Private Issuers

We support inclusion of non-accelerated foreign private issuers with domestic non-accelerated filers subject to the proposed extensions. This reflects the increasing globalization of the economy and that smaller firms regardless of country of origin face similar resource challenges.

Additionally, we commend the SEC on issuing its tandem final rule (Release No. 33-8730A) providing an additional year (to FYE 7/15/08) for "accelerated" foreign private issuers other than "large" accelerated filers (i.e., foreign private issuers with more than \$75 million market cap, but less than \$700 million market cap) to file their Sarbanes-Oxley Section 404-b auditor attestations on internal control, and maintaining the current deadline (FYE 7/15/06) for then to file their Section 404-a management report on internal control. We would also not object if the SEC were to further conform the deadlines for foreign private issuers to be as of December 15 (instead of July 15) in a given year, similar to the U.S. filer deadlines.

Thank you for considering our views. We would be happy to discuss this further at your convenience or respond to any questions you may have. Please feel free to contact Serena Dávila at sdavila@fei.org , (202) 626-7809 or Rick Brounstein at broun@comcast.net, (510) 774-1969 should you have any questions.

Sincerely,



Richard D. Brounstein
Chairman, Small Public Company Task Force (SPCTF)
Financial Executives International

FEI Survey on Sarbanes-Oxley Section 404 Implementation March 2006

Executive Summary

For those companies in their second year of compliance with Section 404 of the Sarbanes-Oxley Act of 2002, year two costs of compliance were somewhat less than the corresponding year one costs. Most companies have found efficiencies in complying with Section 404, but financial executives suggest that auditor guidance from the Public Company Accounting Oversight Board (PCAOB) still needs clarification. Many financial executives agree that compliance with Section 404 raises investor confidence, but it does so at a price. Finally, there was a decline in auditor fees for those companies in their second year of compliance of about 13.0% on average, but this was less than anticipated.

These are some of the key findings from FEI's March 2006 Section 404 implementation survey. This survey is the last in a series of surveys of financial executives regarding their experiences in complying with Sarbanes-Oxley Section 404. In this survey, responses were received from 274 executives. Their companies had annual revenues ranging from less than \$25 million to more than \$25 billion, with average revenues of \$5.7 billion.

Company Size

As measured by their market capitalization, the size of the companies responding to FEI's Survey on Section 404 Implementation in March 2006 tended to be large, with 238 (86.9%) of the 274 responding companies defined by the U.S. Securities and Exchange (SEC) as "accelerated filers," meaning that they have market capitalizations of over \$75 million, and most have been required to comply with Section 404 for two fiscal years. The remaining 36 responding companies were either domestic "non-accelerated filers" or foreign corporations that have not yet been required to comply with Section 404. (See Exhibit A.) Much of this report will analyze the responses of the accelerated filers.

A more detailed description of the size of the responding accelerated filer companies is provided in Exhibit B. Responding companies were asked to indicate their annual sales revenue within one of a series of revenue ranges. For example, of the 238 accelerated filers, 22, or 9.2% had annual revenues of over \$25 billion. Based on the number of responses to each revenue range, the average revenue of all 274 responding companies is estimated to be about \$5.7 billion, and the average revenue of just the accelerated filers is \$6.0 billion.

Compliance Costs During 2005

The accelerated filers said that they had required an average of 22,786 people hours internally to comply with Section 404 in 2005. (See Exhibit A.) This average was 11.8% less than what was required during their first year of compliance. This decline is likely due to the fact that management only needed to update and test their previous year's documentation work.

Responding companies also said that they required an average of 4,889 external people hours to comply with Section 404 in 2005. This number represented an average of 18.9% fewer hours than during their first year of compliance. External people hours include the number of hours worked by external consultants and other vendors, and exclude the work of the company's primary auditor. One possible explanation for this decrease may be that in order to meet first year compliance deadlines much help from consultants and vendors was required, but some of this work shifted internally during the second year of compliance.

The related external costs for responding companies averaged \$1.3 million in 2005. These costs were an average of 22.7% less than during the first year of compliance.

Finally, auditor attestation fees paid by accelerated filers in 2005 averaged \$1.4 million, 13.0% less than in 2004. These attestation fees constituted 45.0% of the accelerated filer's total audit fees, meaning that they were almost as much as the fees paid for just the annual financial statement audit.

Total 2005 Costs of Compliance

For this survey, the total cost of compliance with Section 404 is defined as the sum of internal staff costs (each full-time staff professional is assumed to work 2,000 hours per year and earn \$100,000 per year in salary and benefits), costs of external consultants and vendors, and additional auditor attestation fees.

Average total costs, both internal and external, for compliance by accelerated filer companies during fiscal year 2005 were estimated to be about \$3.8 million. (See Exhibit A.)

These total costs were almost directly proportional to the size of the company. Exhibit B provides these total average costs by revenue range. Average total cost as a percentage of revenues was computed by dividing the total cost for each grouping by the mid-point of each revenue range. Total costs as a percentage of total revenue averaged 0.06% for all responding companies. The highest percentage was 2.46% for companies with revenues of less than \$25 million.

Potential Benefits of Section 404 Compliance

The Sarbanes-Oxley Act of 2002 was passed by Congress and signed into law in reaction to well-publicized corporate failures and allegations of fraud. Many observers expected that compliance with Section 404 would result in more accurate and therefore more reliable financial statements, which should help to detect and prevent fraud, and thus help restore investor confidence in the financial reports of U.S. companies, and therefore in the U.S. capital markets.

In the March 2006 FEI survey, companies were asked whether or not they agreed that any of these benefits have indeed resulted from compliance with Section 404. On average, the accelerated filer companies were split in their responses. (See Exhibit C.) Specifically, on average:

- 55.9% agreed that compliance with Section 404 has resulted in more investor confidence in financial reports;
- 44.3% agreed that financial reports are more reliable;
- 38.4% agreed that financial reports are more accurate; and
- 32.7% agreed that compliance with Section 404 has helped prevent or detect fraud.

For each benefit, the percentage agreeing with the benefit was directly proportional to the size of the company, with a greater percentage of larger companies on average agreeing with the value of the benefit.

However, when asked whether the benefits of compliance with Section 404 have exceeded their costs, only 14.9% on average agreed, with 85.1% saying instead that the costs have exceeded the benefits. This is slightly less than the 94.0% of companies that responded to our March 2005 survey that said that the costs have exceeded the benefits.

Operational Issues and Management of the Process

Section 404 of the Sarbanes-Oxley Act states that the internal control audit and the financial statement audit should be an “integrated” audit. In the March 2006 survey, the companies were first asked: “Did you find it to be an integrated audit this year?”

On average, the companies were somewhat positive, indicating:

- “Very integrated”: 6.6%;
- “Somewhat integrated”: 55.0%;
- “No opinion”: 2.6%;
- “Integration was moderately lacking”: 21.2%; and
- “Integration did not exist”: 10.6%

The companies were then asked “Is this an improvement in integration versus the previous year’s implementation?” for those companies in year two of implementation of Section 404.

Again, the companies were somewhat positive. On average, 57.0% of the companies responded “Yes” and 25.4% of the companies responded “No.” The remaining companies said that this question was not applicable, because this was the first year that they had implemented compliance with Section 404. (See Exhibit D.)

Suggested Improvements to the Implementation of Section 404 and Related Rules

When given an opportunity to suggest how the implementation of Section 404 could be made more efficient or effective, companies identified the following top recommendations, with more than one answer permitted:

- Reduce the degree of documentation (67.3%);
- Permit greater reliance on internal audit data and resources (65.5%);
- Permit roll forward procedures (58.0%);
- Clarify the definition of “key controls” (55.3%);
- Allow cumulative reliance on Year One testing and documentation (53.1%);
- Make exceptions for new systems installed in the second half of the fiscal year (44.7%);
- Clarify the definition of “significant deficiency” (41.6%);
- Clarify the definition of “material weakness” (34.5%); and
- Permit remediation of controls in the 4th quarter (32.3%).

However, less than one percent of responding companies said that “no changes are needed.” (See Exhibit E.)

In May of 2005, the Public Company Accounting Oversight Board (PCAOB) and the SEC issued additional guidance for implementing Auditing Standard No. 2 on Internal Controls. Specifically, the PCAOB provided recommendations for auditors in order to properly plan and perform an effective audit. Respondents were asked whether they believed that their auditors had followed the PCAOB’s revised guidance. Again, the responding companies were somewhat positive on how their auditors had adopted some aspects of the guidance:

- 68.4% of the companies agreed that their auditors had engaged in direct and timely communication (either strongly agree or somewhat agree);
- 62.7% of the companies agreed that their auditors had integrated their audits of internal control with their audits of their financial statements, so that evidence gathered and tests conducted in the context of either audit contributed to completion of both audits; and

- 57.0% of the companies agreed that their auditors had exercised judgment to tailor their audit plans to the risks they faced.

However, the companies were not as positive on how their auditors had responded to other aspects of the PCAOB's May guidance:

- Only 45.7% of the companies agreed that their auditors had used a top-down approach that begins with company-level controls, to identify for further testing only those accounts and processes that are, in fact, relevant to internal control over financial reporting; and
- Only 44.5% of the companies agreed that their auditors took advantage of the significant flexibility that the standard allows to use the work of others.

For the detailed responses to these questions, see Exhibit F.

Finally, accelerated filer companies were split about operating efficiencies during year two. Over two-thirds (68.8%) of the companies said that they had found greater efficiency in implementing the management assessment requirement of Section 404. But only about half (54.3%) of the companies said that they had witnessed greater efficiency and improvement by their auditors in implementing their attestation on internal controls.

Research Methodology

In mid March 2006, FEI sent an e-mail invitation to participate in an Internet-based survey to FEI members from publicly-held companies. Those responses (274) received by March 27, 2006, were included in the survey results.

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FEI Survey on SOX Section 404 Implementation/March 2006. Copyright FEI, 2006.
 Exhibit A: Costs by Filing Status

	Accelerated Filers			Non-Accelerated Filers			
	\$75 to \$699 million	Over \$700 million	Average	U.S.	Foreign Non-Accelerated	Foreign Accelerated	Average
Number of Responses	102	136	238	22	3	11	36
Percent of Responses	42.9%	57.1%	100.0%	61.1%	8.3%	30.6%	100.0%
Internal Hours	8,033.1	34,144.1	22,786.4	3,094.7	13,249.3	18,572.2	8,753.4
% Change from Year One for Year Two Companies	-8.5%	-13.7%	-11.8%	-26.0%	---	-10.0%	-23.3%
External Hours (Excluding Primary Auditor)	3,319.2	6,122.1	4,888.9	2,850.5	8,013.7	5,799.1	4,206.2
% Change from Year One for Year Two Companies	-18.9%	-19.0%	-18.9%	2.8%	---	-100.0%	-14.3%
External Costs (Excluding Primary Auditor)	\$680,829	\$1,790,067	\$1,305,076	\$387,632	\$1,737	\$2,164,142	\$944,720
% Change from Year One for Year Two Companies	-18.9%	-25.0%	-22.7%	-7.6%	---	100.0%	10.3%
Information Technology Control Hours (both Internal and External)	2,665.0	8,891.6	6,039.0	1,163.8	5,080.0	9,554.8	4,140.6
Auditor Attestation Fees	\$645,193	\$1,932,671	\$1,358,824	\$393,333	\$2,610	\$3,920,190	\$1,689,706
% Change from Year One for Year Two Companies	-10.2%	-14.7%	-13.0%	-12.8%	---	30.0%	-4.3%
% of Total Audit Fees	48.6%	42.1%	45.0%	42.9%	32.5%	29.6%	37.7%
2005 Costs of Compliance							
Internal Costs (1)	\$401,655	\$1,707,205	\$1,139,320	\$154,735	\$662,465	\$928,610	\$437,670
External Costs	680,829	1,790,067	1,305,076	387,632	1,737	2,164,142	944,720
Auditor Attestation Fees	645,193	1,932,671	1,358,824	393,333	2,610	3,920,190	1,689,706
Total	\$1,727,678	\$5,429,943	\$3,803,220	\$935,700	\$666,812	\$7,012,942	\$3,072,096

(1) Internal Costs assumes full-time professionals (at 2,000 hours per year) at a compensation rate (salary plus benefits) of \$100,000 per year.

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Exhibit B: Costs by Sales Revenue

Accelerated Filers ONLY	Annual Sales Revenue							
	Average of All Responses	Less than \$25 million	\$25 to \$99 million	\$100 to \$499 million	\$500 to \$999 million	\$1 to \$4.9 billion	\$5 to \$24.9 billion	More than \$25 billion
Number of Responses	238	6	15	56	26	72	41	22
Percent of Responses	100.0%	2.5%	6.3%	23.5%	10.9%	30.3%	17.2%	9.2%
Internal Hours	22,786.4	3,164.0	2,720.0	4,575.1	6,914.0	15,052.8	49,221.7	86,639.2
% Change from Year One for Year Two Companies	-11.8%	6.3%	-1.8%	-14.1%	-20.3%	1170.0%	-5.0%	-21.9%
External Hours (Excluding Primary Auditor)	4,888.9	827.8	2,059.1	2,889.4	4,291.0	4,687.9	9,033.2	7,536.4
% Change from Year One for Year Two Companies	-18.9%	-42.5%	-12.2%	-19.3%	-21.3%	-15.8%	-20.7%	-22.3%
External Costs (Excluding Primary Auditor)	\$1,305,076	\$195,688	\$636,867	\$493,155	\$844,462	\$1,057,574	\$2,736,289	\$2,865,251
% Change from Year One for Year Two Companies	-22.1%	-35.0%	-12.3%	-21.4%	-42.0%	-7.3%	-41.8%	-28.3%
Information Technology Control Hours (both Internal and External)	6,188.2	600.0	1,046.5	1,374.6	1,897.3	5,127.3	12,952.4	22,376.7
Auditor Attestation Fees	\$1,358,824	\$260,521	\$404,615	\$439,121	\$750,549	\$824,866	\$2,698,801	\$4,815,864
% Change from Year One for Year Two Companies	-13.0%	4.7%	-3.9%	-16.5%	-18.3%	-10.2%	-15.1%	-16.7%
% of Total Audit Fees	45.0%	55.0%	53.1%	48.6%	48.6%	46.8%	37.3%	27.9%
2005 Costs of Compliance								
Internal Costs (1)	\$1,139,320	\$158,200	\$136,000	\$228,755	\$345,700	\$752,640	\$2,461,085	\$4,331,960
External Costs	1,305,076	195,688	636,867	493,155	844,462	1,057,574	2,736,289	2,865,251
Auditor Attestation Fees	1,358,824	260,521	404,615	439,121	750,549	824,866	2,698,801	4,815,864
Total	\$3,803,220	\$614,409	\$1,177,482	\$1,161,031	\$1,940,711	\$2,635,081	\$7,896,175	\$12,013,075
Total Costs as a % of Revenue (2)	0.06%	2.46%	1.90%	0.39%	0.26%	0.09%	0.05%	0.05%

(1) Internal Costs assumes full-time professionals (at 2,000 hours per year) at a compensation rate (salary plus benefits) of \$100,000 per year.

(2) Total costs divided by the mid point of the revenue range.

Note: Costs are reflective of both Year 1 and Year 2 Companies, while % change is reflective of Year 2 Companies only.

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 Exhibit C: Benefits by Filing Status

	Accelerated Filers			Non-Accelerated Filers			
	\$75 to \$699 million	Over \$700 million	Average	U.S.	Foreign Non-Accelerated	Foreign Accelerated	Average
Number of Responses	102	136	238	22	3	11	36
Percent of Responses	8.0%	37.2%	49.6%	61.1%	8.3%	30.6%	100.0%
Financial Reports are More Accurate							
Agree	30.3%	44.6%	38.4%	31.6%	66.7%	27.3%	33.3%
Disagree	69.7%	55.4%	61.6%	68.4%	33.3%	72.7%	66.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Financial Reports are More Reliable							
Agree	34.3%	51.9%	44.3%	47.4%	100.0%	36.4%	48.5%
Disagree	65.7%	48.1%	55.7%	52.6%	0.0%	63.6%	51.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Section 404 Helps Prevent or Detect Fraud							
Agree	25.3%	38.6%	32.7%	26.3%	100.0%	9.1%	27.3%
Disagree	74.7%	61.4%	67.3%	73.7%	0.0%	90.9%	72.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Investors are More Confident in Reports							
Agree	45.9%	63.4%	55.9%	47.4%	100.0%	60.0%	56.2%
Disagree	54.1%	36.6%	44.1%	52.6%	0.0%	40.0%	43.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Benefits of Section 404 Exceed the Costs							
Agree	11.2%	17.7%	14.9%	0.0%	33.3%	0.0%	2.9%
Disagree	88.8%	82.3%	85.1%	100.0%	66.7%	100.0%	97.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

**FEI Survey on SOX Section 404 Implementation/March 2006. Copyright FEI, 2006.
Exhibit D: Audit Issues**

	Accelerated Filers		
	\$75 to \$699 million	Over \$700 million	Average
Auditor Attestation Fees	\$645,193	\$1,932,671	\$1,358,824
% Change from Year One for Year Two Companies	-10.20%	-14.70%	-13.00%
% of Total Audit Fees	48.60%	42.10%	45.00%
Did the auditor break out Section 404 Fees?			
Yes	78.0%	74.6%	76.1%
No	22.0%	25.4%	23.9%
What % of test exceptions have your auditors uncovered vs. total sample selection?	5.3%	4.4%	4.8%
Did you find it to be an integrated audit this year?			
Very integrated	5.2%	7.6%	6.6%
Somewhat integrated	48.5%	59.8%	55.0%
No opinion	5.2%	0.8%	2.6%
Integration was moderately lacking	23.7%	21.2%	22.3%
Integration did not exist	17.5%	10.6%	13.5%
Is this an improvement in integration vs. previous year implementation?			
Yes	34.4%	73.5%	57.0%
No	36.5%	17.4%	25.4%
N/A (Year One Companies)	29.2%	9.1%	17.5%

**FEI Survey on SOX Section 404 Implementation/March 2006. Copyright FEI, 2006.
Exhibit E: Suggested Improvements to Section 404**

	Accelerated Filers		
	\$75 to \$699 million	Over \$700 million	Average
Number of Responses	102	136	238
Percent of Responses	42.90%	57.10%	100.0%
Check All That You Agree With			
Degree of Documentation Reduced	75.0%	61.5%	67.3%
Greater Reliance on Internal Audit Data and Resources	61.5%	68.5%	65.5%
Roll Forward Procedures Permitted	59.4%	56.9%	58.0%
Clarify Definition of "Key Controls"	58.3%	53.1%	55.3%
Cumulative Reliance on Year One Testing and Documentation	45.8%	58.5%	53.1%
Exception for New Systems Installed in the Second Half of the Fiscal Year	46.9%	43.1%	44.7%
Clarify Definition of "Significant Deficiency"	49.0%	36.2%	41.6%
Clarify Definition of "Material Weakness"	45.8%	26.2%	34.5%
Remediation of Controls in 4th Quarter	36.5%	29.2%	32.3%
No Changes are Needed	1.0%	0.8%	0.9%

**FEI Survey on SOX Section 404 Implementation/March 2006. Copyright FEI, 2006.
Exhibit F: Auditor Execution on PCAOB May Guidance**

Accelerated Filers ONLY

	Strongly Agree	Somewhat Agree	No Opinion	Somewhat Disagree	Strongly Disagree
Auditor Execution on PCAOB May Guidance					
Engaged in Direct and Timely Communication With Audit Clients	20.6%	47.8%	7.5%	17.1%	7.0%
Integrated Internal Control and Financial Statement Audits	7.9%	54.8%	4.4%	25.0%	7.9%
Exercised Judgment to Tailor Audits by Risk	7.9%	49.1%	4.4%	26.3%	12.3%
Used Flexibility to Use the Work of Others	7.5%	38.2%	9.6%	28.9%	15.8%
Used a Top-Down Approach that Began With Company-Level Controls	6.6%	37.9%	9.7%	32.6%	13.2%
Overall Execution					
Overall, we found greater efficiency in implementing the management assessment requirement of Section 404 in Year 2.	19.50%	49.30%	15.80%	10.00%	5.40%
Overall, we witnessed greater efficiency and improvement by our auditors in implementing the auditors' attestation on internal controls in Year 2.	10.0%	44.3%	16.7%	17.2%	11.8%

Percentages of 238 Total Responses