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MEMORANDUM

July 17, 2002

To Our Clients and Friends

Re: Public Company Accounting Reform and Investor Protection Act of 2002

The Senate has passed S. 2673, the Public Company Accounting Reform and Investor Protection Act of 2002 (the "Act"). The following are the major provisions of the Act:

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

The Act establishes the Public Company Accounting Oversight Board (the "Board") as a private, non-government, nonprofit entity to oversee the audit of public companies. The Board will be subject to SEC oversight. Public accounting firms will be required to apply to register with the Board. The firms will be required to disclose, among other items, the public companies for whom they prepare audit reports, copies of disclosures of accounting disagreements with issuers, and information relating to actions pending against the firm in connection with any audits. A public accounting firm may not prepare audit reports for companies that issue registered securities without itself first registering with the Board.

The Board may establish audit report rules, inspect registered public accounting firms ("Registered Firms"), conduct investigations and disciplinary proceedings, and impose sanctions. It may refer an investigation to the SEC, any other federal functional regulator, the U.S. Attorney General, state attorneys general, and other state authorities as appropriate.

Foreign public accounting firms will be subject to the same requirements as U.S. firms, except that registration will not, by itself, provide a basis for subjecting the foreign firm to the jurisdiction of federal and state courts.

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AUDITOR INDEPENDENCE

A Registered Firm that audits a company that issues registered securities may not provide non-auditing services to the company, except in limited circumstances. A Registered Firm must rotate audit partners every five years, and may not perform an audit for a company if the Registered Firm employed certain principal officers of the company during the previous year.

CORPORATE RESPONSIBILITY

The audit committees of companies that issue registered securities will be required to be composed of independent members who establish procedures to address complaints regarding accounting, auditing and internal controls. The company's CEO, CFO and the chairman of its board of directors will be required to certify in writing that the company's financial statements "fairly present" its financial condition. The company's CEO and CFO will be required to forfeit certain bonuses and compensation received following an accounting restatement issued as a result of noncompliance with securities laws. Directors and officers will be prohibited from buying or selling the company's equity securities during "blackout" periods in which employees are not permitted to trade the company's equity that is held in pension funds.

ENHANCED FINANCIAL DISCLOSURES

A company that issues registered securities will be required to disclose, among other things, material off-balance sheet transactions and relationships, and *pro forma* financial information that is not misleading, and that is reconciled with generally accepted accounting principles.

A company that issues registered securities may not extend or maintain credit to or for any director or executive officer of the company, unless the loan is made in the ordinary course of business, is of a type that is generally made available to the public and is made on terms no more favorable than those offered to the public for a similar type of loan.

ANALYST CONFLICTS OF INTEREST

The SEC will be required to adopt rules to address potential conflicts of interest between the roles of an entity's research and investment banking activities.

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CRIMINAL PENALTIES

The Act increases the maximum imprisonment penalty for mail and wire fraud to 10 years. It also makes it a crime to alter, destroy, conceal, cover up, falsify or make a false entry in a record with intent to obstruct or influence an official proceeding, or to conspire to defraud the United States. Additionally, the SEC may petition a federal district court for a temporary order to escrow any “extraordinary payments” that a company is about to make to its directors, officers or other employees. The Act further directs the SEC to establish rules setting forth minimum standards of professional conduct for attorneys representing public companies before the SEC and requests the United States Sentencing Commission to review sentencing guidelines applicable to securities and accounting fraud as well as related offenses.

If you have any questions concerning the Act, please call Gilbert Schwartz, Robert Ballen or Tom Fox at (202) 776-0700. A memorandum that discusses the provisions of the Act in greater detail can be found at <http://www.schwartzandballen.com/WhatsNew.htm>.