

SMALL BUSINESS

Profiting From Cures for the Sarbanes-Oxley Blues

By EVE TAHMINCIOGLU

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Who would have thought the scandals at major corporations like Enron and [WorldCom](#) would be a boon for owners of some businesses? But that is just what has happened.

New regulations that sprang from systematic fraud at those two corporations have created a cottage industry of businesses that provide consulting, accounting, computer security and other services to help companies cope with the Sarbanes-Oxley Act of 2002. That law was passed in an effort to clean up corporate accounting.

Sarbanes-Oxley, nicknamed SOX in the financial world, requires corporate managers to evaluate internal financial controls, hire outside accountants to review those controls annually, make more information available to the public and to follow procedures to stifle fraud.

Critics say the new rules are burdensome, expensive and of questionable value, but some entrepreneurs smelled the sweet scent of opportunity in somebody else's problem.

Sanjay Anand, who ran his own financial and technology consulting business, created the Sarbanes-Oxley Institute of Clifton, N.J., this year to offer training and his brand of Sarbanes-Oxley certification.

Diane Wolff transformed her financial-management business, the Blue Sage Group of Canton, Mass., into a firm that helps publicly traded companies comply with Sarbanes-Oxley, most recently introducing a compliance software package for small and medium-size businesses.

Shai Stern created Vintage Filings, also in New York, to help public firms format and file financial statements quickly and economically.

Some of these entrepreneurs say their company's revenue has doubled and tripled since they began to provide advice and services to companies needing to comply with Sarbanes-Oxley.

This year alone, public companies will have spent an estimated \$3.5 billion on technology and consulting services to meet their Sarbanes-Oxley obligations, according to John Hagerty, a vice president at the Boston-based AMR Research, which released an annual compliance survey of information-technology and business leaders in November. And there are no signs of a letup. The survey found that more than 80 percent of the companies polled planned to update their compliance initiatives in the next 12 months.

"It's like a new-found religion has formed around SOX compliance," Mr. Hagerty said.

One of the most daunting demands of Sarbanes-Oxley, and one that is driving much of the need for compliance assistance, financial experts say, is Section 404 of the act, which requires the documentation and auditing of a company's internal controls.

Mr. Anand of the Sarbanes-Oxley Institute started his consulting company in June 2002, just as the law was being enacted. He realized there would be a need for Sarbanes-Oxley education for company employees.

"We kept hearing about all these standards for SOX compliance, but there was no standard in place for companies to educate them on bringing firms up to the level of compliance," he said. And so, last February the institute was founded. "The certification we offer helps companies decide if employees are familiar enough with SOX," he said.

For example, Telwares Communications, a procurement and invoice-processing firm for the telecommunications industry that is based in Pleasanton, Calif., needed help with Sarbanes-Oxley, so Michael Voellinger, a vice president, enrolled 15 of his employees in an intensive week of training at Mr. Anand's institute.

"The Sarbanes Oxley Institute is the only body at this point that is offering this level of certification," Mr. Voellinger said. "It covered everything, from the fundamentals to what compliance looks and feels like."

Mr. Anand says the company's sales have grown well into the six figures and that he expects them to rise to seven figures next year.

Ms. Wolff, who founded Blue Sage Group in July 2002, reported impressive results, too. In 2003, she said, "I decided to begin focusing on corporate governance and compliance and provide companies with the tools and techniques and training material to help them implement Sarbanes-Oxley programs."

"I realized this was a huge opportunity." Since then, she says, her revenue has increased tenfold, to the high six figures, and she expects it to reach seven figures this year. Most recently, Ms. Wolff said she designed a software package to help companies comply with Sarbanes-Oxley's auditing and reporting requirements, and she also devised a Sarbanes-Oxley checklist for managers on her Web site, thebluesagegroup.com.

Regular financial filings required by the Securities and Exchange Commission through the Electronic Data Gathering, Analysis, and Retrieval system, also known as Edgar, have also intensified since Sarbanes-Oxley was passed.

William E. Grownup Jr., general counsel at Napster, the digital-music provider based in Los Angeles, says the more frequent filing deadlines required by Sarbanes-Oxley induced him to hire Vintage Filings a little more than a year ago to handle the less complex statements, like the 8-K's that announce any major events that may be of interest to shareholders.

"We were using the bigger shops but they were more expensive," he said, while Vintage "is more nimble and costs half as much because they don't have the overhead."

Mr. Stern, co-chairman and chief executive of Vintage Filings, says he spotted opportunity right away when he took a close look at Sarbanes-Oxley in 2002. At the time, he says, he was working as a sales representative for a stock-transfer company while his future partner in the venture was a securities lawyer.

"We thought with SOX there would be a need to create an Edgar filer as a service to publicly traded companies," he said, and some quick research confirmed his hunch.

"I called a whole bunch of people I knew at big companies and asked them if they would use the service if I provided it," he said. The overwhelming answer was yes, and the company was formed with two employees in 2002. Vintage Filings now has 60 employees, its 8-K filing business has increased by 350 percent, and sales quadrupled last year and are on target to do the same again this year. Mr. Stern declined to specify a figure beyond saying it was in "the millions."

Keeping computer data secure and out of the hands of individuals that might compromise a company's financial standing, although not specifically mentioned in Sarbanes-Oxley legislation, is getting some attention, too, said Mary Ann Merryman, associate professor of accounting at St. Mary's College in Notre Dame, Ind.

The possibility of such sabotage has meant more business for companies like Scalable Software in Houston, a consulting firm that specializes in information technology and asset management. Scott Bils, the vice president for marketing at the firm, said Scalable Software had aggressively pursued companies needing help complying with Sarbanes-Oxley's information-technology requirements, like password protection and security settings.

"We dove into SOX because we saw it as an attractive business," he said. "And it just keeps growing."