Statement of Leonard Moodispaw, President and CEO of the Essex Corporation

I am the CEO of Essex Corporation, a publicly traded corporation located in Columbia MD as well as a number of locations throughout the US. We provide solutions to difficult communications and signal processing problems using our unique optical and signal processing expertise. Essex has grown from 45 employees and $4.5 million in revenue two years ago to 240 employees and estimated revenues of over $60m in 2004. Most of that revenue comes from customers in the Department of Defense and Intelligence communities.

We are listed on NASDAQ as KEYW and have a market cap of approximately $140m. Because Essex is a small cap Company, we are not required to comply with many of the provisions of Sarbanes-Oxley (SOX) until 2005. Yet, we are mindful of the provisions and are preparing for full implementation.

In a recent commentary in the Wall Street Journal, the President and CEO of NASDAQ, Bob Greifeld, discussed the positive benefits of Sarbanes- Oxley. I support his views because I believe the implementing regulations are forcing companies to assess themselves and expunge embedded inefficiency that is detrimental to their bottom line and company culture.

Because Essex is primarily a government contractor, we are subject to audits from various government agencies. That scrutiny is in many ways as rigorous as those of SOX requirements and the results of non-compliance are as severe.

For example, the Defense Contract Audit Agency evaluates our systems and controls as part of their periodic audits. They evaluate our timekeeping systems, billing processes, and bidding estimation systems. They annually audit our actual costs against our expected costs and ensure that those costs are recorded in accordance with the cost accounting standards and/or generally accepted accounting standards. In addition, the Defense Logistics Agency reviews purchasing and inventory control procedures. Inadequate systems and controls can lead to denial of contracts and disbarment from performing work for the US Government. If fraud or abuse is suspected, the Defense Criminal Investigative Service will investigate and criminal sanctions may be imposed if violations are proven.

Thus, I expect Essex and other companies who work in the government arena are better prepared for SOX, mitigating new costs associated with compliance.

Clearly there are costs associated with complying with SOX and they will vary with such factors, among others, as the size of the company, centralization of functions and geographic dispersion of subordinate units. However, there is a return on the investment and the costs should peak during preparation for compliance.

The Y2K (year 2000) experience may also be relevant in evaluating the cost benefit of SOX. Companies spent significant amounts to analyze the status of computers and related processes and procedures. As a result, many nagging documentation issues, needing correction for systems to operate more efficiently regardless of the date issue, were identified and corrected .

In a recent study of corporate data integrity, the Seattle based Data Warehousing Institute found that nearly half the companies surveyed had suffered "losses, problems or costs" due to poor data. The estimated cost of these mistakes was more than $600 billion.

I believe that the net effect of the effort to assure compliance with SOX will help focus companies on the elimination of erroneous data embedded in corporate systems by strengthening internal controls to ensure that such data are accurate and that laws are followed in carrying out operations.

As to return on investment; there are positive benefits to be gained, in addition to the well known goal of restoring investor confidence in public companies after the notorious Enron, WorldCom and other debacles.

>> Strengthening the role of Audit committees and involving it's members more in risk assessment can only help management.

>> Emphasis on the independence of directors not only adds to "checks and balances", it brings new talent to augment the leadership of companies.

>> The value of target companies which are SOX compliant will be greater when considered for merger or acquisition.

>> Financial institutions will be more likely to lend money to and invest in companies which are SOX compliant.

>> Insurance coverage for Errors and Omissions policies for officers and directors should be less costly for SOX compliant companies.

>> Candidates for boards of director posts should insist on SOX compliance before they serve on boards; thus, such companies are more likely to attract knowledgeable members.

>> Executives are likely to demand SOX compliance as a condition of their employment.

However, these benefits pale by comparison to the expected increase in efficiency and effectiveness from scrutinizing financial and information technology processes. Recently, Essex acquired two companies. In the process of due diligence and integrating operations, we learned a lot about Essex as well as the two acquired companies as we shined the light of SOX on them. What are the “right checks and balances”? Who has the authority to make decisions at what level of expenditure? Who reports to whom in the organization? Are data protected? Do employees understand their ethical obligations? What training is necessary to obtain a compliance structure throughout the Company?

These are just a few of the questions which need to be asked -- without being imposed by regulations.

SOX may be relatively more costly for smaller companies who have such few people involved in some functions that it is difficult to separate them for internal control purposes. However, the benefits of having strong internal controls outweighs the costs.

There is a fear that companies will “go private” rather than subject themselves to SOX. I think this is unlikely because the SEC will properly question the motives of management and investors will wonder what the company wants to hide. Also, the cost of such an action can outweigh the cost of SOX compliance.

Another concern is that foreign companies will be reluctant to do business in the USA; I am working with a public company from England which is establishing a presence in the US without fear of compliance.

SOX cannot be fully examined without commenting on the penalties for failure to comply. When articles on the subject routinely assert that CEO’s “can mitigate their jail time” by certain steps, it gets one’s attention! Also, some fear that audit firms *must* be tough on clients to demonstrate their independence. The negative impact on the price of a stock after such a finding may be significant; hopefully short term as the company achieves compliance.

A few years from now, after the costs of compliance have peaked and the benefits are recognized, we will look back at this period as we do the Y2K era; the anticipation was worse than the event.