
Characteristics of Emerging Growth Companies and Their Audit Firms

as of November 15, 2019¹

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SUMMARY

This white paper provides general information about certain characteristics of emerging growth companies ("EGCs") and the registered public accounting firms ("firms") that audit them. The information is derived from the most recent available U.S. Securities and Exchange Commission ("SEC") filings and data from third-party vendors through this white paper's measurement date of November 15, 2019.

The white paper includes the following key observations as of November 15, 2019:

- There were 1,761 companies that self-identified as EGCs and filed audited financial statements with the SEC, including an audit report signed by a firm in the 18 months preceding the measurement date.
- There were 910 EGCs (or 52%) with common equity securities listed on a U.S. national securities exchange ("exchange-listed"). These EGCs represented 19% of the 4,706 exchange-listed companies and approximately 1% of total market capitalization of exchange-listed companies.
- 610 EGCs (or 35%) reported no revenue or self-identified as shell companies in periodic filings, or both.
- The audit reports for the EGCs in this white paper were issued by 253 firms headquartered in 31 jurisdictions including the United States.
- 211 of the firms that audited EGCs (or 83%) audited both EGC and non-EGC issuer clients while 42 firms (or 17%) did not audit issuers other than EGCs.
- 82% of the firms that audited EGCs have been registered with the PCAOB for 10 years or more.
- Among the 1,093 EGCs providing management reports on ICFR, 495 (or 45%) reported at least one material weakness.
- Non-listed EGCs received an audit report with a going concern paragraph at a significantly higher rate (71%) than exchange-listed EGCs (18%).

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I. BACKGROUND & METHODOLOGY

Background

Title I of the Jumpstart Our Business Startups Act (“JOBS Act”) focuses on reducing regulatory burdens on emerging growth companies (“EGCs”) in order to facilitate capital raising through public markets.² As relevant to this white paper, the JOBS Act generally provides that new PCAOB standards will not apply to the audits of EGCs unless the SEC determines that applying such additional requirements is necessary or appropriate in the public interest, after considering the protection of investors, and whether the action will promote efficiency, competition, and capital formation.³ To implement this provision, upon adoption of a rule subject to this determination, the PCAOB recommends to the SEC whether the rule should apply to audits of EGCs, and submits information and analysis in its adopting release to assist the SEC in making a determination. This white paper provides general data about EGCs and the firms that audit their financial statements to inform the analysis contained in PCAOB rulemaking releases regarding the impact of applying new standards to the audits of EGCs.

Unless the context requires otherwise, references in this white paper to “the measurement date” mean the most recent measurement date, November 15, 2019. PCAOB staff anticipates updating the white paper annually, as audited financial statements are typically filed on an annual cycle. The analysis presented in future white papers will be based on the most recent data available as of a November 15 measurement date.

Generally, a company qualifies as an EGC if it had annual revenues in its most recently completed fiscal year that were less than a specified limit and had not sold common equity securities on or before December 8, 2011, pursuant to an effective registration statement under the Securities Act of 1933 (“Securities Act”).⁴ The annual revenue limit was initially set at \$1.0 billion and is required to be indexed for inflation every five years to reflect the change in the Consumer Price Index. Effective April 12, 2017, the limit was adjusted to \$1.07 billion.⁵ EGC data as of any measurement date reflects the revenue limit in effect on that date.

A company retains its EGC status until the earliest of:

- (i) the last day of the fiscal year during which it had total annual gross revenues that equal or exceed the revenue limit;⁶
- (ii) the date on which it is deemed to be a “large accelerated filer” under the Exchange Act (generally, an issuer with a public float of \$700 million or more that has been subject to

² Pub. L. No. 112-106 (April 5, 2012). See Section 103(a)(3)(C) of the Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley Act”), 15 U.S.C. 7213(a)(3), as added by Section 104 of the JOBS Act.

³ See Section 103(a)(3)(C) of the Sarbanes-Oxley Act of 2002, as added by Section 104 of the JOBS Act, which provides:

Any rules of the Board requiring mandatory audit firm rotation or a supplement to the auditor’s report in which the auditor would be required to provide additional information about the audit and the financial statements of the issuer (auditor discussion and analysis) shall not apply to an audit of an emerging growth company, as defined in section 3 of the Securities Exchange Act of 1934. Any additional rules adopted by the Board after [April 5, 2012] shall not apply to an audit of an emerging growth company, unless the Commission determines that the application of such additional requirements is necessary or appropriate in the public interest, after considering the protection of investors, and whether the action will promote efficiency, competition, and capital formation.

⁴ See Section 3(a)(80) of the Securities Exchange Act of 1934 (“Exchange Act”) and Section 101(d) of the JOBS Act.

⁵ See SEC Release 33-10332, *Inflation Adjustments and Other Technical Amendments Under Titles I and III of the JOBS Act* (Mar. 31, 2017).

⁶ \$1 billion or more in annual revenues prior to April 12, 2017, or \$1.07 billion or more in annual revenues thereafter.

- Exchange Act periodic reporting requirements for at least one year and has filed at least one annual report);⁷
- (iii) the date on which it has, during the previous 3-year period, issued more than \$1 billion in non-convertible debt; or
 - (iv) the last day of the fiscal year following the fifth anniversary of the date of the first sale of common equity securities pursuant to an effective registration statement under the Securities Act of 1933.

We refer to criteria (i), (ii) and (iii) above as “EGC eligibility limits” and criterion (iv) as the “five-year cut-off.”

Methodology

The objective of the methodology for this white paper is to capture the population of self-identified EGCs actively filing audited financial statements with the SEC as of the measurement date. We identified companies that filed Exchange Act annual reports and registration statements (*e.g.*, Forms 10-K, 20-F, 40-F, etc.), and Securities Act registration statements (*e.g.*, forms S-1, S-3, etc.) with the SEC in the 18 months preceding the measurement date. In instances where a company had more than one filing during the period, the most recent annual report was selected. If no annual report was filed in the period, the most recent registration statement was selected.

We reviewed these filings to determine whether the company identified itself as an EGC. We first reviewed the cover page of the forms to determine whether the company checked the box identifying that it was an EGC. If the box was not checked, or if the company used an older version of the form (with no check box for EGC status), we conducted a keyword search of the form to determine whether the company disclosed that it was an EGC.⁸ This process resulted in the initial population of EGCs as of the measurement date.

We excluded from the initial population:

- a. Companies whose annual reports or registration statements did not include an audit report signed by a firm in the 18 months preceding the measurement date (*e.g.*, companies whose filings included unaudited financial statements or audit reports signed more than 18 months before the measurement date);
- b. Companies that, as of the most recent measurement date, had (i) terminated their Exchange Act registration, (ii) had their Exchange Act registration revoked, or (iii) withdrawn their Exchange Act registration statement before effectiveness, and, in each case, did not subsequently file audited financial statements with the SEC; and
- c. Companies that no longer qualify as EGCs due to (i) reporting \$1 billion or more in annual revenues prior to April 12, 2017, or \$1.07 billion or more in annual revenues thereafter; (ii) identifying themselves in a periodic filing as a “large accelerated filer;” (iii) issuing more than \$1 billion in non-convertible debt during the three years ended as of the most recent fiscal year end prior to the measurement date; or (iv) meeting the five-year cut-off.⁹

⁷ See Exchange Act Rule 12b-2, 17 CFR 240.12b-2.

⁸ We used keyword searches to identify phrases such as “emerging growth company” or “EGC” to determine whether the company self-identified as an EGC. Companies that used phrases such as “... we are no longer an emerging growth company” or “...we no longer qualify as an emerging growth company” were not considered EGCs.

⁹ The five-year cut-off is derived by (i) identifying the last day of the company’s fiscal year and (ii) estimating the date of its first sale of common equity securities under an effective registration statement. Because data on the date of the first such sale is not readily available, we used as a proxy for this analysis, the date of the first Notice of Effectiveness relating to a Securities Act registration statement for an offering of common equity securities or, if earlier, the filing date of a registration statement on Form S-8 relating

Financial information and filer status are obtained from commercial vendors and derived from the most recent annual financial statements filed with the SEC prior to the measurement date. The commercial vendor data is supplemented with manually collected data from SEC filings, when necessary. Information on the firms is obtained from Form 2 and Form AP filed with the PCAOB.

Limitations of the Methodology

Self-identification data may understate or overstate the population of EGCs if companies fail to self-identify or self-identify erroneously. In addition, the population will be overstated if there are companies that no longer qualify as EGCs but are not excluded from the population (for example, because of a lack of known information about exceeding an EGC eligibility limit). Accordingly, the actual population of companies that meet the statutory definition of "emerging growth company" as of a specific measurement date may be larger or smaller than the population analyzed in this white paper.

Analysis as of Measurement Date

For the current measurement date, we identified 1,761 companies that filed audited annual financial statements with the SEC in the 18 months prior to November 15, 2019 and self-identified as EGCs.

In various cross sectional analyses in this white paper, the population of EGCs is further divided between companies that have at least one class of common equity securities listed on a U.S. national securities exchange ("exchange-listed" EGCs)¹⁰ and those that do not ("non-listed" EGCs).¹¹

To compare the exchange-listed EGC population with the broader public equity market, the white paper also presents a benchmark derived from commercial vendor data on other exchange-listed companies (Table A.1 of Appendix A). The benchmark population is limited to exchange-listed companies that are not registered investment companies or EGCs and have filed audited financial statements with the SEC, including an audit report signed by a firm in the 18 months preceding the measurement date.¹² From a total population of 4,706 exchange-listed companies, the 910 exchange-listed EGCs are excluded to allow for comparison of companies that are EGCs to those that are not. Using this methodology, we identified 3,796 companies in the benchmark population ("other exchange-listed companies"). These other exchange-listed companies tend to be larger and generally have a longer reporting history than both exchange-listed EGCs and non-listed EGCs.

The white paper does not present a similar benchmark population or data on market capitalization for non-listed EGCs. Market data may not be reliable or even regularly available with respect to issuers whose securities are quoted on the over-the-counter market or are otherwise illiquid. In addition, issuers whose

to common equity securities after the company first self-identified as an EGC. For the companies that aged out based on the proxy, PCAOB staff reviewed their annual reports for disclosure of the first sale date of common equity securities under an effective registration statement or the date the company would no longer be an EGC due to the five-year cut-off. If a company disclosed one of these dates, it was used to measure the five-year cut-off instead of the proxy date. Use of these proxies may understate the population of EGCs presented in this white paper if the first sale of common equity securities does not occur during the same fiscal year as the proxy event.

¹⁰ Exchange-listed company information as of the measurement date is derived from Standard & Poor's Xpressfeed data on all active issue types of "common-ordinary," "units with a common share component," and "depository receipts" where the exchange is a U.S. national securities exchange with available market capitalization data. As of November 15, 2019, EGCs had primary listings of common equity securities on the following U.S. national securities exchanges: the New York Stock Exchange LLC, Nasdaq Stock Market LLC, and NYSE American.

¹¹ Non-listed EGCs include companies whose securities are traded over-the-counter or have no public market.

¹² Registered investment companies (other than business development companies) do not qualify as emerging growth companies. See SEC Division of Corporation Finance, *Jumpstart Our Business Startups Act, FAQs of Generally Applicable Questions on Title I of the JOBS Act* (Dec. 21, 2015, revised), Qs. 20 and 21.

only publicly-traded securities are debt securities do not have equity market capitalizations. These inherent limitations of available data limit our ability to make useful comparisons among non-listed EGCs.

The remainder of this white paper is organized as follows: Section II provides a brief reconciliation between the EGC populations in the November 2018 and November 2019 white papers. Sections III and IV provide characteristics of EGCs. Section V provides characteristics of the firms that issued audit reports on EGCs. Section VI includes information related to internal control over financial reporting (“ICFR”) and audit related information of EGCs. Appendix A provides additional information about the population of EGCs. Appendix B provides additional information about the firms that audit EGCs.

Each percentage in this document is rounded to the nearest percentage point and, for some Figures and Tables, the total may not sum to 100% due to rounding.

II. NOVEMBER 2019 EGC POPULATION

We identified 1,761 EGCs using the methodology described in Section I. Table 1 provides a reconciliation between the population of EGCs in the white paper on Characteristics of Emerging Growth Companies as of November 15, 2018 and the most recent measurement date.

Table 1: Comparison of the November 2019 EGC population to November 2018 population

EGCs at November 15, 2018		1,855
- Annual filing but did not self-identify ¹³	(52)	
- Terminated SEC Registration	(100)	
- No annual SEC filing in the last 18 months	(180)	
- Exceeded EGC eligibility limits or five-year cut-off ¹⁴	(220)	
Continue to self-identify as of November 15, 2019		1,303
+ Newly Identified EGCs ¹⁵	458	
EGCs at November 15, 2019		1,761

Source: SEC Filings

Changes in the populations of EGCs are affected by EGCs entering the population and EGCs leaving the population.

In addition to the companies that continued to self-identify as EGCs, there were 458 EGCs not included in the prior white paper. These EGCs were identified through disclosures in Securities Act registration statements (279), Exchange Act registration statements (37) and Exchange Act periodic reports (142).¹⁶

¹³ The 52 companies that did not self-identify as EGCs included both companies using the updated form that did not check the box for EGC status and one company using an old form with no check box for EGC status that did not self-identify as an EGC.

¹⁴ The 220 companies that exceeded EGC eligibility limits or met the five-year cut-off comprised 92 large accelerated filers, 8 companies that reported more than \$1.07 billion in revenue, 2 companies that reported issuing more than \$1 billion in non-convertible debt during the previous 3-year period, and 118 companies that met the five-year cut-off.

¹⁵ Includes companies that self-identified as an EGC for the first time during the current measurement period, as well as companies that self-identified as an EGC during one or more previous measurement periods, but were not included in the count of EGCs for the prior measurement date as they had (i) not filed a periodic report or (ii) not self-identified as an EGC in a periodic report within the prior measurement period.

¹⁶ The EGCs identified through disclosures in registration statements (Securities Act or Exchange Act) include companies that subsequently filed periodic reports, and companies that filed periodic reports before they self-identified in a registration statement.

As seen in Table 2, we identified 910 exchange-listed EGCs and 851 non-listed EGCs as of the measurement date. The exchange-listed EGCs had a combined market capitalization of approximately \$583 billion. Of the 910 exchange-listed EGCs, 204 were new to the population.

Table 2: Market capitalization of exchange-listed companies

	Companies	Market Cap (Billions USD)
Non-Listed EGCs	851	n/a
Exchange-listed EGCs	910	583
Other Exchange-Listed Companies	3,796	41,976

Source: Standard & Poor's

III. CHARACTERISTICS OF EGCS

Periodic Reporting

The population of EGCS includes both (i) EGCS that have filed periodic reports with the SEC and (ii) EGCS that have filed registration statements but have not yet filed periodic reports. As shown in Table 3, as of November 15, 2019, approximately 89% of the 1,761 EGCS have filed periodic reports in the last 18 months. The remaining 11% (or 190) have only filed audited financial statements in registration statements in the last 18 months. Unless stated otherwise, “# of companies” in all other tables refers to EGCS that filed a periodic report with audited financial statements, including an audit report signed by a firm in the 18 months preceding the measurement date.

Table 3: Filing Activity as of November 15, 2019

	EGCs	%
EGCs that have filed periodic reports in the last 18 months	1,571	89%
EGCs that have filed only registration statements in the last 18 months	190	11%
Total EGCs	1,761	100%

Source: Audit Analytics and Strategic Insight

Market Capitalization

There are 910 exchange-listed EGCS (52% of the total population) and they had a combined market capitalization of \$583 billion as of the measurement date. Market capitalization for individual companies ranged from \$1 million to \$15.7 billion. As shown in Table 4, almost 75% of the exchange-listed EGCS have a market capitalization greater than \$75 million.

Table 4: Market capitalization

Category	EGCs	Max Market Cap (Millions USD)	Min Market Cap (Millions USD)	Average Market Cap (Millions USD)	Median Market Cap (Millions USD)	Total Market Cap (Billions USD)
\$700M or more¹⁷	191 (21%)	15,668	705	2,268	1,286	433
\$75M to \$700M	479 (53%)	699	75	296	257	142
Less than \$75M	240 (26%)	75	1	34	33	8
EGCs with market capitalization	910 (100%)					583
EGCs without market capitalization	851					

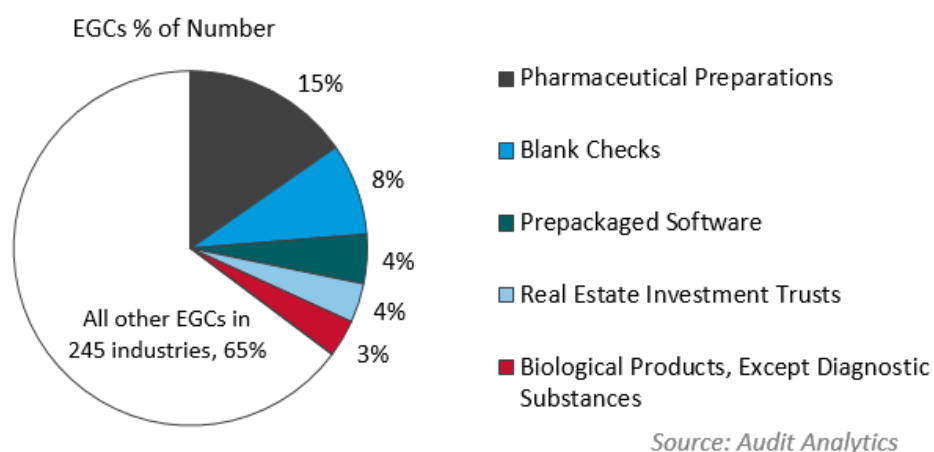
Source: Standard & Poor's

¹⁷ EGCS are grouped by market capitalization and not public float. Market capitalization is calculated based on total shares outstanding, whereas public float, used to determine filer status, is calculated based on total shares less the shares held by company affiliates. As a result a company is likely to have a market capitalization greater than its public float.

Industry

EGCs operate in 250 industries based on Standard Industrial Classification ("SIC") codes in SEC filings. Overall, the five most common SIC codes reported by EGCs as of the measurement date are: (i) pharmaceutical preparations; (ii) blank check companies;¹⁸ (iii) prepackaged software; (iv) real estate investment trusts; and (v) biological products, except diagnostic substances. The proportion of EGCs reporting the five most common SIC codes is summarized in Figure 1. Sixty-five percent of EGCs did not report being in these top five industries, including 62% of EGCs that reported other SIC codes and 3% that did not report a SIC code in their SEC filings.

Figure 1: Top five industries, by number, reported by EGCs as of the measurement date

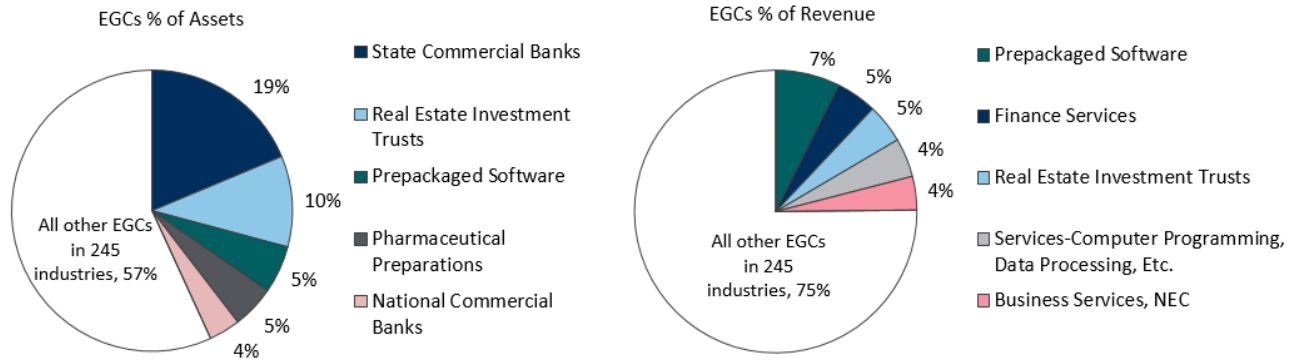


See Table A.2 in Appendix A for more detailed industry data on exchange-listed EGCs, non-listed EGCs, and other exchange-listed companies. Exchange-listed EGCs have a higher concentration in their top industry, pharmaceutical preparations, compared to other non-listed EGCs and other exchange-listed companies.

The five SIC codes with the highest total assets as a percentage of the total assets for the EGC population as of the measurement date are: (i) state commercial banks; (ii) real estate investment trusts; (iii) prepackaged software; (iv) pharmaceutical preparations; and (v) national commercial banks. Total assets of EGCs reporting these five SIC codes represent approximately 43% of the total assets of EGCs. Figure 2 provides a summary of this information as well as an analogous summary by revenue. See Table A.3 and Table A.4 in Appendix A for more detailed industry data for EGCs, exchange-listed EGCs, non-listed EGCs, and other exchange-listed companies.

¹⁸ The classification of "blank check company" requires, among other things, that the company be a development stage company that has no specific business plan or purpose or has indicated that its business plan is to engage in a merger or acquisition with an unidentified company or companies, or other entity or person. See Securities Act Rule 419, 17 CFR 230.419.

Figure 2: Top five industries, by assets and revenue, reported by EGCs as of the measurement date



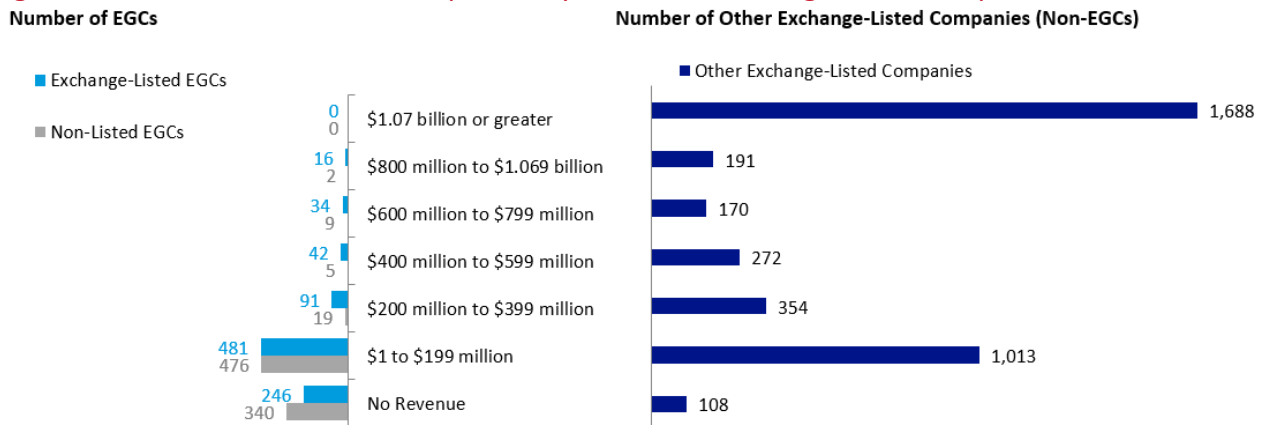
Source: Audit Analytics and Standard & Poor's

Assets and Revenue

The assets reported by EGCs ranged from zero to approximately \$13.2 billion. The average assets were approximately \$324 million, while the median was \$45.6 million.

The annual revenue reported by EGCs ranged from no revenue to approximately \$1.05 billion. The average revenue was approximately \$76.2 million, while the median was \$1.4 million. The distribution of revenue among EGCs and exchange-listed companies is shown in Figure 3.

Figure 3: Distribution of revenue reported by EGCs and exchange-listed companies



Source: Standard & Poor's

Additional information summarizing the distribution of revenue and assets reported by EGCs, exchange-listed EGCs, non-listed EGCs, and other exchange-listed companies is presented in Table A.5 and Table A.6 in Appendix A.

IV. SHELL COMPANIES AND LIMITED OPERATIONS AMONG EGCS

A total of 610 EGCs reported no revenue, self-identified as shell companies in periodic filings, or both.¹⁹ Table 5 and Table 6 show that these two attributes are less common among exchange-listed EGCs as compared to non-listed EGCs. The tables also show that these attributes are even less common among other exchange-listed companies.

Table 5 presents data on the proportion of companies that reported no revenue in their most recent annual audited financial statements included in SEC filings, which include Securities Act registration statements, Exchange Act registration statements, and Exchange Act periodic reports.

Table 5: Reporting of no revenue

	(1) All EGCs	(2) Non-listed EGCs	(3) Exchange-Listed EGCs	(4) Other Exchange-Listed (Non-EGCs)
# of companies	1,761	851	910	3,796
# reporting no revenue	586	340	246	108
% reporting no revenue	33%	40%	27%	3%

Source: Audit Analytics and Standard & Poor's

Table 6 presents shell company disclosure by companies that have filed periodic reports in the last 18 months, some of which also reported no revenue.

Table 6: Shell company disclosure in periodic reports

	(1) All EGCs	(2) Non-listed EGCs	(3) Exchange-Listed EGCs	(4) Other Exchange-Listed (Non-EGCs)
Total # of companies that filed periodic reports	1,571	717	854	3,790
# with shell company disclosure in periodic reports	186	115	71	2
% with shell company disclosure in periodic reports	12%	16%	8%	0%

Source: Audit Analytics

¹⁹ Generally, a company is a shell company if it has no or nominal operations and at least one of the following attributes: (i) no or nominal assets; (ii) assets consisting solely of cash and cash equivalents; or (iii) assets consisting of any amount of cash and cash equivalents and nominal other assets. See Exchange Act Rule 12b-2, 17 C.F.R. 240.12b-2. Blank check companies (discussed in Section IV) would generally be considered shell companies until they acquire an operating business or more than nominal assets. See SEC Release 33-8407, *Use of Form S-8 and Form 8-K by Shell Companies* (Apr. 15, 2004) at n. 20.

V. CHARACTERISTICS OF PUBLIC ACCOUNTING FIRMS THAT AUDIT EGCs

This section provides summary information about the firms that audited the financial statements of the 1,761 EGCs as of the measurement date. As shown in Table 7, the audit reports for the EGCs in this white paper were issued by 253 firms, of which 211 performed audits for both EGC and non-EGC issuers while 42 performed issuer audits only for EGCs during the measurement period. These 42 firms audited only 4% of the EGC population.

Table 7: Firms that audit only EGC issuers and firms that audit both EGCs and non-EGC issuers (during current measurement period)

Firm Category	# of Firms	% of Firms	EGCs	% of EGCs
Audits EGCs Only	42	17%	66	4%
Audits EGCs and Non-EGCs	211	83%	1,695	96%
Total	253	100%	1,761	100%

Source: Audit Analytics

These firms have headquarters in 31 jurisdictions. Approximately 60% (153) of the firms that audit EGCs were headquartered in the United States. Table 8 displays the jurisdictions where four or more firms that audit EGCs are headquartered and the market capitalization of their exchange-listed EGC audit clients. Of the firms based outside the United States, China-based firms audit EGCs with the largest aggregate market capitalization. The eight firms headquartered in China issued audit reports for 60 exchange-listed EGCs that had a combined market capitalization of approximately \$43.9 billion. See Table B.1 in Appendix B for a list of all jurisdictions where the headquarters of firms that audit EGCs are located.

Table 8: Headquarter jurisdictions of firms that audit EGCs

Jurisdiction	# Firms	All EGCs	# Exchange-Listed EGCs	Market Capitalization of Exchange-Listed EGCs (Millions USD)
United States	153	1426	710	445,785
Canada	19	83	44	21,517
China	8	76	60	43,900
Israel	7	37	23	5,481
India	6	10	3	1,353
United Kingdom	6	15	14	6,716
Australia	5	13	5	187
Hong Kong	5	17	2	168
Germany	4	6	5	8,102
Singapore	4	7	1	136
All other countries	36	71	43	49,940
Total	253	1,761	910	583,285

Source: PCAOB Form 2, Audit Analytics and Standard & Poor's

The majority of firms that audit EGCs have been registered with the PCAOB for more than 10 years, as shown in Table 9.

Table 9: Number of years firms have been registered with the PCAOB

# Years Registered with the PCAOB	# of Firms	% of Firms
Less than 4 Years	15	6%
At least 4 Years and less than 7 Years	16	6%
At least 7 Years and Less than 10 Years	15	6%
At least 10 Years	207	82%
Total Firms	253	100%

Source: PCAOB Form 1

As shown in Table 10, 86% (217) of the firms that audited EGCs have been inspected by the PCAOB at least once and 14% (36) of the firms have not been inspected as of the measurement date. All 36 are subject to inspections at least once every three years, and 14 firms, which perform audits of 95 EGCs, are headquartered in jurisdictions where the PCAOB is denied access to conduct inspections as of the measurement date.²⁰

Table 10: PCAOB Inspections

PCAOB Inspections	All EGC Auditors	% of Total Firms	Audits EGCs Only	% of Total Firms	Audits EGCs and Non-EGCs	% of Total Firms
Not Yet Inspected	36	14%	18	43%	18	9%
Previously Inspected	217	86%	24	57%	193	91%
Total Firms	253	100%	42	100%	211	100%

Source: PCAOB and Audit Analytics

Forms AP were filed with the PCAOB for 1,575 audits of EGCs as of the measurement date.²¹ As shown in Table 11, firms that filed 194 of the Forms AP indicated that at least one other accounting firm participated in the firm’s audit of the EGC. The number of other accounting firms participating in audits ranged from 1

²⁰ Current information on the non-U.S. jurisdictions where the PCAOB is denied access to conduct inspections and the issuers (EGC and non-EGC) that are clients of PCAOB-registered firms in these jurisdictions can be found at <https://pcaobus.org/International/Inspections/Pages/IssuerClientsWithoutAccess.aspx>. Note that there may be differences between the current information and information as of the measurement date.

²¹ Firms are required to file Form AP and disclose, among other things, if one or more other accounting firms participated in the firm’s audit. More information on PCAOB Rule 3211 and Form AP can be found at <https://pcaobus.org/Rules/Pages/Rule-3210-3211.aspx>.

to 14. Firms disclosed in 57 Forms AP that other accounting firms participating in audits accounted for at least 20% of the total audit hours.²²

Table 11: Disclosure of Other Independent Accounting Firm in Forms AP

Indicated Other Audit Participant		# EGCs
Yes		194
20% or More of Total Audit Hours		57
Less than 20% of Total Audit Hours		137
No		1,381
Total EGCs Filing Form AP		1,575

Source: PCAOB Form AP

²² Firms may disclose on Form AP, Part IV, Item 4.1 the percentage of total audit hours of the other accounting firm participants as a single measure or within a range. In instances where a firm disclosed total audit hours as a range (e.g., 5% to less than 10% of total audit hours), the lower end of the range is presented in Table 11.

VI. ICFR AND AUDIT RELATED INFORMATION

This section includes information related to internal control over financial reporting and the most recent audits of the EGCs.

Internal Control over Financial Reporting

Management of SEC reporting companies, including EGCs, is generally required to report on the effectiveness of internal control over financial reporting starting with the second annual report filed by the company.²³ Among the 1,761 EGCs, 1,571 (89%) filed a periodic report in the last 18 months, and 1,093 (62%) provided a management report on ICFR in their most recent annual filing. Of those companies that provided a management report on ICFR, approximately 45% reported at least one material weakness. Non-listed EGCs reported material weaknesses at higher rates (69%) than exchange-listed EGCs (18%). Table 12 shows that other exchange-listed companies reported material weaknesses at even lower rates (9%) than the exchange-listed EGCs.

Table 12: Material weakness in ICFR

	(1) All EGCs	(2) Non-listed EGCs	(3) Exchange-Listed EGCs	(4) Other Exchange-Listed (Non-EGCs)
Total # of companies that filed periodic reports	1,571	717	854	3,790
# with management reports on ICFR	1,093	582	511	3,745
# with material weakness reported by management	495	401	94	331
% of ICFR reports with material weakness	45%	69%	18%	9%

Source: Audit Analytics

While auditor attestation on the effectiveness of ICFR is not required for EGCs, 16 EGCs, or 1% of EGCs, voluntarily provided an audit report on ICFR. None of the audit reports on ICFR disclosed material weaknesses. Among the 16 EGCs:

- 12 were exchange-listed,
- 8 were audited by firms required to be inspected on an annual basis by the PCAOB.

²³ See Instruction 1 to Item 308(a) of Regulation S-K. EGCs that have not yet filed at least one annual report are not required to provide a management report on ICFR. EGCs are exempt from the requirement for auditor attestation of ICFR. See Section 404(b) of the Sarbanes-Oxley Act, as amended by Section 103 of the JOBS Act.

Going Concern Paragraphs in Audit Reports of EGCs

The most recent audit reports of 659 EGCs included explanatory paragraphs expressing substantial doubt about the company's ability to continue as a going concern ("going concern paragraph"). As shown in Table 13, non-listed EGCs received an audit report with a going concern paragraph at a substantially higher rate (71%) than exchange-listed EGCs (18%).

Table 13: Rate of going concern paragraphs

	(1) All EGCs	(2) Non-listed EGCs	(3) Exchange- Listed EGCs	(4) Other Exchange- Listed (Non-EGCs)
Total # of companies that filed periodic reports	1,571	717	854	3,790
# with going concern paragraphs	659	507	152	168
% with going concern paragraphs	42%	71%	18%	4%

Source: Audit Analytics

The data in Table 14 shows that 48% of the EGCs with going concern paragraphs in their audit report reported no revenue. Only 22% of other exchange-listed companies with going concern paragraphs reported no revenue.

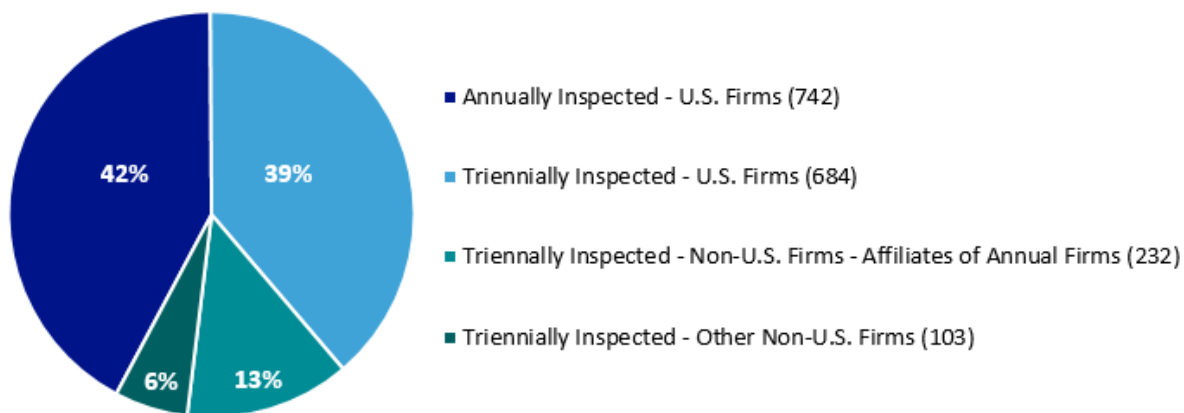
Table 14: Going concern paragraphs and revenue information

	(1) All EGCs	(2) Non-listed EGCs	(3) Exchange- Listed EGCs	(4) Other Exchange- Listed (Non-EGCs)
# with no revenue with going concern paragraphs	317 (48%)	240 (47%)	77 (51%)	37 (22%)
# with revenue >0 with going concern paragraphs	342 (52%)	267 (53%)	75 (49%)	131 (78%)
# of companies with going concern paragraphs	659 (100%)	507 (100%)	152 (100%)	168 (100%)

Source: Audit Analytics

As seen in Figure 4, U.S. firms audited 1,426 EGCs, split almost evenly between firms required to be inspected on an annual basis by the PCAOB (742)²⁴ and firms required to be inspected at least once every three years (684).²⁵ Of the remaining 335 EGCs audited by non-U.S. firms, 232 are audited by affiliates of annually inspected firms, representing 13% of all EGCs. Only 103 (or 6% of EGCs) are audited by other non-U.S. firms.

Figure 4: EGCs audited by annually and triennially inspected firms



Source: PCAOB

Auditor Tenure

Table 15 presents auditor tenure as disclosed in the most recent audit report included in the relevant SEC filings of the EGCs. Seventy-one percent of the EGCs had been with their current auditor for five years or less and nine percent of the EGCs had been audited by the same firm for 11 or more years.²⁶

Table 15: Auditor Tenure

Auditor Tenure	# EGCs	%
1 to 5 Years	1,251	71%
6 to 10 Years	325	18%
11+ Years	158	9%
Disclosed auditor tenure	1,734	98%
No auditor tenure data available	27	2%
Total	1,761	100%

Source: Audit Analytics

²⁴ These are firms that have issued audit reports for more than 100 issuer audit clients in a given year and therefore are required to be inspected annually by the PCAOB.

²⁵ These are firms that have issued audit reports for 100 or fewer issuer audit clients in a given year and therefore are required to be inspected at least once every three years by the PCAOB.

²⁶ Under AS 3101, the auditor's relationship with the company, for the purpose of determining auditor tenure, is not affected by the company's status as a public company. As a result, the company's relationship with the auditor may predate its SEC reporting history.

Audit Fees

As seen in Table 16, 1,489 EGCs (85%) disclosed audit fees in an SEC filing.²⁷ Audit fees disclosed by EGCs for their most recent fiscal year end ranged from \$565 to \$5 million. The median fees reported by exchange-listed EGCs (\$0.45 million) was significantly greater than the median fees reported by non-listed EGCs (\$0.04 million).

Table 16: Audit Fees (USD)

	(1) All EGCs	(2) Non-listed EGCs	(3) Exchange- Listed EGCs	(4) Other Exchange- Listed (Non-EGCs)
# of companies that disclosed audit fees	1,489	656	833	3,784
Median	\$191,000	\$40,220	\$450,000	\$1,455,630
Minimum	\$565	\$1,500	\$565	\$19,250
Maximum	\$4,965,000	\$3,998,000	\$4,965,000	\$109,859,000
Average	\$435,799	\$131,736	\$675,253	\$3,430,389

Source: Audit Analytics

²⁷ Audit fees were included only if they were for the same fiscal year as the most recent audit report. Issuers that had not disclosed audit fees as of the measurement date are excluded.

APPENDIX A: CHARACTERISTICS OF EGCS

Table A.1: Filer status from periodic reports²⁸

	(1) All EGCs	(2) Non-listed EGCs	(3) Exchange- Listed EGCs	(4) Other Exchange- Listed (Non-EGCs)
Large accelerated filer	0	0	0	2,181
Accelerated filer	316	30	286	946
Non-accelerated filers	1,255	687	568	663
Total companies that filed periodic reports in the last 18 months	1,571	717	854	3,790
Companies that did not file periodic reports	190	134	56	6
Total companies	1,761	851	910	3,796

Source: Audit Analytics

²⁸ The data on large accelerated filer, accelerated filer, and non-accelerated filer status is derived from periodic reports, primarily Form 10-K, Form 10-Q, and Form 20-F. In general, as of the measurement date, "large accelerated filer" meant an issuer with a public float of \$700 million or more that has been subject to Exchange Act periodic reporting requirements for at least one year and has filed at least one annual report and "accelerated filer" meant an issuer with a public float of \$75 million or more, but less than \$700 million, that has been subject to Exchange Act periodic reporting requirements for at least one year and has filed at least one annual report. The definitions were amended effective April 27, 2020, among other things, to exclude companies that are eligible to be "smaller reporting companies" and had annual revenue of less than \$100 million in the most recent fiscal year for which audited financial statements are available. See Exchange Act Rule 12b-2, 17 CFR 240.12b-2. The subset of companies summarized in Table A.1 as "non-accelerated filers" are those that filed periodic reports and did not identify themselves as "large accelerated filers" or "accelerated filers."

Table A.2: Top five industries reported by EGCs and exchange-listed companies by number
(Numbers of only the top five in each noted population are displayed)

SIC industry description (code)	(1) All EGCs	(2) Non-listed EGCs	(3) Exchange- Listed EGCs	(4) Other Exchange- Listed (Non-EGCs)
Pharmaceutical Preparations (2834)	270 (15%)	53 (6%)	217 (24%)	234 (6%)
Blank Checks (6770)	148 (8%)	65 (8%)	83 (9%)	
Prepackaged Software (7372)	79 (4%)	39 (5%)	40 (4%)	108 (3%)
Real Estate Investment Trusts (6798)	63 (4%)	48 (6%)		189 (5%)
Biological Products, Except Diagnostic Substances (2836)	60 (3%)		53 (6%)	
Management Consulting Services (8742)		26 (3%)		
State Commercial Banks (6022)			40 (4%)	161 (4%)
Crude Petroleum and Natural Gas (1311)				101 (3%)
Total in Top 5 (for each column presented)	620 (35%)	231 (27%)	433 (48%)	793 (21%)
Not in Top 5	1,141 (65%)	620 (73%)	477 (52%)	3,003 (79%)
Total Companies	1,761 (100%)	851 (100%)	910 (100%)	3,796 (100%)

Source: Audit Analytics

Table A.3: Top five industries reported by EGCs and exchange-listed companies by % of assets
(Amounts for only the top five in each noted population are displayed)

SIC industry description (code)	(1) All EGCs	(2) Non-listed EGCs	(3) Exchange-Listed EGCs	(4) Other Exchange-Listed (Non-EGCs)
State Commercial Banks (6022)	19%	7%	22%	6%
Real Estate Investment Trusts (6798)	10%	32%	4%	
Prepackaged Software (7372)	5%		6%	
Pharmaceutical Preparations (2834)	5%		6%	
National Commercial Banks (6021)	4%		5%	17%
Telephone Communications, Except Radiotelephone (4813)		7%		
Crude Petroleum and Natural Gas (1311)		6%		
Blank Checks (6770)		5%		
Commercial Banks, NEC (6029)				21%
Life Insurance (6311)				6%
Security Brokers, Dealers, and Flotation Companies (6211)				4%
Total in Top 5	43%	57%	43%	55%
Not in Top 5	57%	43%	57%	45%
Total Companies	100%	100%	100%	100%

Source: Audit Analytics and Standard & Poor's

Table A.4: Top five industries reported by EGCs and exchange-listed companies by % of revenue
(Amounts for only the top five in each noted population are displayed)

SIC industry description (code)	(1) All EGCs	(2) Non- listed EGCs	(3) Exchange- Listed EGCs	(4) Other Exchange- Listed (Non-EGCs)
Prepackaged Software (7372)	7%	4%	8%	
Finance Services (6199)	5%		5%	
Real Estate Investment Trusts (6798)	5%	15%		
Services-Computer Programming, Data Processing, Etc. (7370)	4%		5%	
Business Services, NEC (7389)	4%		4%	
Blank Checks (6770)		9%		
Crude Petroleum and Natural Gas (1311)		8%		6%
Sporting and Athletic Goods, NEC (3949)		4%		
State Commercial Banks (6022)			4%	
Petroleum Refining (2911)				8%
Motor Vehicles and Passenger Car Bodies (3711)				4%
Variety Stores (5331)				4%
Telephone Communications, Except Radiotelephone (4813)				3%
Total in Top 5	25%	41%	27%	25%
Not in Top 5	75%	59%	73%	75%
Total Companies	100%	100%	100%	100%

Source: Audit Analytics and Standard & Poor's

Table A.5: Reported assets (Millions USD)

	(1) All EGCs	(2) Non-listed EGCs	(3) Exchange- Listed EGCs	(4) Other Exchange- Listed (Non-EGCs)
Minimum	0.0	0.0	0.0	0.9
Maximum	13,237.2	13,237.2	8,731.8	2,754,590.1
Average	323.6	150.9	480.5	22,496.0
Median	45.6	1.0	147.3	1,726.7

Source: Standard & Poor's

Table A.6: Reported revenue (Millions USD)

	(1) All EGCs	(2) Non-listed EGCs	(3) Exchange- Listed EGCs	(4) Other Exchange- Listed (Non-EGCs)
Minimum	0.0	0.0	0.0	-8.8
Maximum	1,050.4	1,050.4	1,029.6	511,729.0
Average	76.2	28.4	120.8	6,084.1
Median	1.4	0.0	23.7	786.5

Source: Standard & Poor's

APPENDIX B: CHARACTERISTICS OF FIRMS THAT AUDIT EGCS

Table B.1: Count of firms and EGC market capitalization by jurisdiction

Jurisdiction	# Firms	All EGCs	# Exchange-Listed EGCs	Market Capitalization of Exchange-Listed EGCs (Millions USD)
United States	153	1,426	710	445,785
Canada	19	83	44	21,517
China	8	76	60	43,900
Israel	7	37	23	5,481
India	6	10	3	1,353
United Kingdom	6	15	14	6,716
Australia	5	13	5	187
Hong Kong	5	17	2	168
Germany	4	6	5	8,102
Singapore	4	7	1	136
Argentina	3	4	4	2,554
Denmark	3	4	3	15,755
France	3	4	3	1,160
Norway	3	4	4	2,532
Taiwan	3	3	2	216
Brazil	2	6	6	20,453
Greece	2	7	6	1,450
Mexico	2	2	1	569
Netherlands	2	2	2	783
Switzerland	2	4	3	582
Austria	1	1	1	159
Belgium	1	2	2	1,064
Bermuda	1	1	1	558
Ireland	1	1	1	33
Luxembourg	1	1	1	430
Malaysia	1	17	-	-
Nigeria	1	1	-	-
Pakistan	1	4	-	-
Russia	1	1	1	930
South Africa	1	1	1	86
Sweden	1	1	1	627
Total	253	1,761	910	583,285

Source: PCAOB Form 2 and Standard & Poor's