Claigan

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The Honorable Mary L. Schapiro
Chairman
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

RE: Implementation costing for Section of the Dodd-Frank Act (conflict minerals)

Claigan Environmental Inc. has been asked to update our study on the potential costs of implementation of the final rules for Section 1502 of the Dodd-Frank act, dealing with conflict minerals. Claigan has more recent information on corporate budgeting and expenditures. The new numbers better reflect current corporate implementation strategies. These numbers do make certain assumptions regarding the final rules issued by the SEC and can be affected by unforeseen variations in the SEC's rules.

The costing below reflects the expected costs to be incurred during initial compliance implementation by an average affected issuer. These cost assumptions are not expected to accurately reflect the effort and costs incurred by a smaller number of leading corporations (corporate leaders who are defining and developing compliance standards) or by corporations whose primary business is related to 3TG materials (examples - solder manufacturers, refineries, or tantalum capacitor manufacturers).

Claigan's expertise is with company compliance and with the specific efforts and costs to be incurred by those companies. We did not endeavor to determine a figure for the total number of companies affected and we look to others to apply our costing model to the industry as a whole.

Principal Changes from October 28, 2011 Costing Submission

A. *Changes in Projections of Corporate Cost*

During budgeting discussions with affected corporations, it became apparent that these companies do not expect the achievement of corporate compliance to require the equivalent of a half time senior project manager for the year. Corporate conflict minerals project responsibility, in general, is being included in the job description of an existing senior project manager with a work expectance of less than one quarter of their time for a year. This level of effort assumes that companies rely heavily on outside specialized expertise (which is already included in the costing).

We reduced the expected cost of the third party audit with the expectation that the final rules will focus on third party auditing of the veracity and accuracy of the data used to support a company's conflict mineral report and not on an audit of 1st and 2nd tier suppliers. This section is not our area of primary expertise and we welcome costing input from 3rd party auditors.

B. *Changes in Projections of Data Gathering Costs*

Recent budgetary quotations for data gathering costs show different numbers from those projected in October 28, 2011 costing models. The cost per supplier has been reduced significantly (from $100 per supplier to $40) reflecting the entry into the market of professional data providers along with leveraging of duplication of effort. In general, a reasonable country of origin declaration provided by a supplier would be usable by multiple manufacturers. Professional data providers are able to apply the cost of data collection and management over a broader number of customers reducing the cost per issuer for reasonable country of origin inquiries.

However, we are seeing a source of inefficiency at the issuer level. Many issuers have multiple brands each with its own purchasing departments. Although the conflict minerals declaration is at the corporate level, the work is primarily expected to be carried out at the business unit level. The result is often a duplication of effort between purchasing groups. It can be argued that cost efficiencies can be found by pooling the data between business units but, in general, the cost of integrating data from different purchasing systems is far more costly and effort intensive than the duplication of supplier data gathering effort. Therefore, there is an expectation of duplication of data gathering effort in the average issuer. In some cases, this duplication is being dealt with by having the business units use the same third party data provider. But this solution is not universally applied.

The number of affected suppliers will vary from company to company, changing the related cost and effort. Some companies will report that they have many more than one thousand (1,000) affected suppliers. However, if the list is distilled only to supplier provided products containing 3TGs, obsolete suppliers, and supplier duplication is removed, the number of suppliers does normally drop dramatically. Supplier duplication is normally from multiple brands, divisions, and regional units being listed as different suppliers. However, in the case of most component manufacturers, a single declaration is expected to cover the full range of a company's portfolio. This may not be universally true, but our intention is to present the average case.

As a proof of concept, we evaluated two (2) supplier lists from two (2) separate, ~$1B per annum companies. In both cases the number of affected suppliers was in the hundreds, not thousands. It is not impossible that our costs here are overstated.

C. *Changes in Projections of Software Costs*

Software costs are one of the most misquoted costing line items in conflict minerals costing projections. In general, there is little expectation that most issuers will purchase or use an expensive (>$100k) software package solely for conflict minerals. Outside of the leading companies (1% to 2% of affected organizations), issuers are choosing one of the following software implementation methods:

1. No data system. Spreadsheet and folder data management. Primarily for companies with limited exposure to conflict minerals;
2. Leverage / updating of current data systems to include data collection for conflict minerals;
3. Purchasing of an environmental software package for RoHS, REACH, Conflict Minerals, and other related legislation.

In the case of a company choosing option (3), the software packages will be used for multiple compliance requirements. Associating the cost of the software package exclusively with conflict minerals does not follow normal accounting rules and needs to be handled properly.

For any of options 1 through 3, the average budgeted software cost (attributable to conflict minerals) is expected to be between $0 and $50K for the average issuer (again ignoring leading companies).

The software support cost is also reduced by a similar amount to reflect the lower expected software effort and the sharing of costs between multiple regulations.

Claigan's Estimate of Typical costs for a $1B per annum company:

Corporate:

a. Organizational, consultants, conflict minerals report writing - $60K
b. 1/4 full time senior program manager for a year - $38K
c. 3rd party audit - $15K

SubTotal - $113K

Data gathering:

a. Data gathering from suppliers - $40 per supplier. Usually only required for 1/2 of suppliers for electronics companies with an average duplication factor of 2 (i.e., different purchasing departments contacting the same supplier). Average of one thousand (1,000) supplier declarations per $1B of issuer revenue.

SubTotal - $80K

Software system:

a. Software package or upgrade to contain data - $0K to $50K, averaging $25K

b. IT support. 1/4 person for four months - $10K

SubTotal - $35K

TOTAL = $213K for a $1B revenue company (=0.021% of annual revenue)

(Previous October 28 Projection = $315K for a $1B revenue company)

Scaling for Larger and Smaller Issuers

Our projections for scaling of costs for larger and smaller issuers remain unchanged. A condensed version of costing scaling (using the updated November costs as the baseline) is provided in chart form below. These costs are for initial compliance only. Costs in future years are expected to decrease significantly.

Issuer (Revenue Per Annum)	Cost	% of Annual Revenue
$100M Per Annum Issuer	~53K	0.053%
$1B Per Annum Issuer	~213K	0.021%
$10B Per Annum Issuer	~852K	0.009%

Additional Notes

1. The costs above reflect the typical issuer and do not necessarily reflect leading corporations and issuers whose primary business is related to 3TG's.
2. The costs above assume reasonable final rules from the SEC including (but not limited to) compliance requirements that do not encourage disposal of current inventory
3. The costs above reflect current budgetary assessments for affected companies. However, an individual company can apply methods which significantly change the cost of compliance for Section 1502.
4. The costs above are reflective of compliance to Section 1502 and do not reflect the complete costs of achieving 'Conflict Free' status. Achieving Conflict Free status, in the first year, is expected to be more expensive and costing is difficult to predict at this time without final rules from the SEC.

Final Recommendation

It is recommended that the SEC provide final rules for compliance to Dodd-Frank 1502 sooner rather later for the following reasons:

1. The majority of affected issuers are not expending any effort towards becoming conflict free.
2. The compliance cost is being born completely by a small number of companies. They are, in effect, being penalized for ‘doing the right thing’.
3. Current inventory in possession of issuers or their suppliers is ‘at risk’ or bears a level of uncertainty. The cost of this inventory dwarves (>10,000:1) the overall cost for compliance to Section 1502.
4. Places an uncertainty on the market valuation of affected issuers. Even though the valuation variation is not expected to be high, any uncertainty in the compliance and salability of products can have an effect on the share value of an issuer.

There is a level of cost associated with compliance to Section 1502. As much as this is of a concern to many parties, the cost of inventory and share value uncertainty is many orders of magnitude higher. This is not a good year for uncertainty. Affected companies need clear rules to proceed to compliance and close off any potential uncertainties.