

March 30, 2005

Jonathon G. Katz, Secretary
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549-0609

**RE: Feedback on Sarbanes Oxley Act - Section 404
File No. 4-497**

Dear Mr. Katz:

In accordance with the Release dated February 22, 2005, I am providing written feedback regarding Sarbanes Oxley Act - Section 404. I am the Vice President & General Counsel of Meritage Hospitality Group Inc. (AMEX: MHG), a publicly traded small-cap company located in Grand Rapids, Michigan, that is engaged in the food service industry. Due to the recent extension granted to non-accelerated filers regarding Section 404 compliance, Meritage has not yet undertaken the audit of internal control over financial reporting required under Section 404. Nevertheless, Meritage has investigated what will be required to conduct its Section 404 evaluation to ensure compliance. That investigation leaves me deeply concerned regarding Section 404 requirements relating to smaller companies, prompting me to write this letter.

Obviously, the Sarbanes Oxley Act was largely a political reaction to the corporate scandals that made news headlines a few years back. While I fully understand that Section 404 was a well-intentioned enactment with the legitimate goal of ensuring reliable financial reporting, it is my opinion that the costs of Section 404 disproportionately affect medium- and smaller-sized companies, and may impose such a harsh cost burden on these companies that the only alternative will be to "go private." This, in turn, will eliminate opportunities for investors, and eliminate a significant means of capital generation needed by these companies to succeed: a lose/lose proposition for the citizens and businesses of our nation.

Meritage experienced net earnings of \$709,000 in 2002, \$740,000 in 2003, and a net loss of \$490,000 in 2004. During that same period, Meritage's accounting costs (primarily audit costs) **increased 28%** from 2002 to 2003, **increased 95%** from 2003 to 2004, and before the announcement of the Section 404 delay, were estimated to **increase by as much as an additional 150% - to nearly \$350,000 in 2005!** For a small company like Meritage that counts every penny, this cost is simply unbearable. Section 404 costs, by themselves, could keep this company from being profitable in future years. I cannot imagine this is what Congress intended when it passed the Sarbanes Oxley Act.

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The costs do not stop there. Section 404 has the domino affect of increasing other related costs: director fees required because of the additional meetings and time mandated by the Act; labor costs for new personnel required to oversee Section 404 compliance; insurance costs for the higher D&O insurance premiums required to offset the increased liability concerns caused by Section 404, etc. In addition, productivity may be adversely affected as companies become more risk-adverse in their business approach.

Four years ago, Meritage embarked on an ambitious plan to increase shareholder value by offering top scale operations in the most efficient manner possible. Promoting administrative and operational efficiencies helped us achieve our goals. Section 404 is now telling the Company that efficiencies are a bad thing; that we need to increase personnel and spend massive resources (that do very little to improve bottom line results) on what I believe are already solid internal controls. One wonders if, when the dust settles, only the accounting industry will be benefited by Section 404.

In summary, I strongly recommend that the SEC reconsider Section 404 compliance as it relates to the medium- and smaller-sized publicly traded companies. As noted above, I believe the failure to do so will be a lose/lose proposition for our nation as a whole.

Very truly yours,

James R. Saalfeld
Vice President & General Counsel

JRS/jlv

cc: Rep. Vernon J. Ehlers (United States Representative)

Via U.S. Mail & Email