

March 30, 2005

Dear Securities and Exchange Commission:

Thank you for offering this much needed public forum/discussion on Sarbanes-Oxley.

As a full-time private investor managing \$2.5 million and specializing in micro-cap stocks (stocks under \$100 million in market capitalization), I must say that the costs involved with Sarbanes-Oxley, and particularly the Section 404 requirements, have been, in all honesty, DEVASTATING to very small companies, and their ability to remain public SEC-reporting entities. In attempting to implement a "one-size-fits-all" approach to prevent Enron and Worldcom-type accounting scandals from ever happening again (an admittedly noble goal), Congress, and the SEC in its implementation, have done a grave disservice to the smallest publicly-traded companies, AND SHAREHOLDERS of these companies. Over the last many months, the number of micro-cap companies that have deregistered their stock and "gone dark" is legion. I demand to know how this provides "protection" to investors in these stocks! Managements of a majority of these companies have EXPLICITLY STATED that they have deregistered because of the onerous labor and high costs of Sarbanes-Oxley. You can read it in press release after press release. And what is an investor left with when a company deregisters? He is left with a company that not only, in deregistering, does NOT have to comply with Sarbanes-Oxley [ha-ha, giggle-giggle], but a stock that is now listed on the pink sheets, with dramatically less liquidity, a wider bid/ask spread, no required representation of retail limit orders (as is the case on Nasdaq, the AMEX, and the NYSE), and, perhaps worst of all, a company that has NO OBLIGATION TO PUBLISH FINANCIAL STATEMENTS! How is THIS a gain? How does this "help" investors??

There is no doubt in my mind, with all due respect to Congress and the SEC, that you have done tremendously more harm than good.....WHEN IT COMES TO VERY SMALL COMPANIES. These companies are DIFFERENT from large companies...and they should be treated differently! For one, many small companies have no investment banking relationships, no need to issue equity or debt, no relationship with buy or sell-side analysts, and therefore, no need or perverse incentive to "massage" or "manipulate" financial results in a way that certain larger "go-go" companies might. With micro-caps, the notion that there is an incentive to "manage" earnings, or "play to Wall Street" is laughable. Nobody on Wall Street (proper) is paying any attention! At the same time, very small companies often have a high percentage of management and inside ownership, often representing the people who built these companies from the ground up. Their incentive is not to engage in financial machinations....it is to continue, with pride, to build their company. And let the stock "take care of itself." This inherent lack of a "short-term orientation" with smaller companies tends to put a damper on desires to engage in financial fraud or manipulation. (Who exactly is the audience they would be "playing to"?)

Does a \$25 million in sales company with 20 employees really need to spend exhaustive amounts of money on outside "internal control" analysis, when the reality is that the size of the company should theoretically allow the independent directors, and the audit committee, to have a good ability to determine if there are any "shenanigans" going on? Certainly a question worth asking. I think the answer is no. Are Congress and the SEC concerned about stifling capital formation, and the ability of the smallest fledgling SEC-reporting entities in America to be able to successfully grow, and achieve ever-increasing public market visibility through that growth? Or do Congress and the SEC want the ONLY companies who can afford to be major exchange-listed, SEC-reporting entities to jump from companies of \$10 or 20 million in annual revenues (pre-Sarbanes Oxley) to \$100 million or more in annual revenues? What a tragic disservice to the small business's desire to achieve/maintain the pride/visibility of having their stock trading on one of the 3 major exchanges...and our capitalist system...and our economic future. Is mandating "full-blown" Sarbanes-Oxley for micro-caps an attempt to stick a square peg in a round hole? Is it a "knee-jerk" reaction to financial scandals of recent years? Absolutely, I say.

I have some suggestions for remedying this situation that I ask you to give serious consideration to:

Automatically exempt companies listed on the Nasdaq Small Cap market or OTC Bulletin Board from the 404 requirements, as well as most of the other SOX requirements, with the exception of the required signed management certification of the financial statements....and possibly a few other (low-cost) requirements. Also, allow an exemption for companies under a certain dollar amount of annual revenues or shareholder's equity (say, under \$100 million?). Or PHASE IN the various Sarbanes-Oxley requirements, at various "tiered" revenue levels. This would make the requirements somehow proportionate to a company's REASONABLE ability to bear the costs. Of course, once a company is over a certain revenue level (\$500 million?), "full-blown" Sarbanes-Oxley could (and probably should) apply.

In closing, I would again plead with you to give consideration to the grievous harm that has been done to the ability of very small companies to remain as SEC-reporting entities. I will sound the cry of Paul Revere now; don't say I didn't warn you: When you mandate "full-implementation" of the SOX 404 requirements in 2006, you will see the FLOODGATES open, in terms of the number of micro-cap companies that will be forced to deregister. Many of these companies have been WAITING to see what you decide, and if you will be reasonable and sensitive to them, and their ability to pay for the requirements you would deem to impose. It is my express hope that you will see how URGENT this matter is, and how it is totally unfair to expect a \$50 million in annual sales company to spend 1-2% of its annual revenues on meeting the requirements of Sarbanes-Oxley. Many will choose to deregister instead, with the tragedy, again, being that investors will get dramatically LESS information as a result. This couldn't POSSIBLY be your intent. Could it?!

Respectfully submitted,

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