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Input to the SEC Advisory Committee on Smaller Public Companies
File Number 265-23
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Company demographic information:

- Market Capitalization – approximately $5,000,000
- Annual Revenue – approximately $10,000,000
- Total employees - 62

1. Has SOX changed the thinking of smaller companies about becoming or remaining a public company? If so, how?

The cost of compliance with SOX has prompted smaller public company management to take a serious look at going back to being privately held versus publicly held. Smaller public company management has to weigh the cost of SOX compliance against the costs associated with being privately held. It would be difficult for our Company to deregister at this time due to the number of record holders.

, a St. Louis based marketing communications firm, filed a Form 15 on May 20, 2005 to notify the SEC that it met the eligibility requirements to deregister. is similar in size to our company. In the press release and 8-K dated April 20, 2005, cited the expense of compliance with SOX as the reason for deregistering.

3. Do you believe SOX has enhanced, or diminished, the value of smaller companies? Please explain.

SOX compliance for smaller public companies is a significant expense that is not proportionate to revenues, as similar process documentation and controls testing must be undertaken regardless of the size of the company. Thus, SOX decrease the "value" of smaller companies by disproportionately increasing expenses. SOX compliance costs are difficult for smaller companies to absorb. Independent auditing firm fees also increase due to SOX. Additionally, smaller companies often retain an external auditing firm to assist with the SOX documentation and testing, as they do not have the depth of personnel to perform these functions in house. Audit fees may increase significantly depending on the size of the company, the size of the accounting department and the reliance on an additional audit firm to supplement internal work. Finally, significant employee time is incurred in addition to these additional auditing fees.

6. Has SOX resulted in a diversion of the attention of company management away from operational activities, or otherwise imposed an opportunity cost on the management of smaller public companies? If so, have the benefits of SOX justified the diversion or opportunity cost? Please explain.

SOX diverts smaller company management time away from running their businesses. Management of smaller companies is typically directly involved with daily operations. Time spent on SOX compliance directly affects the amount of time available for operations, sales and marketing efforts. SOX compliance adds an additional layer of responsibility to smaller company management.

In order to comply with SOX, smaller public companies are hiring additional accounting professionals with more SEC reporting experience than may be necessary for their ongoing business. This additional experience and certification comes at a higher price than smaller public companies traditionally spend on the accounting and finance function.

The benefits of SOX do not justify the diversion of management from core tasks, as the time and expense incurred to comply are not proportionate to the size and revenues of the smaller public company.

9b. Has SOX affected the thinking of smaller companies about buying or being acquired by other companies or looking for merger partners or acquisition targets? Explain your answer and indicate any way in which SOX has changed a smaller company from a buyer to a seller of a business, or vice versa.

SOX has decreased both the potential that smaller public companies will be acquired and the pool of potential acquisition targets. If a company is not publicly traded, it is hesitant to effect a business combination with a publicly traded company because of the added complexity to the transaction. Potential acquisition targets may not be considered if the cost of SOX compliance would be prohibitive or difficult to accomplish in the established time frame.

14. Do the benefits of SOX Section 404 outweigh its costs for smaller companies? Would you support a total exemption from SOX Section 404 requirements for smaller companies? Why or why not? Would such an exemption have a negative effect on investors' interests or perception regarding smaller companies? Why or why not?

The benefits of SOX Section 404 do not outweigh its costs for smaller companies because the time and expense incurred to comply are not proportionate to the size and revenues of the smaller public company. Our company supports a total exemption from SOX Section 404 requirements for smaller companies. The annual audit and 10-K process already provides a sufficient level of assurance of compliance with reporting requirements for smaller public companies. We strongly support an exemption from SOX Section 404 for smaller public companies.

15. Has SOX affected the relationship of smaller companies with their auditing firms? If yes, how? Is the change positive or negative?

Smaller public companies rely on their auditing firms for expertise and advice. This has not affected the independence of the auditing firms in practice. SOX has essentially limited the assistance that accounting firms can provide to smaller public companies, decreasing the value of their relationship to the smaller public company. These limitations create barriers to open communication.

17. For smaller companies, would extended effective dates for new accounting standards ease the burden of implementation and reduce the costs in a desirable way? How would such extensions affect investors or markets? Would allowing a company's independent auditors to provide more implementation assistance than they are able to currently reduce such burdens or costs? Would such a step positively or negatively affect the quality of audits? Please explain.

Extended effective dates for new accounting standards would ease the burden of implementation on smaller public companies. Reduction of the costs associated with SOX would be possible if better guidance was provided to smaller public companies and their independent auditors. Clear and concise guidance would decrease the time spent by smaller public companies and their auditors to interpret requirements for compliance. The differences in interpretations cause duplication of efforts and increased auditing firm costs. Alternatively, a significant reduction to the level of required SOX documentation and testing would decrease the burden and costs.

Allowing a company's independent auditors to provide more implementation assistance for new accounting standards would reduce the burden and cost to smaller public companies. Smaller public companies could continue to benefit from the training, expertise and experience that is afforded to public accounting professionals without incurring the salary and benefits cost of a full time employee. Further, the independent auditor would already fully understand the client's business and have an established relationship with the client; thus, their assistance would be more efficient and effective than hiring an outside firm for such expertise.

Additionally, audits of smaller public companies would be positively affected by the independent auditors staying in frequent communication with the smaller public company, which would result from greater involvement in assistance with implementation of new accounting standards. Auditors would be more aware of challenges and areas where changes have occurred. Typically, quarterly reviews of smaller public companies are completed in a short time frame. More frequent communication would improve the quality of quarterly reviews and highlight areas that might require additional analysis prior to the year end audit when time could be limited.

18. Would auditors providing assistance with accounting and reporting for unusual or infrequent transactions impair the auditors' independence as it relates to smaller companies? Would providing such assistance reduce the cost of compliance for smaller *companies? What would be the impact on the quality of audits, investors or markets? Please explain.*

Allowing a company's independent auditors to provide assistance with accounting and reporting for unusual and infrequent transactions would not impair the auditor's independence as it relates to smaller companies. Providing such assistance would only reduce the cost of compliance compared to a situation in which the smaller company had to retain a different outside expert than their independent auditors. Audits of smaller public companies would be positively affected by the independent auditors providing more assistance with unusual or infrequent transactions. This assistance would provide the auditors more information on unusual and infrequent transactions on a timely basis. Additional expertise could decrease the potential errors in accounting and recording unusual and infrequent transactions.

Allowing a company's independent auditors to provide assistance with accounting and reporting for unusual and infrequent transactions should not impact investors or markets, as we do not believe it would adversely impact their independence.

19. Is the quarterly Form 10-Q or Form 10-QSB information valuable to users of the financial statements of smaller companies? Would a system that required semi-annual reporting with limited revenue information provided in the other quarters reduce costs of compliance without decreasing the usefulness of the reported information to investors? Please explain.

It is valuable for the users of the financial statements to receive financial statements more often than annually. While semi-annual reporting would decrease audit fees, printing fees and legal fees somewhat, it would probably not be significant.

24. Is the loan prohibition contained in SOX creating a hardship for smaller companies? If so, explain the manner in which this hardship is being created. Do the benefits to companies and investors outweigh the hardships? Should the prohibition be clarified to exclude certain types of transactions where conflicts of interest or the likelihood of abuse may not be present?

The loan prohibition does not create a hardship for our company.