



May 31, 2005

RE: File Number 265-23

To: Members of the SEC Advisory Committee on Smaller Public Companies

This comment letter addresses the Committee's proposed agenda for its June 16-17, 2005 meeting by asking the Committee to include more extensive discussions relating to audit services.

The Committee has rightly included in the agenda the issue of cost effectiveness of Sarbanes Oxley (SOX). The Committee has also included in its agenda a discussion of late filing activity. In recent periods, we believe the two issues are interrelated for smaller companies.

Indeed, anecdotal evidence has rapidly mounted that the cost of compliance has been burdensome for all sizes of public companies, both in terms of external audit expense and in-house staffing and infrastructure expense. There appears to be quite a bit of evidence that such costs have been elevated in part due to the pricing power of a limited number of qualified auditing firms.

We believe smaller companies have been particularly impacted as they have found themselves at the lowest end of the pecking order in getting audit and Section 404 work completed in time to meet SEC filing deadlines. The informational content of audit- and SOX-related disclosures is high for all size companies. Even a voluntary change in audit firms can elicit an investor response. However, for smaller companies, whose stocks are often thinly traded, audit- and compliance-related announcements can dramatically impact stock price and trading patterns. As a consequence, small companies are often reluctant to challenge audit firm pricing or performance and in some cases may even fear reprisal by auditors.

We recommend that the Committee also frame the issues of cost effectiveness and filing delinquencies in terms of the adequacy and accountability of audit services for the small public company and its shareholders. The SEC's recent action to delay by one year the effective date for complying with Section 404 for non-accelerated filers was an important step. Even with one additional year to comply, we are concerned that smaller companies will still experience prohibitive expenses and the need to delay SEC filings in order to meet Section 404 compliance requirements.

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