

Script for Bill Travis' Prepared Remarks

Testimony of the SEC's Small Business Advisory Committee on Smaller Public Companies August 9, 2005

Introduction

Co-Chairmen Jim Thyen and Herb Wander and members of the Advisory Committee ... Thank you for the opportunity to talk to you on behalf of McGladrey & Pullen and, hopefully, the smaller public companies that we serve.

As you know, small and mid-sized businesses represent a significant and important part of the US economy in their sheer numbers, their employee base and their impact on job creation and innovation. We are very pleased that the SEC has taken an interest in considering the impact of the Sarbanes-Oxley Act on current and future smaller public companies.

In the last few years, many smaller companies have been unable to raise needed capital through an IPO or secondary offering process. Additionally, many smaller public companies

have been orphaned ... strapped with the costs of being a public company while receiving few of the benefits. Some of these companies have been fortunate enough to successfully become private companies again. However, going private is not necessarily the best solution for our economy. Hopefully, the SEC's process will address the capital formation issues facing small and mid-sized businesses along with the cost-benefit analysis relating to the Act.

Benefits

The enactment of the Sarbanes-Oxley Act has certainly resulted in many positive changes that enhance investor confidence, including-

- 1) Increased awareness within reporting companies and audit firms of the importance of a proper tone at the top and of the personal responsibility to do the right thing.
- 2) Increased emphasis in companies and audit firms on the importance of effective and efficient internal controls and reliable and transparent financial information.

- 3) Increased emphasis on stronger corporate governance, including enhancements in business ethics policies and training and stronger and more active audit committees. We as external auditors are certainly more engaged with audit committees today.
- 4) There is increased recognition of the importance of auditing to the capital markets. The audit profession is again important to the public, to students on university campuses and within audit firms.

Costs

These benefits have come at a cost, perhaps at a disproportional level for smaller public companies. To further enhance the benefits of the Sarbanes-Oxley Act, we fully support a careful and thoughtful evaluation of the benefits and costs for smaller public companies.

To that end, we suggest that you consider the following-

- 1) As you know, smaller public companies have different resources, capabilities and investor bases than large cap companies. As a result,

we believe the SEC registration and filing requirements should be scaled to fit the resource limitations of these smaller companies, while being attentive to the needs of investors in these companies and to the public at large. Additional research may be required to better understand what information investors in smaller public companies really want and need.

- 2) We support establishing a definition for a smaller public company that significantly increases the number of registrants that fall below the large company (accelerated filer) requirements. We believe the Committee should consider raising the public float threshold to \$700 million from the current level of \$75 million. The Committee may also want to consider whether certain qualitative criteria should be established. We further recommend that consideration be given to separating smaller public companies into micro caps and mid caps, with differing requirements for each of these groups.
- 3) While we recognize it is easy to recommend and more difficult to design, we believe that the internal control requirements be modified

for smaller public companies to simplify the requirements and to reduce the associated costs. Obviously, any such changes would need to be consistent with the needs of investors. Areas for consideration include the adoption of a more risk based approach that would allow the utilization of prior knowledge gained by the auditor and the spreading of certain of the required procedures for process controls over a multiple year period. (Entity level controls probably need to be addressed annually.)

- 4) To allow adequate time to consider the input received by the Committee, we recommend extending the Section 404 compliance date for non-accelerated filers relating to reporting on the effectiveness of internal control over financial reporting.
- 5) We suggest that the Committee consider whether the accelerated filing deadlines should be further extended for smaller public companies, perhaps permanently. As you know, these dates are scheduled to be reduced to 60 days after year-end for fiscal years ending on or after December 15, 2005. We believe that smaller public companies need

additional time in order to implement the processes necessary to successfully meet these shortened timelines. Additionally, we have some question whether a shorter time frame is cost-beneficial for the investors in the smallest of public companies, many of which have an inactive public float.

- 6) Lastly, we recommend that thorough guidance be provided regarding the SOX 404 requirements of smaller public companies and their auditors. This type of guidance will minimize uncertainties and better align the deliverables around the expectations of the PCAOB and its inspection teams.

Closing

This concludes my prepared remarks. Thank you for allowing me the opportunity to provide input to the important work of the Committee. I will be happy to address any questions the Committee may have for me. Please be assured that McGladrey & Pullen is very supportive of your effort and would be willing to assist in any manner.