

# Memo

To: SEC Advisory Committee on Smaller Public Companies (The Committee)  
From: Don Sedlacko, Manager of Compliance, Portec Rail Products, Inc.  
Date: 3/24/2006  
Re: File Number 265-23

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On behalf of Portec Rail Products, Inc. (PRPX), a NASDAQ company, I would like to express our support for recommendations III.P.1 and III.P.2 made by The Committee and request additional deferral of management's assessment of internal controls under Section 404 until further guidance as suggested by The Committee's recommendation III.S.1 is provided.

I have had the unique opportunity over the past few years to work both as an external auditor for PricewaterhouseCoopers LLP during the initial roll-out of the Sarbanes-Oxley Act (The Act) and as a consultant for Kforce, Inc. prior to my current position. It really is amazing how definitions of an effective internal control environment differ based on just about everybody I have spoken with. It is helpful to have the Smaller Public Company COSO Framework to work with, however a draft was only issued in late 2005 and has not given management ample time to assess the framework and appropriately implement in a cost-efficient manner the recommended environment within the current adoption timeframe.

From my experiences working with large to small companies and weak to strong control environments, I can appreciate the vision of The Act. As The Act is written, stronger control environments will be created across all organizations regardless of the size. This in turn will better educate employees about their roles and responsibilities and provide a deeper understanding of "why" certain tasks are performed. Over the next few decades, I think this will greatly benefit investors as well as the US economy as a whole. All of that being said, if something of this magnitude is rushed, I believe it leads to a greater chance of failure of achieving the Act's ultimate goal.

Consider two scarce resources of smaller public companies – money and knowledge/experience. In a small company, cash flow is often the primary concern. Shifting cash away from research and development or capital expenditures to auxiliary consulting services could hurt many smaller companies in the long-run. On the other hand, generally speaking, with less skilled labor, especially in the financial controls area, small companies are having to hire consultants to address The Act's compliance issues. The problem here is that after the consultant provides resources to assess risk, document processes and test effectiveness – they leave. When the consulting group walks out the door, also goes the knowledge/experience and unfortunately the very control environment that The Act intends to create.

The best-case scenario tends to be hiring an individual with internal control experience. It is important for The Committee to consider that an individual, often times building an internal control environment from the ground up in a smaller company, cannot achieve such a task overnight. Communication of requirements and buy-in from top management, enhancing corporate governance functions, creation of appropriate policies and procedures and the most important, and often times most difficult task of communication to and adoption of required procedures by employees can take years to achieve in smaller companies faced with balancing multiple critical priorities.

Requiring an external audit of the internal control environment further strains the cost and knowledge/experience resources. Experience that could have alternatively been spent on ensuring that controls are working as planned is instead focused on explaining to a 3<sup>rd</sup> party how a control works or why it isn't working, typically at astronomical costs to the company.

In conclusion, for reasons presented above, Portec Rail Products, Inc. supports The Committee's recommendations III.P.1. and III.P.2 and recommends additional deferral of management's internal assessment until additional consideration is given to The Committee's recommendation III.S.I enabling a more meaningful and cost-effective adoption of the Small Company COSO framework.