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Private companies embrace tougher accounting rules

By Anne Field

New York Times News Service

Even as some publicly traded small businesses are going private to escape the tough and costly accounting standards stipulated by the 2002 Sarbanes-Oxley Act, a growing number of privately held companies are rushing to incorporate them.

These companies are exempt from the law's requirements, but they nevertheless see advantages in adopting them, as well as in instituting other corporate-governance changes like adding outside directors to their boards. Having witnessed the collapse of corporate giants like Enron, whose accounting malfeasance and weak management oversight inspired the legislation, these companies have a heightened appreciation of the need to strengthen their defenses

against corruption, experts say.

They also know compliance with Sarbanes-Oxley is a precondition for going public, being acquired or raising money from venture capitalists.

"Sarbanes-Oxley has raised the visibility of these issues," said Jeff Westphal, president of Vertex, a tax software and services company in Berwyn, Pa.

It certainly has for Chris Winfield, president of 10E20, a Web-design startup in Brooklyn, N.Y. Winfield has spent the last few months searching for affordable software to help his company follow Sarbanes-Oxley's accounting rules, even though it is privately held and had a relatively small \$2 million in revenue last year.

Winfield has ambitious plans for growth, including an increase in the number of employees to 200 by 2006 from 28 today,

and he wants to be ready to tap the stock market or put his company up for sale. If he cannot find a software program, he said, he will have his staff create one and integrate it with the company's accounting and back-office systems, a process that could take up to eight months.

"I think we have to get the ball rolling now," Winfield said. "It will definitely be worth the effort."

Sarbanes-Oxley created a regulatory board with broad powers to crack down on corporate accounting abuses, toughened corporate disclosure requirements, established protections for corporate whistleblowers and required changes in the makeup of corporate boards.

Since its passage, a growing number of small publicly traded companies have announced plans to go private, largely to es-

cape the cost of compliance.

Still, Andrew Keyt, executive director of the Loyola University Chicago Family Business Center, said more private companies are adding outsiders to their boards and forming audit and compensation committees. They also are holding board meetings more often, he says, and taking a more critical look at the directors' performance.

In a 2003 survey by his organization of 3,000 mostly small businesses, 38 percent of boards met three or more times a year, up from 28 percent in a similar poll of 1,200 businesses in 1997, he said. Thirty-six percent were satisfied with their board's contributions, down from 42 percent six years earlier.

Keyt believes the economic downturn played a role in private companies' new corporate governance religion. "When

business performance is down, shareholders are more concerned about the performance of the company," he said. "Corporate governance becomes more important."

Craig Aronoff, a consultant with the Family Business Consulting Group in Marietta, Ga., says he is helping at least half a dozen small private companies set up boards of directors. The key, in many cases, is finding people with expertise in specific areas in which the businesses need help.

"You need a board that can show you how to grow the company," said Marc Morgenstern, managing partner with Kahn Kleinmen, a Cleveland law firm. "Identify five or six skill sets, like sales or technology, find people who have them, and then let them challenge your assumptions."