

**Inspection of
Louis Plung & Company, LLP**

**Issued by the
Public Company Accounting Oversight Board**

March 9, 2006

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

**PORTIONS OF THE COMPLETE REPORT ARE OMITTED
FROM THIS DOCUMENT IN ORDER TO COMPLY WITH
SECTIONS 104(g)(2) AND 105(b)(5)(A)
OF THE SARBANES-OXLEY ACT OF 2002**

Notes Concerning this Report

1. Portions of this report may describe deficiencies or potential deficiencies in the systems, policies, procedures, practices, or conduct of the firm that is the subject of this report. The express inclusion of certain deficiencies and potential deficiencies, however, should not be construed to support any negative inference that any other aspect of the firm's systems, policies, procedures, practices, or conduct is approved or condoned by the Board or judged by the Board to comply with laws, rules, and professional standards.
2. Any references in this report to violations or potential violations of law, rules, or professional standards should be understood in the supervisory context in which this report was prepared. Any such references are not a result of an adversarial adjudicative process and do not constitute conclusive findings of fact or of violations for purposes of imposing legal liability. Similarly, any description herein of a firm's cooperation in addressing issues constructively should not be construed, and is not construed by the Board, as an admission, for purposes of potential legal liability, of any violation.
3. Board inspections encompass, among other things, whether the firm has failed to identify departures from Generally Accepted Accounting Principles ("GAAP") in its audits of financial statements. This report's descriptions of any such auditing failures necessarily involve descriptions of the related GAAP departures. The Board, however, has no authority to prescribe the form or content of an issuer's financial statements. That authority, and the authority to make binding determinations concerning an issuer's compliance with GAAP, rests with the Securities and Exchange Commission ("SEC" or "Commission"). Any description, in this report, of perceived departures from GAAP should not be understood as an indication that the Commission has considered or made any determination regarding these GAAP issues unless otherwise expressly stated.

INSPECTION OF LOUIS PLUNG & COMPANY, LLP

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Louis Plung & Company, LLP ("the Firm"). The Board is issuing this report of that inspection in accordance with the requirements of the Sarbanes-Oxley Act of 2002 ("the Act").

The Board is making portions of the report publicly available. Specifically, the Board is releasing to the public Part I of the report and portions of Part IV of the report. Part IV of the report consists of the Firm's comments, if any, on a draft of the report.^{1/}

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.^{2/} A substantial portion of the Board's criticisms of a firm (specifically criticisms of the firm's quality control system), and the Board's dialogue with the firm about those criticisms, occurs out of public view, unless the firm fails to make progress to the Board's satisfaction in addressing those criticisms. In addition, the Board generally does not disclose otherwise nonpublic information, learned through inspections, about the firm or its clients. Accordingly, information in those categories generally does not appear in the publicly available portion of an inspection report.

^{1/} The Board does not make public any of a firm's comments that address a nonpublic portion of the report. In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report at all. The Board notes that it routinely grants confidential treatment, if requested, for any of a firm's comments that identify factually inaccurate statements in the draft that the Board corrects in the final report.

^{2/} See Statement Concerning the Issuance of Inspection Reports, PCAOB Release No. 104-2004-001 (August 26, 2004).

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted fieldwork for the inspection from June 20, 2005 to June 23, 2005. The fieldwork included procedures tailored to the nature of the Firm, certain aspects of which the inspection team understood at the outset of the inspection to be as follows:

Number of offices	1 (Pittsburgh, Pennsylvania)
Ownership structure	Limited liability partnership
Number of partners	8
Number of professional staff ^{3/}	21
Number of issuer audit clients ^{4/}	3

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits. To achieve that goal, Board inspections include reviews of certain aspects of selected audits performed by the firm and reviews of other matters related to the firm's quality control system.

In the course of reviewing aspects of selected audits, an inspection may identify ways in which a particular audit is deficient, including failures by the firm to identify, or to address appropriately, respects in which an issuer's financial statements do not present fairly the financial position, results of operations, or cash flows of the issuer in

^{3/} "Professional staff" includes all personnel of the Firm, except partners or shareholders and administrative support personnel. The number of partners and professional staff is provided here as an indication of the size of the Firm, and does not necessarily represent the number of the Firm's professionals who participate in audits of issuers or are "associated persons" (as defined in the Act) of the Firm.

^{4/} The number of issuer audit clients shown here is based on the Firm's self-reporting and the inspection team's review of certain information for inspection planning purposes. It does not reflect any Board determination concerning which, or how many, of the Firm's audit clients are "issuers" as defined in the Act.

conformity with GAAP.^{5/} It is not the purpose of an inspection, however, to review all of a firm's audits or to identify every respect in which a reviewed audit is deficient. Accordingly, a Board inspection report should not be understood to provide any assurance that the firm's audits, or its issuer clients' financial statements, are free of any deficiencies not specifically described in an inspection report.

A. Review of Audit Engagements

The scope of the inspection procedures performed included reviews of aspects of the performance of all three of the Firm's audits of the financial statements of issuers. Those aspects were selected according to the Board's criteria, and the Firm was not allowed an opportunity to limit or influence the selection process.

The inspection team identified matters that it considered to be audit deficiencies.^{6/} The deficiencies identified in one of the audits reviewed included deficiencies of such significance that it appeared to the inspection team that the Firm did not obtain sufficient competent evidential matter to support its opinion on the issuer's financial statements. Those deficiencies included –

- (1) the failure to perform and document sufficient audit procedures to test the value of stock-based compensation expense; and

^{5/} When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations or cash flows of the issuer in conformity with GAAP, the Board reports that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

^{6/} PCAOB standards require a firm to take appropriate actions to assess the importance of audit deficiencies identified after the date of the audit report to the firm's present ability to support its previously expressed opinions. See AU 390, *Consideration of Omitted Procedures After the Report Date*, and AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* (both included among the PCAOB's interim auditing standards, pursuant to PCAOB Rule 3200T). Failure to comply with these PCAOB standards could be a basis for Board disciplinary sanctions.

(2) the failure to perform and document sufficient audit procedures to test assumptions used in recording interest expense derived from a significant related party transaction.

B. Review of Quality Control System

In addition to evaluating the quality of the audit work performed on specific audits, the inspection included review of certain of the Firm's practices, policies and procedures related to audit quality. This review addressed practices, policies and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures. As described above, any defects in, or criticisms of, the Firm's quality control system are discussed in the nonpublic portion of this report and will remain nonpublic unless the Firm fails to address them to the Board's satisfaction within 12 months of the date of this report.

END OF PART I

PARTS II AND III OF THIS REPORT ARE NONPUBLIC
AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

PART IV

RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Board provided the Firm an opportunity to review and comment on a draft of this report. The Firm provided a written response.

Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report. The Board routinely grants confidential treatment, if requested, for any of a firm's comments that identify factually inaccurate statements in the draft that the Board corrects in the final report.

Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the Firm's response, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report. In any version of this report that the Board makes publicly available, any portions of the Firm's response that address nonpublic portions of the report are omitted.



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October 21, 2005

Mr. George H. Diacont
Director
Division of Registration and Inspections
Public Company Accounting Oversight Board
1666K Street, NW
Washington, DC 20006

Dear Mr. Diacont:

Thank you for the opportunity to review the PCAOB's Report on the Inspection of Louis Plung & Company, LLP dated September 28, 2005. We are committed to improving our audit quality and we will continue to enhance our audit methodology as well as our working paper documentation. We believe the PCAOB's inspection process is an invaluable means of evaluating the audit performance and quality controls of our firm thereby assisting us in performing the highest quality audits.

We support the efforts of the PCAOB in improving the quality of audits. We would like to take this opportunity to thank the PCAOB staff for their efforts in supporting our mutual objective of improving audit quality. We appreciated their professionalism, insights, and constructive comments they provided during their inspection.

During the inspection process the inspection team identified two deficiencies related to one issuer. While we understand that professional judgment is involved in public accounting, we respectively disagree with the assessments and conclusion the inspectors reached on both of their findings. Our response to the specific findings noted in Part I INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS is as follows:

Issuer A

- (1) The failure to perform and document sufficient audit procedures to test the value of stock-based compensation expense.**

Please consider the additional information described below when finalizing your final report regarding the inspection team's noted deficiency. We believe that the additional information will assist in understanding the facts and circumstances surrounding the inspection team's noted deficiency. The facts and circumstances are as follows:

The general rule to be applied when equity instruments are issued to non-employees for property or services other than cash is that the transaction should be recorded at the fair value

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of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. We do not believe APB Opinion No. 29 "Accounting for Nonmonetary Transactions" applies with respect to value that was assigned by the Issuer A to various equity transactions that it entered into based on APB No. 29 paragraph 4. c. which states in part "This Opinion does not apply to the following transactions: c. Acquisition of nonmonetary assets or services on issuance of the capital stock of an enterprise". We reviewed AICPA Practice Alert 2000 - 1 "Accounting for Certain Equity Transactions" and EITF 96-18 "Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services" with respect to recording these transactions.

All of the transactions the Issuer A entered into in which they exchanged common stock were for professional services. These professional services consisted primarily of the following:

- Product design and marketing by various professional athletes;
- Product marketing services;
- Construction modification and improvements as a result of the flooding caused by Hurricane Ivan;
- Legal services; and
- Strategic business planning.

The Issuer A's Chief Executive Officer negotiated the amount of common stock the professional service provider was to receive in exchange for the services they were to provide to the Issuer A. The amount of stock exchanged in these transactions was agreed to by both the Issuer A and the professional service provider.

Our audit procedures with respect to these transactions consisted of the following:

- Discussed the nature of the professional services provided to the Issuer A with the Chief Executive Officer and the amount and type of shares (restricted or unrestricted) the service provider was to receive in exchange for the professional services.
- Discussed the per share value that the Chief Executive Officer assigned to the professional services that were provided to the Issuer A.
- Compared the amount of agreed upon shares of common stock to the professional service provider to the amount of shares recorded in the Stock Transfer Agent's stock ledger.
- Reviewed the Stock Transfer Agent's stock ledger to ensure additional shares of common stock were not issued to the professional services provider for the professional services provided.
- We compared the per share value assigned to the professional services by the Issuer A's Chief Executive Officer to quoted market prices of the stock on the day the Issuer A and the professional service provider agreed to the number of shares of common stock to determine its reasonableness.

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The value of a professional services provider's services is subjective and in certain instances complex. The complexities surrounding the services take into account a number of factors including, but not limited to, services to be provided (marketing, construction, flood clean up, strategic business planning, etc.), the professional providing the services (celebrity, top 10 marketing firm in the United States, Partner in a law firm, etc.) and the timing of the services (summer, peak business season, after a natural disaster, etc.). Furthermore, the value of these services is also based on what the market will bear based on the aforementioned factors. Consequently, in our professional judgment, we believe that the fair value of the Issuer A's common stock was more reliably measurable for the valuing of the services the Issuer A received because (i) the Issuer A and service provider agreed to amount of shares that would be exchanged for the performance of the service and (ii) the Issuer A's stock has a readily determinable market value. The determining factor in our professional judgment is that the number of shares to be exchanged was agreed to by both parties in the transaction.

We believe we performed the audit procedures necessary to afford a reasonable basis as to the value assigned to the professional services provided to Issuer A in exchange for common stock based on AICPA Practice Alert 2000 - 1 "Accounting for Certain Equity Transactions" and EITF 96-18 "Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services". Based on the facts and circumstances as documented above, we do not believe this matter to be a deficiency of such significance that it appeared that we did not obtain sufficient competent evidential matter to support our opinion on the Issuer A's financial statements.

Issuer A

- (2) **The failure to perform and document sufficient audit procedures to test assumptions used in recording interest expense derived from a significant related party transaction.**

Please consider the additional information described below when finalizing your final report regarding the inspection team's noted deficiency. We believe that the additional information will assist in understanding the facts and circumstances surrounding the inspection team's noted deficiency. The facts and circumstances are as follows:

Issuer A entered into this related party transaction November 25, 2002. This was disclosed in the previously audited financial statements and Form 10-KSB for the year ended October 31, 2003. This transaction was subject to auditing procedures performed by the predecessor auditor. We were engaged as the successor auditor of Issuer A on June 1, 2004. Shortly after being engaged as the successor auditor, we contacted the predecessor auditor in accordance with auditing standards generally accepted in the United States of America as prescribed by the AICPA US Auditing Standards section AU 315 "Communication Between Predecessor and Successor Auditors" to discuss various matters and transactions that were subject to their auditing procedures in order for them to issue their independent auditors' report on Issuer A's financial statements as of and for the year ended October 31, 2003. During our discussions, we specifically discussed the related party transaction referred to above in the PCAOB Comment - Facts section. The nature of our conversation was to understand the recording of this transaction and to obtain a copy of the interest accretion schedule that was used in recording the expense activity for this related party transaction.

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AICPA US Auditing Standards section AU 315.12 "Successor Auditors' Use of Communications" states in part "The successor auditor must obtain sufficient competent evidential matter to afford a reasonable basis for expressing an opinion on the financial statements he or she has been engaged to audit, including evaluating the consistency of the application of accounting principles. The audit evidence used in analyzing the impact of the opening balances on the current-year financial statements and consistency of accounting principles is a matter of professional judgment. Such audit evidence may include the most recent audited financial statements, the predecessor auditors' report thereon, the results of inquiry of the predecessor auditor, the results of the successor auditor's review of predecessor auditor's working papers relating to the most recently completed audit, and audit procedures performed on the current period's transactions that may provide evidence about the opening balances or consistency."

The audit evidence we obtained or performed included the following:

- We obtained and read the most recent audited financial statements and the predecessor auditors' report thereon.
- We obtained and read the most recent filed Form 10-KSB.
- We obtained and read a copy of the November 25, 2003 sublicense agreement between the Issuer A and the related party for the exclusive rights to distribute various products created by the related party and to use a proprietary fabric only the related party is able to distribute throughout the United States, Canada, Mexico, India, the United Kingdom and Turkey in products that they developed.
- We discussed the nature of this transaction with the predecessor auditor and obtained the necessary documentation from the predecessor auditor that we believed in our professional judgment was needed to assess the nature and the recording of this transaction.
- We performed auditing procedures based on our professional judgment we believed that needed to be completed on documentation that we received from the predecessor auditor.

Based on the procedures outlined above and the facts and circumstances as we understood them, in our professional judgment, we had no reason to believe that the fair value assigned to the sublicense agreement that was audited by the predecessor auditor and included in the audited financial statements and Form 10-KSB filed with the Securities and Exchange Commission was not properly valued. Furthermore, the sublicense was for marketing and manufacturing products with a proprietary fabric that no-one else is permitted to use throughout North America and parts of Europe.

The sublicense agreement was for a ten year period. Issuer A paid \$50,000 upon signing the agreement with the balance of the note to be paid at \$400,000 per year for the next three years. No interest rate was stated; accordingly, Issuer A discounted the payments using a discount rate. The discount rate is a function of total purchase price of the sublicense agreement, the amount the Issuer A had paid in cash, the amount left to be paid over the thirty six month term. The fact that the first or second year payments were not made by Issuer A

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would have no bearing on the interest expense. The interest charged to expense and added to the outstanding loan balance was used to accrete the value of this note to the total agreed upon value of the license agreement of \$1,250,000.

On January 31, 2005, the related party agreed to accept stock in Issuer A in settlement of \$763,639 of Issuer A's obligation to them. As of this date Issuer A still owes related party \$200,000 for this sublicense agreement.

Based on the information documented above and as is stated in AICPA US Auditing Standards section AU 315.12 "Successor Auditors' Use of Communications", the audit evidence used in analyzing the impact of opening balances is a matter of professional judgment. In our professional judgment, we believed we performed the procedures necessary to afford a reasonable basis for expressing an opinion on Issuer A's financial statements. Based on the facts and circumstances as documented above, we do not believe this to be a deficiency of such significance that it appeared that we did not obtain sufficient competent evidential matter to support our opinion on the Issuer A's financial statements.

Professional judgment is inherent throughout our profession. Consequently from time to time differences of opinion occur between professionals regarding the interpretation, recording and or implementation of authoritative accounting literature. Our ultimate goal is to interpret, record or implement accounting transactions in a manner similar to our peers. We believe that the findings in question were interpreted in a manner similar to how our peers would have interpreted these transactions.

We appreciate the opportunity to respond to the Report and would welcome the opportunity to discuss any matters that may require further explanation before finalizing the Report. Since the inspection, we have taken or will be taking steps to address all the issues raised by the inspection team. The steps taken to date include performing additional auditing procedures or enhancing the documentation in the audit files. As a result of these steps, we have concluded that no new facts or circumstances came to our attention that would cause us to believe that our previously issued auditors' report should be withdrawn. We are currently in the process of preparing a detailed response to the issues reported in Part 2 of section B "Issues Related to Quality Controls" that we will be forwarding to you under a separate letter.

Sincerely,

Louis Plung & Company, LLP
LOUIS PLUNG & COMPANY, LLP