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Inspection of
Gruber & Company, LLC
(Headquartered in Lake St. Louis, Missouri)

Issued by the

Public Company Accounting Oversight Board

January 21, 2010

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

PCAOB RELEASE NO. 104-2010-006

PCAOB Release No. 104-2010-006

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 U.S. Generally Accepted Accounting Principles ("GAAP") or Securities and Exchange Commission ("SEC" or "Commission") disclosure requirements in its audits of financial statements. This report's descriptions of any such auditing failures necessarily involve descriptions of the related GAAP or disclosure 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 or Commission disclosure requirements, rests with the Commission. Any description, in this report, of perceived departures from GAAP or Commission disclosure requirements should not be understood as an indication that the Commission has considered or made any determination regarding these issues unless otherwise expressly stated.

PCAOB Release No. 104-2010-006

PCAOB
Public Company Accounting Oversight Board

INSPECTION OF GRUBER & COMPANY, LLC

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Gruber & Company, LLC[1/] ("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.[2/]

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.[3/] 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 Firm has issued audit reports under the name of E. Randall Gruber, CPA, PC.

2/ The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. 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 routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

3/ 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 primary procedures for the inspection from October 6, 2008 to October 10, 2008. These procedures were 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 (Lake St. Louis, Missouri)
Ownership structure	Limited liability company
Number of partners	1
Number of professional staff[4/]	None
Number of issuer audit clients[5/]	58

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits.[6/] 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.

4/ "Professional staff" includes all personnel of the Firm, except partners or shareholders and administrative support personnel.

5/ 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. In some circumstances, a Board inspection may include a review of a firm's audit of financial statements of an issuer that ceased to be an audit client before the inspection, and any such former clients are not included in the number shown here.

6/ This focus necessarily carries through to reports on inspections and, accordingly, Board inspection reports are not intended to serve as balanced report cards or overall rating tools.

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 conformity with GAAP.[7/] 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 inspection procedures included a review of aspects of the Firm's auditing of financial statements of four issuers. The scope of this review was determined according to the Board's criteria, and the Firm was not allowed an opportunity to limit or influence the scope.

The inspection team identified what it considered to be audit deficiencies.[8/] The deficiencies identified in all four of the audits reviewed included deficiencies of such significance that it appeared to the inspection team that the Firm did not obtain sufficient

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[7/] 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's practice is to report that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

[8/] 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.

competent evidential matter to support its opinion on the issuers' financial statements.[9/] Those deficiencies were –

(1) the Firm's failure to identify, or to address appropriately, a departure from GAAP that related to a potentially material omission from the issuer's audited financial statements concerning the issuer's failure to provide required disclosures concerning inventory;

(2) the failure, in three audits, to perform sufficient audit procedures to test revenue;

(3) the failure, in two audits, to perform sufficient audit procedures to test inventory;

(4) the failure to perform sufficient audit procedures to test the issuer's financial statements for the period from inception to the date of the financial statements; and

(5) the failure to perform sufficient audit procedures to test cash.

[9/] In some cases, an inspection team's observation that a firm failed to perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if a firm claims to have performed the procedure. PCAOB Auditing Standard No. 3, *Audit Documentation* ("AS No. 3"), provides that, in various circumstances including PCAOB inspections, a firm that has not adequately documented that it performed a procedure, obtained evidence, or reached an appropriate conclusion must demonstrate with persuasive other evidence that it did so, and that oral assertions and explanations alone do not constitute persuasive other evidence. See AS No. 3, paragraph 9; Appendix A to AS No. 3, paragraph A28. For purposes of the inspection, an observation that the Firm did not perform a procedure, obtain evidence, or reach an appropriate conclusion may be based on the absence of such documentation and the absence of persuasive other evidence.

One of the deficiencies described above related to auditing an aspect of an issuer's financial statements to which the issuer made substantial adjustments subsequent to the primary inspection procedures.[10/]

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

[10/] The Board inspection process did not include review of any additional audit work related to the adjustments.

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 Firm provided a written response to a draft of this 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.[11/]

[11/] In any version of an inspection report that the Board makes publicly available, any portions of a firm's response that address nonpublic portions of the report are omitted. In some cases, the result may be that none of a firm's response is made publicly available.

Gruber & Company, LLC
Certified Public Accountants

November 29, 2009

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

Re: Gruber & Company, LLC Response to Draft Copy of Inspection Report

Dear Mr. Diacont:

We are pleased to submit our response to your October 30, 2009 draft report on your inspection of our public company audit practice completed in October, 2009. We are supportive of the Public Company Accounting Oversight Board, it's mission and the inspection process. We believe the Board's comments and observations are helpful in identifying areas where we can improve our audit quality and processes. This letter represents our response to the public portion of the Inspection draft report.

We understand that professional judgment is involved in both the performance of auditing procedures and in the subsequent inspection process. We also understand that professional judgments among experienced, very competent and well-trained audit professionals may differ as to the extent of auditing procedures applied, conclusions reached and the extent of documentation to support conclusions reached. We recognize the constructive intent of the PCAOB inspection process and as such, we provided the inspection staff with our full cooperation, considered their judgments and views.

The inspection team noted their understanding that the Firm was a limited liability company with one partner and no professional staff, with a total of fifty-eight issuer audit clients. We discussed with the inspection team that even though we have no full-time employees, there are a total of seven audit staff including the partner. The audit staff consists of four additional Certified Public Accountants, including one other Firm that is registered with the Public Company Accounting Oversight Board. Each of these four Certified Public Accountants work with the Firm on an as-needed basis. The inspection team was provided with the resumes of three of the Certified Public Accountants and was provided with their independence verifications with respect to the Firm's issuer audit clients. In addition, there is one additional graduate accountant who assists the Firm on an as-needed basis, and one accountant who provided audit services on a full-time contract basis. One of the Certified Public Accountants was involved in discussion with the Firm's partner regarding joining the Firm as audit partner. This individual was responsible for performing services for twenty-two of the Firm's issuers subject to the Partner's review and completion.

The Firm's response to the comments in the draft copy of the Inspection Report is as follows:

Part I

A (1) The Firm's failure to identify, or to address appropriately, a departure from GAAP that related to a potentially material omission from the issuer's audited financial statements concerning the issuer's failure to provide required disclosure concerning inventory.

Response – The Firm discussed with the issuer the failure to adequately disclose inventory policies in the notes to its' financial statements. As of the filing of the Form 10Q for the three and nine months periods ended September 30, 2008, and succeeding filings the required disclosures regarding inventory,

Part 1 A (1) Continued

including the valuation at the lower of cost on a first-in, first-out basis were included in the notes to the issuer's financial statements.

We carefully considered this finding as to whether it was necessary to perform additional procedures to support our overall audit conclusion and determined that no additional procedures were necessary.

Part 1

A (2) The failure in three audit to perform sufficient audit procedures to test revenue.

Issuer A is a development stage company with revenues totaling approximately $202,000 and had a net loss of approximately $73,500,000 for the year ended December 31, 2007. The issuer had revenues totaling approximately $39,500 and had a net loss of approximately $178,000,000 for the year ended December 31, 2006. The Firm did not determine that revenue was a fraud risk, or a significant audit area.

Issuer A had five customers for whom it was performing services during 2007. The Company bills each customer at the end of the month for services performed during that month. We tested the issuer's revenues through a variety of procedures, including analytical procedures, a review of the issuer's general ledger activity, and the proper recording of the revenue transactions. Due to the limited number of customers, we were able to review all billings for the months of December, 2007 and January, 2008 to determine that revenues were recorded properly and properly cut-off and recorded in the correct accounting period.

We reviewed this finding and considered whether it was necessary to perform additional procedures to support our overall audit conclusion and determined that no additional procedures were necessary.

Issuer B uses a service provider, PayPal (an EBay Company) for selling its products online and for telephone based sales. PayPal provides the service of approving or rejecting the customer's credit card and alerts the Company to ship the product if the transaction is approved. The issuer maintains an Excel spreadsheet of approved sales transactions as documented by PayPal.

We tested the issuer's revenues using a combination of analytical procedures, inquiry and subsequent collections. The key control provided by the service provider involved the customer payment submission (credit card) through to the transfer of funds from the customer's bank account to the issuer's bank account. We tested the Excel spreadsheet for proper revenue cut-off to determine that revenues were recorded in the proper accounting period. We also tested subsequent collections during the month of January, 2008 to determine that the customer's approved credit card transactions were received in accordance with collection guidelines.

Subsequent to the PCAOB inspection, we obtained an SAS 70 report issued by PayPal and we prepared an SAS 70 review checklist. Based upon the review of the SAS 70 report and the results of testing the key controls we concluded that the key controls of PayPal are satisfactory to conclude that the controls are operating with sufficient effectiveness to provide reasonable but not absolute assurance that the specific control objectives were achieved. Based upon the results obtained from testing the Excel spreadsheet and the SAS 70 report, we concluded that the issuer's revenues were properly recorded in accordance with the appropriate revenue recognition standards, and in accordance with the issuer's revenue recognition policies.

Part 1 A (2) Continued

We reviewed this finding and considered whether it was necessary to perform additional procedures to support our overall audit conclusion and determined that no additional procedures were necessary.

Issuer D is a South Korean based provider of integrated mobile membership services. We determined that the issuer recognized revenue in accordance with SEC guidelines and in accordance with local laws and regulations. The Company is a development stage company that had total revenues of approximately $191,000 for the initial period beginning February 17, 2007 and ending December 31, 2007. Accounts receivable totaled approximately $32,000 with total assets of approximately $2,072,000 at December 31, 2007.

We tested the issuer's revenues using a combination of an examination of a sales contract and related invoice, analytical procedures, inquiry and subsequent collections.

At December 31, 2007 the issuer had five customers with outstanding balances totaling $31,737. We chose one customer with a balance of $20,460 or 65% of total accounts receivable. As noted by the inspection team, we traced the customer balance to the respective invoice to agree. We examined the related sales contract and determined that the revenue was properly recorded in the correct period. The sales contract represented 12% of the issuer's total sales for the period. We traced 100% of the accounts receivable balance outstanding at December 31, 2007 to subsequent collection and cash receipts to agree without exception. The accounts receivable balance at December 31, 2007 represented approximately 16% of the total sales during the period.

As a test of the sales cut-off at December 31, 2007, we reviewed sales transactions during the last five days of December, 2007, and the first five days of January, 2008 and determined that there were no sales transactions for that ten day period. We marked the step in the audit program relating to testing sales cut-off as N/A. We in fact should have indicated that there was no sales activity during that period.

We reviewed this finding and considered whether it was necessary to perform additional procedures to support our overall audit conclusion and determined that no additional procedures were necessary.

Issuer D ceased reporting to the Securities and Exchange Commission after filing the Form 10Q for the three and nine months period ended September 30, 2008.

Part 1

A (3) – The failure, in two audits, to perform sufficient audit procedures to test inventory:

Issuer B – The issuer's inventory is valued at the lower of cost or market, on a first-in, first-out basis. We examined vendor's invoices to account for the entire quantity of stock on hand per the issuer's physical inventory listing at December 31, 2007. We traced the per unit cost to the total quantity on hand at December 31, 2007 and determined that the costs agreed with the extended cost of quantity on hand multiplied times the invoice cost without exception.

The inspection team noted that our workpapers indicated that the cost per unit was the "current cost". We have changed the workpaper to properly reflect that the inventory is recorded at cost and that we examined the vendor's invoices to account for the units in stock at December 31, 2007 noting no exception to the recorded cost. We have noted this change and the date the workpaper was changed in the audit working paper file.

Part 1 A (3) Continued

The Firm discussed with the issuer the failure to adequately disclose inventory policies in the notes to its' financial statements. As of the filing of the Form 10Q for the three and nine months periods ended September 30, 2008, and succeeding filings the required disclosures regarding inventory, including the valuation at the lower of cost on a first-in, first-out basis were included in the notes to the issuer's financial statements.

We carefully considered this finding as to whether it was necessary to perform additional procedures to support our overall audit conclusion and determined that no additional procedures were necessary.

Issuer C – Issuer is based in Hong Kong and mainland China, and is a manufacturer, wholesaler and retailer of diamonds and colored stones jewelry. The Issuer's inventory consists of diamonds and colored stones at various stages, from raw stones to cut and polished stones, and jewelry in process and completed goods.

The inspection team noted that the audit team that observed the physical taking of inventory did not include a specialist in gemology. In the exit conference with the inspection team, the discussion was how the audit team was certain that the "diamonds" we were examining were really diamonds or just "cut glass" since we were not accompanied by a specialist in gemology. Our response was focused on the controls established by the issuer and also by the Customs Laws of the People's Republic of China. We discussed that the Customs Department established the Shanghai Diamond Exchange to exercise close supervision over the diamond business in China, including laser encryption of each diamond over .2 carats. We also discussed that the issuer utilizes either the International Gemological Institute (IGI) or the Gemological Institute of America (GIA) to prepare a diamond report for each diamond greater than .2 carats. The GIA reports or attached in a pouch together with the gemstone indicating the description of the gemstone, the grade of the gemstone, the measurements and the weight.

The GIA applies the same item identification to colored gemstones as to diamonds, including identification, weight and measurement and prepares a report. All colored gemstones were not graded by the GIA, but we were able to review reports on a sample basis noting no discrepancy.

We relied on the controls established by the issuer, the Customs Department of the People's Republic of China, the Shanghai Diamond Exchange, and the inspection of reports prepared by the Gemological Institute of American (GIA) and the International Gemological Institute (IGR) on a test basis during the physical inventory observation of the issuer's inventory to determine that the diamonds and colored stones were as represented.

We carefully considered this finding as to whether it was necessary to perform additional procedures to support our overall audit conclusion and determined that no additional procedures were necessary.

During the physical inventory observation performed for the year ended December 31, 2008, we were accompanied by an independent gemologist with the credentials, *Graduate Gemologist, GIA*. Her report stated that she inspected the following stones, green gold quartz; green amethyst; lima quartz; maderia citrine; blue topaz; citrine; amethyst; rose defrance amethyst; Paraiba tourmaline and diamond. In her opinion, the stones which were inspected were truly stated in the records of the issuer's inventory.

Part 1

A (4) – The failure to perform sufficient audit procedures to test the issuer's financial statements for the period from inception to date of the financial statements.

Issuer A – The issuer is a development stage company which has been in existence since October 21, 1983, Other auditors had audited the issuer through the years ended December 31, 2006. We were engaged as auditors during March, 2008. The auditor's report on the December 31, 2006 financial statements and for the period from inception October 21, 1983 to December 31, 2006 indicated that their opinion as to amounts included for the cumulative period from October 21, 1983 to December 31, 2003 was based solely on the reports of other auditors.

This issuer was retained by an associate of the Firm who was deemed to be the next Firm partner but who has subsequently left the Firm. This associate had over twenty years of SEC reporting experience and was assigned to supervise this audit engagement.

The predecessor audit working papers were reviewed by this Firm associate. A memo prepared by this associate of the Firm indicated that he had reviewed the predecessor's working papers for the year ended December 31, 2006 including the roll forward working papers related to the development stage activity from inception through December 31, 2006.

During the exit conference with the PCAOB inspection team, we discussed whether or not we audited the amounts presented for the period from October 21, 1983 (date of inception) through December 31, 2007. We stated that we had audited the financial statements for the years ended December 31, 2006 and 2007. In addition, we discussed the procedures performed by the former Firm associate including the review of roll-forward totals and examination on a test basis of recorded revenues and expenditures from inception.

We determined that the years ended December 31, 2005, 2006 and 2007 represented the majority of recorded development stage activity, or approximately 94% of the total expenditures and losses. Since we reviewed working papers for the years ended December 31, 2005 including roll-forward amounts, and audited the financial statements for the years ended December 31, 2006 and 2007 and since the deficit accumulated during the development stage totaled $314,000,000 at December 31, 2007 of which $271,000,000 or 86% was incurred during the years ended December 31, 2005 through 2007 we determined that we were able to express an opinion on the development stage activities from October 21, 1983 (date of inception) through December 31, 2007.

Part 1

A (5) – The failure to perform sufficient audit procedures to test cash.

Issuer D – During the planning phase of the audit of this issuer, the Firm assessed inherent and control risk over cash as moderate. Upon beginning audit fieldwork we determined that the cash balances represented less than 5% of the total assets or approximately $41,000, and we re-assessed the risks associated with cash as low. We traced the December 31, 2007 cash balances to the year-end bank statements and reconciliations and traced to the beginning balances per the January, 2008 bank statements. PCAOB auditing standards AU 330.10 states that "if the combined assessed level of inherent risk and control risk over the existence of cash in low, the auditor may limit substantive procedures to inspecting client provided bank statements rather than confirming bank balances."

Part 1 A (5) Continued

We carefully considered this finding as to whether it was necessary to perform additional procedures to support our overall audit conclusion and determined that no additional procedures were necessary. We have, however, documented our decision to assess the level of inherent and control risk over the cash balances as low upon the determination that cash balances represented less than 5% of total assets at the audit date.

As reported in the Form 10Q for the three and nine months period ended September 30, 2008, the issuer's only operating subsidiary sold, on November 7, 2008, 50% of its common stock to another entity, and on January 30, 2009 sold an additional 5.9% of its common stock to the same entity. The issuer's ownership was reduced to a minority interest of 44.9%. The issuer has ceased filing reports with the Securities and Exchange Commission.

Additional comments regarding the draft inspection report of Gruber & Company, LLC

In evaluating the matters identified on the four issuers on which the Board has commented, we have considered whether it was necessary to perform additional auditing procedures in accordance with AU 390, *Consideration of Omitted Procedures After the Report Date*. As noted, in some instances, we have added additional documentation, and in others we made the decision that none were needed. As a result of this additional documentation, no new facts have come to our attention that caused us to believe that our previously issued auditor's report should have been withdrawn or that our work, as originally documented and performed was inconsistent with the conclusions reached.

In connection with the Board's comments in the draft inspection report, we have concentrated our continuing education around Securities and Exchange Commission reporting issues. We also attended the PCAOB small business seminar held in Denver, Colorado in November, 2009. We found this seminar to be very helpful and timely, especially in guidance provided by the discussion leaders regarding auditing revenues, an area addressed in the draft inspection report for three issuers.

We appreciate the opportunity to provide our response to the draft inspection report and look forward to continuing to work with the PCAOB on matters of interest to our public company audit practice. We believe that our overall audit documentation still needs some improvement and we continue to upgrade our practice to accomplish this.

We also wish to commend the inspection team for the professional manner in which it performed the inspection.

Sincerely,

Gruber + Company, LLC

Gruber & Company, LLC