

**Inspection of
The LSC Group LLC
(Headquartered in Tampa, Florida)**

Issued by the
Public Company Accounting Oversight Board
August 9, 2011

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 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.

INSPECTION OF THE LSC GROUP LLC

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm The LSC Group 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 Loughheed & Company LLC.

^{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 March 22, 2010 to March 30, 2010 and on April 5, 2010. 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 | 2 (Tampa, Florida; and New York, New York) |
| Ownership structure | Limited liability company |
| Number of partners | 1 |
| Number of professional staff ^{4/} | 1 |
| Number of issuer audit clients ^{5/} | None |

^{4/} "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.

^{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.

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.

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 Engagement

The inspection procedures included a review of aspects of the Firm's auditing of financial statements of one issuer. 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 the audit reviewed included a deficiency of such significance

^{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.

^{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*

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.^{9/} That deficiency was -

the failure to perform sufficient audit procedures to evaluate whether certain costs were appropriately presented and disclosed as restructuring and exit costs.

B. Review of Quality Control System

In addition to evaluating the quality of the audit work performed on a specific audit, 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

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.

^{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.

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.^{10/}

^{10/} 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.

The LSC Group

Complex Accounting

Valuation Services

Financial Management

June 9, 2011

Public Company Accounting Oversight Board
Division of Registration and Inspections
1666 K Street, N.W.
Washington, D.C. 20006

Subject: Inspection Report Part I

Ladies and Gentlemen:

We would like to thank the Board for their inspection of our Firm and our audit of Company A and we appreciate the professionalism of the members of the inspection team assigned.

As stated in the Inspection Report, Company A recorded liabilities for three captions of expense in connection with their restructuring plan, which contributed 21% of the net loss for the period. The costs were (i) a lease termination resulting from abandonment (11%); (ii) employee termination benefits (9%); and other associated costs, which represented legal costs associated with the lease (1%). The Inspection Report states that there was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had performed audit procedures to evaluate whether the termination benefits and lease settlement costs were appropriately accounted for and disclosed as restructuring and exit costs under pre-codification SFAS No. 146.

Lease Termination and Associated Costs

The lease termination costs and related legal expenses arose when Company A physically abandoned their corporate headquarters that they had occupied under an operating lease. Company A recorded the lease termination costs at fair value during interim periods following the abandonment in accordance with SFAS No. 146 and adjusted the obligation to the amount provided in a legal settlement that was executed three months prior to the close of its fiscal year end subject to our audit. We note that the Inspection Report indicates that we represented that Company A abandoned the facility inferring that there was no documentation of the method by which they terminated the contract. However, the settlement agreement in our files that partially served as our evidence explicitly stated that Company A vacated the premises.

SFAS No. 146, in paragraph 2, states that the statement applies to costs associated with an exit activity and that those costs include, but are not limited to, costs to terminate a contract that is not a capital lease. In paragraph 14, the Statement states that it applies to costs that will continue to be incurred under the contract for its remaining term without economic benefit to the entity. Paragraph 16 states that a liability for costs that will continue to be incurred under a contract for its remaining term without economic benefit to the entity shall be recognized when the entity ceases using the right conveyed by the contract. We believe that the cease-use date was February 11, 2008, which was the date that they vacated the premises as reflected in our SFAS No. 146 memorandum.

Lease Termination and Associated Costs (continued)

The Inspection Report indicates that our documentation consisted of a memorandum on the application of SFAS No. 146 and a copy of the settlement agreement. We believe that a combination of those items is sufficient evidence to conclude on the amount and the propriety of Company A's application of SFAS No. 146 to the lease abandonment.

Termination Benefits

The termination benefits were provided to five involuntarily terminated officers of Company A over a period from March 2008 to September 2008. Paragraph 8 of SFAS No. 146 provides that a "one-time benefit arrangement" is an arrangement established by a plan of termination that applies for a specified termination event or for a specified future period. Paragraph 8 further sets forth the four requisite conditions for a plan. The explicit requirement for a written plan does not appear to be present in SFAS No. 146. There was no written plan. However, the absence of a written plan does not obviate our consideration of communications to us and management's activities, the preponderance of which appeared to us to be sufficient to support that a plan existed.

We believe that we documented the existence of the plan in our Summary Review Memorandum. This documentation includes notation that we attended Company A's first quarter Audit Committee Meeting where the plan was verbally presented to us with all members of management and all members of the Board of Directors present. This documentation states why the Board commenced the restructuring program, the specific plan to terminate non-performing management and even their objectives from the planned activities.

As a result of our meeting, we believe that we acquired sufficient evidence that (i) management, having the authority to approve the action, had committed to the plan and (ii) management had identified the specific employees to be terminated. These are the first two conditions of a plan under paragraph 8 of SFAS No. 146. The other two conditions that require establishment of the terms of the benefits and establishment of probability of payment were, in our view, evidenced in the executed termination agreements and the fact that substantially all of the termination benefits had been paid before the close of Company A's fiscal year. We examined the payments. A remaining accrual balance representing approximately 2% of Company A's net loss remained at year end.

Overall, we disagree with the Board's conclusion that there was no evidence that we evaluated whether the termination benefits were appropriately accounted for as an exit activity. We provided our conclusions as to the applicability of SFAS No. 146 in the memorandum referred to in the Inspection Report and there is evidence in our working papers that we believe is sufficient establish the conditions for the plan required in paragraph 8 of SFAS No. 146

Disclosure

As to the propriety of the disclosure, while the disclosure related to Company A's restructuring program is in accordance with SFAS 146 and the SEC's guidelines for restructuring activities, we concede that we have no documentation or notation in our files to that effect.

Subject: Inspection Report Part III

Reliance Considerations under AU561

As required in AU561, we considered whether, based upon the findings of the PCAOB, we needed to take actions to prevent unwarranted reliance on our previously expressed audit opinion dated December 24, 2008. Following our resignation on January 5, 2009, the successor auditors of Company A conducted three quarterly reviews, the latest being filed on August 19, 2009, but did not perform or complete the annual financial statement audit for Company A's fiscal year ended September 30, 2009. Accordingly, Company A did not file its Annual Report on Form 10-K for its year ended September 30, 2009 or any subsequent financial statement under the Securities and Exchange Act of 1934. Further, in a series of Current Reports on Forms 8-K commencing July 20, 2009 and concluding May 28, 2010, Company A reported a series of events related to officer resignations, disagreements with members of management and board members and, ultimately, the foreclosure on all of its assets by a lender, followed by the suspension of its operations and disbandment of its management.

As a result of the above pattern, as was reported in publicly available filings, it is our belief that it is unlikely that any parties continue to rely on the September 30, 2008 financial statements upon which we reported or our report thereupon dated December 24, 2008.

Sincerely yours,

William W. Lougheed

William W. Lougheed, C.P.A.
Managing Director