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September 2, 2005

Mr. Jonathan Katz
Committee Management Officer
U.S. Securities and Exchange Commission
100 F. Street, N.E.
Washington, DC 20549-6561

Re: File No. 265-23, Request for Input by Advisory Committee on Smaller Public Companies

Dear Mr. Katz:

PricewaterhouseCoopers LLP appreciates the opportunity to provide written comments to the Securities and Exchange Commission's ("SEC") Advisory Committee on Smaller Public Companies' ("Advisory Committee") request for input on ways to improve the current regulatory system for smaller companies under the securities laws of the United States, including the Sarbanes-Oxley Act of 2002 ("SOX").

We have provided our answers to the questions posed by the Advisory Committee and respectfully submit them for consideration.

General Impact of Sarbanes-Oxley Act

6. **Has SOX resulted in a diversion of the attention of company management away from operational activities, or otherwise imposed an opportunity cost on the management of smaller public companies? If so, have the benefits of SOX justified the diversion or opportunity cost? Please explain.**

   We believe that the longer term benefits of SOX, including Section 404, which are difficult to quantify, but include increased confidence in the quality of financial reporting, justify the costs of compliance, including opportunity costs.

   Given the delayed filing requirements, currently, non-accelerated filers do not need to comply with SOX Section 404 until the fiscal year ended 2006. Based on our experience with accelerated filers, we acknowledge that some diversion of management's attention from operational priorities will occur, but primarily in the first year of adoption. This diversion likely will be more pronounced at small companies who generally have fewer resources available. However, we also expect that in subsequent years the demands of maintaining effective internal controls will be significantly lessened.

SOX Section 404/Internal Controls

10. In developing a "risk-based" approach for assessing and auditing internal control over financial reporting for smaller companies under SOX Section 404, what criteria would you use to categorize internal controls from the highest risk to the lowest risk controls?

All components of the internal control framework should be considered in applying a risk-based approach for assessing and auditing internal controls over financial reporting. We believe that the Control Environment, Risk Assessment, and Monitoring of Controls components, as defined by COSO, should be assessed as higher risk due to the pervasiveness of these types of controls. The controls that support these components may be more susceptible to override at smaller companies due to senior executives generally having a higher degree of direct involvement in the operations of the company and a lack of segregation caused by limited resources.

We believe that the factors considered in determining risk within the Control Activities component of COSO are substantially the same at larger and smaller companies. The following factors should be considered in assessing the level of risk related to a specific account. The level of risk should be considered in determining the nature, timing and extent of testing.

1) Inherent risk associated with the related account or disclosure (i.e., in the absence of internal controls, the susceptibility of an account balance to misstatement that could be material, quantitatively or qualitatively);
2) Complexity or pervasiveness of the control;
3) Effectiveness of the company level controls with a direct or indirect impact on the account or disclosure;
4) History of misstatements affecting the account or disclosure due to error or fraud or history of control deficiencies; and
5) For the auditor's testing, the results of the testing of others (e.g., management or internal audit), including the existence of exceptions or control deficiencies.

11. Do you believe that at least some SOX Section 404 internal controls for smaller companies can be appropriately assessed less often than every year? If so, what SOX Section 404 internal controls do you think need to be assessed by management every year?

What controls do you think need to be assessed at least every two years?

What controls do you think could be assessed only once every three years?

We believe that management should assess and report on internal control over financial reporting annually. This requires management to obtain evidence about the design and operating effectiveness of controls over all relevant financial statement assertions related to all significant accounts and disclosures in the financial statements on an annual basis. Management could, however, vary the nature, timing, and extent of the testing performed from year to year based on the factors outlined in our response to question #10 above.

12. Current standards require that the auditor must perform enough of the testing himself or herself so that the auditor's own work provides the principal evidence for the auditor's opinion. Are there specific controls for smaller companies for which the auditor should appropriately be permitted to rely on management's testing and documentation? Are there specific controls for smaller companies where this is particularly not the case?

We believe that the auditor's own work should continue to be the principal evidence for the auditor's opinion. The current standard allows the auditor to use of work of others to alter the nature, timing, and extent of the work performed in the audit of internal controls over financial reporting of both large and small companies, except for work performed related to the control environment and walkthroughs, while maintaining its own work as principal evidence. We believe that the determination of the controls for which the auditor can rely on management's testing should be based on the nature of the control, the competence and objectivity of those performing the work, and the quality and effectiveness of the work performed. The results of this analysis will vary from company to company as is appropriate for an approach that is tailored to individual circumstances. Therefore, we believe that it is inappropriate to identify specific controls, other than walkthroughs and the control environment, for which the auditor should always (or never) rely on the work of others.

13. Is the cost and timing of SOX Section 404 certification a deterrent to smaller companies going public? Are there companies where this deterrent is appropriate? (I.e., are there companies that should not go public and is SOX Section 404 one appropriate control on the process?) If there is such a deterrent, would it be appropriate to provide some exemption or special consideration to companies that have recently gone public, and for how long would you extend this special treatment?

While we have not performed a formal study or survey on this subject, we have obtained some anecdotal information that suggests that some smaller companies may see the cost of SOX Section 404 certification as a deterrent to going public. It should also be considered that Section 404 compliance is only one cost of being a public company. Being a public company in today's environment requires significant investment in legal and regulatory compliance costs, external reporting and investor relations infrastructure, directors and officers insurance and often, enhanced director and management compensation. It would be inappropriate to isolate the costs of Section 404 compliance as a primary deterrent.

While we believe that one standard for all companies is the foundation for more clarity in the marketplace for investors, we recognize the burden this creates for some companies that are smaller in scale. We would therefore not take exception to an exemption for smaller companies as discussed in our answer to question #14 below.

We do not believe that special considerations should be given to companies that have recently gone public unless they qualify for the exemption discussed below.

14. **Do the benefits of SOX Section 404 outweigh its costs for smaller companies? Please explain.**

    Would you support a total exemption from SOX Section 404 requirements for smaller companies? Why or why not?

    Would such an exemption have a negative effect on investors' interests or perception regarding smaller companies? Why or why not?

    Although we believe that the assessment of internal controls under SOX Section 404 is important for all companies, we do recognize that the cost may be disproportionately high for smaller companies. This is partially due to the significant fixed costs of performing an assessment and the time necessary to perform management and the auditor's testing that does not increase or decrease proportionate to the size of the account on which the procedures are applied. We would not object to making compliance with SOX Section 404 optional for certain small companies that have a market capitalization below a pre-determined level (e.g., approximately $75 million to $100 million). However, it should be made clear to companies who elect not to report under SOX Section 404 that they remain obligated to maintain adequate internal controls. In addition they should be required to explain within their public filings their reasoning for such an election. We also believe that the views of various sectors of the investor community, particularly those focused on small cap companies, should be obtained and considered before a decision with regard to possible exemption for some registrants is made.

    Lastly, we believe that additional guidance should be issued to establish more consistent discipline in the process used by management to support their SOX Section 302 certification. This is particularly important if some companies are able to elect a Section 404 exemption. Additional confidence in the rigor of the process supporting the Section 302 certification would be important for investors in the absence of Section 404 compliance.

Accounting/Auditing

15. **Has SOX affected the relationship of smaller companies with their auditing firms? If yes, how? Is the change positive or negative?**

    Based on experiences with accelerated filers, in some cases, SOX Section 404 strained the relationship between auditors and clients, particularly early on in the process. In some cases, clients would not provide financial data on a timely basis for fear the auditor would catch an error that would lead to a material weakness. Further, there was reluctance on the part of clients to approach engagement teams for advice on accounting issues due to independence concerns and the potential impact to the auditor's assessment of management's capabilities. This issue was addressed at the SEC roundtable and in guidance issued by the PCAOB and was clearly an unintended consequence of SOX Section 404. We believe, however, that the impact was due to initial implementation difficulties in the first year of adoption and that communication has since improved.

    Given that companies with a market capitalization of less than $75 million have not yet been required to adopt the provisions of SOX Section 404, we do not have enough information to comment on whether or not we will have similar experiences with such companies.

16. **Are the current accounting standards applied to all U.S. companies appropriate for smaller companies? If not, please explain what revisions to existing standards might be appropriate.**

    The issue of differential reporting has been discussed for many years. We believe that generally accepted accounting principles are written to address the accounting for certain transactions or economic events regardless of the size of the entity involved in the transaction. For consistency, large and small companies should apply the same accounting to like transactions.

17. **For smaller companies, would extended effective dates for new accounting standards ease the burden of implementation and reduce the costs in a desirable way? How would such extensions affect investors or markets? Would allowing a company's independent auditors to provide more implementation assistance than they are able to currently reduce such burdens or costs? Would such a step positively or negatively affect the quality of audits? Please explain.**

    We believe it is acceptable to modify implementation periods for smaller companies to allow them additional time to understand and apply the guidance with their more limited resources. Such additional time should have minimal impact on investors and markets to the extent adequate SAB 74 disclosures are made as well as the fact that there would be an increase in the quality of financial reporting. Auditors continue to be a resource to large and small companies for their knowledge, experience and judgment in accounting and financial reporting matters, specifically for unusual or infrequent transactions. To the extent that management makes the final determination as to the accounting and maintains ownership of all estimates and assumptions, involvement of the auditor is appropriate and may positively impact audit quality. We do not support allowing additional implementation assistance beyond these parameters.

18. **Would auditors providing assistance with accounting and reporting for unusual or infrequent transactions impair the auditors' independence as it relates to smaller companies? Would providing such assistance reduce the cost of compliance for smaller companies? What would be the impact on the quality of audits, investors or markets? Please explain.**

    As stated in out answer to question # 17, we believe that auditors can assist with the accounting and reporting for unusual or infrequent transactions without impairing auditor independence as long as final decisions are made by management. Allowing additional implementation assistance beyond what is currently allowable may impact independence. As noted above, timely discussion with the auditor will generally improve audit quality.

19. Is the quarterly Form 10-Q or Form 10-QSB information valuable to users of the financial statements of smaller companies? Would a system that required semi-annual reporting with limited revenue information provided in the other quarters reduce costs of compliance without decreasing the usefulness of the reported information to investors? Please explain.

We believe that the Form 10-Q and Form 10-QSB provide valuable information to the users of financial statements of smaller companies. This information is required by the capital markets to making informed investment decisions. We believe that the current reporting requirements should not be changed.

20. Is segment information useful for smaller companies? Please explain.

Segment information is intended to provide transparency to investors for the purpose of making informed investment decisions. It is intended to provide investors with the same information available to the chief operating decision maker in order to better understand the company's performance, better assess its prospects for future cash flows, and make more informed judgments about the company as a whole. This transparency is no less valuable to smaller companies than to larger ones. Moreover, as noted in our response to question 16, we support consistent application of GAAP.

21. Should accounting standards provide smaller companies with different alternatives for measuring accounting events that would reduce the amount of time that would otherwise be spent by smaller companies to comply with those accounting standards? If these alternatives were available to smaller companies, would smaller companies take advantage of them even if the results of the measurements obtained from the alternatives were less favorable to them in the short term? Why or why not?

As noted in our response to question #16, we support the consistent application of generally accepted accounting principles to like transactions.

Corporate Governance/Listing Requirements

22. Are the listing standards of the New York Stock Exchange, the American Stock Exchange, other exchanges or Nasdaq that require a majority of independent directors and independent audit, nominating and compensation committees (or in the alternative, in the case of Nasdaq, that nomination and executive compensation decisions at a minimum be recommended or determined by a majority of the independent directors) creating a hardship for smaller companies? Are there benefits to companies and investors of these listing standards in the context of smaller companies? Do the hardships outweigh the benefits in the case of smaller companies? If so, should these standards be revised for smaller companies, and, if so, how? In each case please explain.

Are smaller companies experiencing difficulty finding independent directors to satisfy these listing standards (including independent directors with the required level of financial literacy and sophistication for audit committee service)? What steps are being undertaken to meet these requirements?

We are aware that companies of all sizes may be experiencing increased difficulties in recruiting qualified, independent directors. Particularly for smaller companies, the inability to pay the rising premiums for D&O insurance coverage or to pay much in the way of director fees may hamper director recruitment. Companies facing challenges could look to director candidates from broader backgrounds than the population typically considered by director searches.

We believe that independent, qualified board and committee members serve an important role in the corporate governance of our public companies and the internal control environments of companies, especially smaller ones.

Disclosure System

25. Is the relief provided by SEC Regulation S-B meaningful? Why or why not?

Should the SEC provide an alternative disclosure framework for smaller companies in the context of securities offerings and periodic reporting? Should the alternative framework be available to a broader category of companies than Regulation S-B is currently? Should the alternative framework be based on Regulation S-B or on a different approach? Could these steps be taken without impairing investor protection?

We believe that the relief provided by Regulation S-B is meaningful to small business issuers. As a matter of public policy, we are not aware of investors looking to increase the amount or type of information provided by filers under the current S-B regulations and do not believe an alternative framework is necessary. Regulation S-B currently applies to very small companies who are generally thinly traded and as such have minimal direct impact on the overall market. In order to maintain investor protection, we would likely not support the expansion of Regulation S-B qualification to a category broader than that to which it currently applies.

27. Will the phase-down to the final accelerated reporting deadlines for periodic reports under the 1934 Act for companies with $75 million market capitalization (ultimately 60 days for Form 10-K and 35 days for Form 10-Q) be burdensome for smaller companies? If so, please explain the manner and extent of this burden. Does the burden outweigh benefits to investors and markets for smaller companies?

We believe that due to limited resources and condition of the systems, further phase-down will decrease the quality of financial reporting for smaller companies. The shorter period will prevent a more fulsome evaluation of the impact of new accounting, market events, and quality and completeness of disclosures. It may also impair the quality of audit firms' audit and review procedures given the abbreviated time table.

For the same reasons, we do not believe that accelerated filers should be subject to further acceleration of filing deadlines.

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We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions that the Advisory Committee may have. Please do not hesitate to contact Vincent Colman (973-236-5390) or Ray Beier (973-236-7440) regarding our submission.

Sincerely,

PricewaterhouseCoopers LLP

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