



August 17, 2006

Ms. Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

RE: File Number S7-06-03

Dear Ms. Morris:

I am submitting this letter in response to a request for comments by the Commission in Release No. 33-8731; 34-54295, Internal Control Over Financial Reporting in Exchange Act Periodic Reports of Non-Accelerated Filers and Newly Public Companies (the "Release"), which proposes to further extend the compliance dates for the internal control requirements mandated by Section 404 of the Sarbanes-Oxley Act of 2002 for smaller public companies.

I support the Commission's proposal to further postpone the compliance dates for non-accelerated filers to provide management's report on internal control over financial reporting and the auditor's attestation report on internal control over financial reporting.

I also support the decision of the Commission and the PCAOB to take the series of actions announced on May 17, 2006 to improve the implementation of the Section 404 internal control requirements. It is well stated in the Release that there is a substantial and disproportionate burden on smaller public companies to comply with internal control requirements of Section 404. Until the announced actions undertaken by the Commission and the PCAOB are complete, relief should be afforded to all public companies that have not yet had to comply with the requirements of Section 404.

The Release indicates, "The postponement is intended to provide [non-accelerated] filers, none of which is yet required to comply with Section 404 requirements, with the benefits of the management guidance that the Commission plans to issue and the recently issued COSO guidance on understanding and applying the COSO framework, before planning and conducting their internal control assessments." The Release also lists a number of benefits of the proposed extension of the auditor attestation report requirement including, allowing smaller public companies the benefit of anticipated changes to Auditing Standard No. 2 ("AS2") and related implementation guidance, allowing companies to save substantial costs with the initial auditor's attestation until changes to AS2 are implemented.

The focus of my comment to the Commission is regarding smaller public companies that are non-accelerated filers today but are expected to become accelerated filers at the end of the upcoming fiscal year as a result of the market value of non-affiliate common equity exceeding the \$75 million threshold. Callidus Software, where I serve as Vice President, Finance and Accounting,

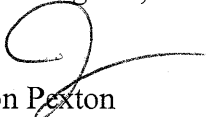
is just such a company. Under the Staff's proposal, Callidus Software and other similarly situated smaller public companies must move forward with their initial adoption of the Section 404 requirements and incur all of the expense (including the year-one fees for an auditor's attestation report) and effort to comply with the Section 404 requirements in spite of the fact that actions by the Commission and the PCAOB to improve the implementation of the Section 404 requirements are not yet complete.

It appears counter to the spirit and intent of the Release that this group of smaller public companies transitioning from non-accelerated filer status to accelerated filer status should be required to move forward with the initial adoption of Section 404 prior to receiving the additional guidance for management that the Commission is working on. As proposed, the Commission's rules would require these smaller public companies to incur substantial year-one auditor attestation fees prior to the issuance of the anticipated changes to AS2 by the PCAOB. I believe that the shareholders of these smaller public companies would be better served by granting them the same postponement in the Release until the actions to improve the implementation of the Section 404 requirements have been announced rather than forcing these companies to move forward with the initial adoption of the Section 404 requirement at a substantial and disproportionate cost and without the benefit of the improvement actions. This group of smaller public companies that are transitioning from non-accelerated status to accelerated status this year should be afforded the same postponement and relief that is granted in the Release to non-accelerated filers, because both of these groups have yet to comply with the Section 404 requirements.

I respectfully request the Commission to modify its proposed Release to provide that the smaller public companies that are currently non-accelerated filers, but are expected to transition from non-accelerated filer status to accelerated filer status at the end of their upcoming fiscal year not be required to comply with Section 404 requirements, provide a management's report on internal control over financial reporting or have an auditor's attestation report on internal control over financial reporting this year, but instead be afforded the same postponement as companies that will remain non-accelerated filers.

The Release stated, "The postponement is intended to provide these filers, **none of which is yet required to comply with the Section 404 requirements**, with the benefits..." I am concerned that while it seems to me the intent of the Commission is to provide relief to all public companies that have not yet been required to comply with the Section 404 requirements, there is a group of small public companies that will be falling through the cracks. I believe those companies and their shareholders should be treated in the same manner as the other non-accelerated filers and not be forced to comply with the Section 404 requirements until the new guidance is announced by the Commission and the PCAOB.

Kind regards,


Jon Pexton
Vice President, Finance & Accounting
Callidus Software Inc.

