

**Inspection of
Prescott Chatellier Fontaine & Wilkinson, LLP**

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

November 30, 2005

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 PRESCOTT CHATELLIER FONTAINE & WILKINSON, LLP

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Prescott Chatellier Fontaine & Wilkinson, 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 November 1, 2004 to November 5, 2004. 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 (Providence, Rhode Island)
Ownership structure	Limited liability partnership
Number of partners	4
Number of professional staff ^{3/}	12
Number of issuer audit clients ^{4/}	2

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.^{6/} 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.^{7/} The deficiencies identified in one of the audits reviewed included a deficiency 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. That deficiency was the failure to perform and document appropriate procedures to test the fair value of common stock and warrants issued in exchange for services and in connection with debt transactions.

^{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/} Prior to the beginning of the inspection field work, the Firm had resigned as auditor of one of its issuer clients. The staff reviewed the Firm's most recent completed audit of this client, as well as the two for which the Firm was auditor of record at the time of the inspection.

^{7/} 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.

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



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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.



PRESCOTT·CHATELLIER
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June 17, 2005

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

Dear Mr. Diacont:

We have reviewed the Public Company Accounting Oversight Board's (PCAOB or Board) draft report on the November 2004 inspection of our firm, and offer this correspondence as our response to the findings noted. We have separated our responses into two sections, Part I and Part II, consistent with the structure of the draft inspection report. In addition, we will be submitting a separate response addressing the comments included in Part II.B of the final inspection report, the beginning of a continuing dialog aimed at promptly resolving the concerns identified and ensuring that the corrective actions that we will be taking are adequate and acceptable to the Board.

We are committed to the performance of quality professional services, and to the prompt resolution of identified weaknesses. The inspection process was rigorous and professional, and we look forward to future interactions with your staff where our improvements can be measured.

We appreciate the opportunity to express our responses and would be happy to further discuss them or answer any questions that you or your staff may have.

Sincerely,
Prescott Chatellier Fontaine & Wilkinson, LLP

Prescott Chatellier Fontaine & Wilkinson LLP

Part I

(1) We do not agree that we failed to identify the transactions referred to in this comment, as our work both identified and included research on the accounting for the transactions.

We believe that our procedures related to the valuation of the non-monetary transaction did in fact provide us with a reasonable basis to support the treatment of the item in the financial statements, considering all of the facts and circumstances surrounding this unusual transaction. We believe that this difference in professional judgment is based on varying interpretations of professional standards, none of which specifically address the conditions surrounding this particular transaction.

We do recognize that the accounting prescribed to the payment of services by the principal shareholder was not appropriately addressed, and we have taken steps to insure that future transactions such as this will be treated properly.

(2) We believe that this comment is the result of a documentation deficiency in our audit workpapers, and do not agree that this represents a failure to perform appropriate audit procedures. After an in depth review of the comment and the issue in question, we have prepared additional documentation to support the accounting for the expenses incurred both during the fiscal year (included in the financial statements) and those incurred after year-end but prior to the filing of the company's financial statements with the SEC (not included in the financial statements). We have determined that the financial statements were appropriate as presented, and no restatements or changes have been recommended to the client.

(3) We believe that this comment is the result of documentation deficiencies in our audit workpapers, and do not agree that this represents a failure to perform appropriate audit procedures. The fair values used to account for shares issued to unrelated third parties were used to evaluate the values assigned to the shares issued to management and related parties, with favorable results. We have prepared additional documentation to support the work performed and conclusions reached. We have determined that the financial statements were appropriate as presented, and no restatements or changes have been recommended to the client.

(4) We believe that this comment is the result of documentation deficiencies in our audit workpapers, and do not agree that this represents a failure to perform appropriate audit procedures. Our work included the identification and evaluation of thirteen (13) related party transactions that were disclosed in the financial statements due to their materiality and significance. In our opinion, the relationship identified during the inspection is neither material in amount nor significant to a users

understanding of the company's financial statements or operations. We have prepared additional documentation to support the work performed and conclusions reached. We have determined that the financial statements were appropriate as presented, and no restatements or changes have been recommended to the client.

(5) We believe that this comment is the result of documentation deficiencies in our audit workpapers, and do not agree that this represents a failure to perform appropriate audit procedures. One of the engagements involved a non-operating company with no subsequent events to review, while the other engagement issue involved an oversight relating to the dating of a management representation letter. We have prepared additional documentation to support the work performed and conclusions reached. We have determined that the financial statements were appropriate as presented, and no restatements or changes have been recommended to the client.

In summary, with the one exception noted above, we believe that we performed these audits in accordance with professional standards and obtained the evidence necessary to support our opinions on the financial statements.