

**Inspection of  
Perelson Weiner, L.L.P.  
(Headquartered in New York, New York)**

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

**October 1, 2009**

**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 PERELSON WEINER, L.L.P.

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Perelson Weiner, L.L.P.<sup>1/</sup> ("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.<sup>2/</sup>

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.<sup>3/</sup> 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.

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<sup>1/</sup> The Firm has issued audit reports under the name of Perelson Weiner LLP.

<sup>2/</sup> 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.

<sup>3/</sup> 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 July 23, 2007 to July 26, 2007. 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 (New York, New York)
Ownership structure	Limited liability partnership
Number of partners	15
Number of professional staff <sup>4/</sup>	20
Number of issuer audit clients <sup>5/</sup>	1

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits.<sup>6/</sup> To achieve that goal, Board

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<sup>4/</sup> "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.

<sup>5/</sup> 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.

<sup>6/</sup> 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.

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.<sup>7/</sup> 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.<sup>8/</sup> The deficiencies identified in the audit reviewed included a deficiency of such significance that it appeared to the inspection team that the Firm did not obtain sufficient competent

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<sup>7/</sup> 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.

<sup>8/</sup> 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.

evidential matter to support its opinion on the issuer's financial statements.<sup>9/</sup> That deficiency was the Firm's failure to identify, or to address appropriately, a departure from GAAP that related to a potentially material misstatement in the audited financial statements concerning the accounting for certain transactions related to the issuance of securities.

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

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<sup>9/</sup> 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.<sup>10/</sup>

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<sup>10/</sup> 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.

PUBLIC

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July 9, 2009

Mr. George H. Diacont  
Director  
Division of Registration and Inspections  
Public Company Accounting Oversight Board  
1666 K Street, N.W.  
Washington, D.C. 20006-2803

**Re: Perelson Weiner LLP Response to Part IA of the Draft Report  
on the Inspection of Perelson Weiner LLP**

**Note: This response addresses the public portion of the Draft Report. To the extent the deficiency noted in Part IA of the Draft Report is included in the final report, this letter should be included as our response.**

Dear Mr. Diacont:

We are pleased to respond to Part IA of the Public Company Accounting Oversight Board's (PCAOB or the "Board") Draft Report on the Inspection of our Firm.

We are confident of the excellent quality of our work and believe it fully complies with professional standards.

All the tri-annual inspections of our practice, including the period ended 2008, conducted by Peer Review teams resulted in unmodified reports of the private company practice section.

We welcome the opportunity for colleagues to evaluate our work. We do not view such inspections as stressful; in fact, we have benefited from their viewpoints and experience. The communications received from inspection teams during exit conferences have been invaluable, taken seriously and shared with members of the Firm. Since we are always seeking to improve our audit practice, we view an inspection as a way to identify how and where to focus our efforts to improve performance. Recognizing the importance and value of the inspection process, we fully cooperated with the inspection team.

The Draft Report in Part IA indicates the inspection team identified audit deficiencies (plural) regarding Issuer A. Part IA continues to indicate such deficiencies include a purported GAAP departure deemed significant by the inspection team. Since the purported GAAP departure is the only matter which either the inspection team or the Board's Draft Report raised in connection with the audit engagement of Issuer A, the plural form is not appropriate and should not be included in the final report.

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Moreover, our understanding of the most appropriate GAAP application (to the transaction which gave rise to the purported GAAP departure) differs from the understanding of the inspection team. The description of the issue in Part IA does not reflect the evidential matter obtained and documented in the audit workpapers supporting the Issuer's position; the securities were issued for a share price (\$9.20) well within the range of the closing share price (\$9.10 - \$9.95) during the two week period preceding the transaction date. The Issuer's decision to enter into agreements to provide a capped amount of future web services was a business rather than a financing decision. The agreements permitted the Issuer to promote itself not only as the premier developer and host of a website which catered to the Issuer's target audience, but also gave rise to the expectation it would attract new customers and generate further advertising revenue. The agreements provided the Issuer with potential access to large governmental and commercial enterprises (specifically cellular telephone and media companies) in Mexican and Latin American markets otherwise difficult to penetrate. This was a marketing driven decision which would contribute to increased advertising revenue and result in future period costs.

**Entry into the agreements did not change the underlying equity nature of the proceeds received; receipt of the proceeds did not trigger an obligation. The events which give rise to incurrence of costs had not occurred as of the balance sheet date. Future costs incurred and payments made related to the agreements are not an extension of a condition which existed as of the balance sheet date.**

The evidential matter documented in the audit work papers includes tracking the Issuer's stock price during the period immediately preceding the stock transaction date. Based on such values, the engagement team evaluated the fair value of the securities issued and concurred with the Issuer that such value approximated the value of the consideration received. Since this was not an instance of the Issuer receiving a premium above the market price of its stock, we concurred with the Issuer's decision to record the entire amount of proceeds as equity – value received for value given. Future costs arising from the website related services would be recognized as incurred since such costs were executory in nature. Our audit documentation indicated this and stated a future commitment (disclosed in Note 4 to Issuer A's financial statements) would arise from these agreements, but a recordable obligation of these costs did not exist as of the balance sheet date.

We believe the audit procedures performed, evidence obtained, conclusions reached and related documentation were all appropriate in view of the circumstances, and, accordingly, the cited purported deficiency should not be included in the final report.

We do not believe our Firm omitted any audit procedures necessary or appropriate in regard to the securities transaction under the existing circumstances. In addition, we are not aware of subsequently discovered facts or any which existed as of the date of our audit report which would cause those statements to be materially misstated. Therefore, we believe we set forth herein our conduct and ability to support our expressed opinion and do not believe our report should be withdrawn.

**PERELSON  
WEINER<sup>LLP</sup>**

We appreciate the opportunity to respond to the Board and trust we have satisfied the Board of the high quality of our practice and commitment to the standards of excellent auditing procedures.

Respectfully submitted,

*Perelson Weiner LLP*

Perelson Weiner LLP