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Report on

2010 Inspection of PricewaterhouseCoopers LLP
(Headquartered in New York, New York)

Issued by the

Public Company Accounting Oversight Board

November 8, 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

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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.

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2010 INSPECTION OF PRICEWATERHOUSECOOPERS LLP

Preface

In 2010, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm PricewaterhouseCoopers LLP ("PwC" or "the Firm") pursuant to the Sarbanes-Oxley Act of 2002 ("the Act").

The Board is issuing this report in accordance with the requirements of the Act.[1/] The Board is releasing to the public Part I of the report, Appendix C, and portions of Appendix D. Appendix C provides an overview of the inspection process for annually inspected firms.[2/] Appendix D includes the Firm's comments, if any, on a draft of the report.[3/] A substantial portion of the Board's criticisms of a firm (specifically criticisms of the firm's quality control system) is nonpublic, unless the firm fails to make sufficient progress in addressing those criticisms.

1/ In its Statement Concerning the Issuance of Inspection Reports, PCAOB Release No. 104-2004-001 (August 26, 2004), the Board described its approach to making inspection-related information publicly available consistent with legal restrictions.

2/ The Act requires the Board to conduct an annual inspection of each registered public accounting firm that regularly provides audit reports for more than 100 issuers.

3/ 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 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.

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm performs audit work.[4/] To achieve that goal, Board inspections include reviews of certain aspects of selected audit work performed by the firm and reviews of certain aspects of the firm's quality control system. It is not the purpose of an inspection, however, to review all of a firm's audit work 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 audit work, or the relevant issuers' financial statements or reporting on internal control, are free of any deficiencies not specifically described in an inspection report.

If the Board inspection team identifies deficiencies that exceed a certain significance threshold in the audit work it reviews, those deficiencies are summarized in the public portion of the Board's inspection report.[5/] The Board cautions, however, against extrapolating from the results presented in the public portion of the report to broader conclusions about the frequency of deficiencies throughout the Firm's practice. Audit work is selected for inspection largely on the basis of an analysis of factors that, in the inspection team's view, heighten the possibility that auditing deficiencies are present, rather than through a process intended to identify a representative sample.

4/ This focus on weaknesses and deficiencies 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.

5/ Inclusion of a deficiency in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the firm's attention. When audit deficiencies are identified after the date of the audit report, PCAOB standards require a firm to take appropriate actions to assess the importance of the deficiencies to the firm's present ability to support its previously expressed audit opinions. Depending upon the circumstances, compliance with these standards may require the firm to perform additional audit procedures, or to inform a client of the need for changes to its financial statements or reporting on internal control, or to take steps to prevent reliance on previously expressed audit opinions. The inspection team may review, either in the same inspection or in subsequent inspections, the adequacy of the firm's compliance with these requirements. Failure by a firm to take appropriate actions, or a firm's misrepresentations, in responding to an inspection report, about whether it has taken such actions, could be a basis for Board disciplinary sanctions.

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's staff ("the inspection team") conducted primary procedures for the inspection from March 2010 to November 2010. The inspection team performed field work at the Firm's National Office and at 30 of its approximately 61 U.S. practice offices.

A. Review of Audit Engagements

The 2010 inspection of the Firm included reviews of aspects of 71 audits performed by the Firm and reviews of the Firm's audit work on four other issuer audit engagements in which the Firm played a role but was not the principal auditor. The inspection team selected the audits and aspects to review, and the Firm was not allowed an opportunity to limit or influence the selections.

The inspection team identified matters that it considered to be deficiencies in the performance of the audit work it reviewed. Those deficiencies included failures by the Firm to identify, or to address appropriately, financial statement misstatements, including failures to comply with disclosure requirements,[6/] as well as failures by the Firm to perform, or to perform sufficiently, certain necessary audit procedures. In some cases, the conclusion that the Firm failed to perform a procedure was based on the absence of documentation and the absence of persuasive other evidence, even if the Firm claimed to have performed the procedure.[7/]

[6/] 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 applicable accounting principles, the Board's practice is to report that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

[7/] PCAOB Auditing Standard ("AS") No. 3, *Audit Documentation* 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

Two of the deficiencies described below relate to auditing aspects of the issuers' financial statements that the issuers restated after the primary inspection procedures, and one of the deficiencies described below relates to auditing an aspect of an issuer's financial statements to which the issuer made substantial adjustments after the primary inspection procedures.[8/]

The inspection team considered certain of the deficiencies that it observed to be audit failures. Specifically, certain of the identified deficiencies were of such significance that it appeared that the Firm, at the time it issued its audit report, had failed to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements and/or on the effectiveness of internal control over financial reporting ("ICFR"). In addition, one of the identified deficiencies, which occurred in an audit in which the Firm played a role but was not the principal auditor, was of such significance that it appeared that the Firm had not obtained sufficient appropriate audit evidence to fulfill the objectives of its role in the audit. The audit deficiencies that reached these levels of significance are described below.[9/]

1. Issuer A

In this audit, the Firm failed to identify the following departures from GAAP that it should have identified and addressed before issuing its audit report –

- The issuer entered into an agreement to sell one of its asset groups and, as a result, the asset group was presented as a discontinued operation in the issuer's income statement. Certain of the issuer's derivatives were designated as cash flow hedges for the revenue from this asset group and, as a result of

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so, and that oral assertions and explanations alone do not constitute persuasive other evidence.

[8/] The Board inspection process did not include review of any additional audit work related to the restatements and adjustments.

[9/] The discussion in this report of any deficiency observed in a particular audit reflects information reported to the Board by the inspection team and does not reflect any determination by the Board as to whether the Firm has engaged in any conduct for which it could be sanctioned through the Board's disciplinary process.

the sale, the issuer terminated the derivative positions. Upon termination of the hedges, the issuer erroneously presented the resulting gain in earnings from continuing operations.

- The issuer's statement of comprehensive income contained significant errors involving the improper presentation of realized and unrealized net gains and losses related to certain of its derivative instruments.

In addition, the Firm's approach to testing capitalized interest included a substantive analytical procedure; however, it failed to test the completeness and accuracy of the underlying data for one of the two significant inputs used to develop its expectation.

2. Issuer B

In this audit, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements –

- The Firm failed to sufficiently test the valuation of accounts receivable and net revenue. During the year, the issuer revised its policy for calculating its allowance for doubtful accounts, including changing certain significant assumptions used in its calculation. The Firm failed to evaluate the reasonableness of the issuer's revised assumptions. In addition, there was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had tested the completeness and accuracy of the data used in the calculation of the allowance for doubtful accounts as well as in the determination of the contractual revenue allowances.

- The issuer had prepared cash flow projections for one of the models used in its fair value determination for both interim and annual goodwill impairment analyses. In both analyses, the issuer forecasted significant growth rates in a new line of business. In evaluating these assumptions, the Firm inquired of management and considered the growth rates associated with another company's new product. The Firm, however, failed to assess whether the issuer would be able to achieve the significant growth it had projected. Also, during the year under audit, the issuer changed the weighting between the models it used in its fair value determination. The Firm, however, failed to perform procedures, beyond inquiry of management, to assess the appropriateness of the change in the weighting between these models.

In addition, the issuer made both a five-year and an eight-year revenue projection as part of its annual goodwill impairment analysis and used lower discount rates in both projections than it had used in its interim analysis. There was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had evaluated the appropriateness of the discount rates used in the issuer's annual analysis, even though the issuer would have failed step one of the goodwill impairment test had it used the same discount rates that it had used in its interim goodwill impairment analysis. Also, the Firm accepted the issuer's assumed terminal growth rate used in its five-year projection, without further evaluation, despite the view of the Firm's internal specialist that the growth rate appeared somewhat high.

3. Issuer C

In this audit, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and the effectiveness of ICFR –

- The Firm failed to perform substantive audit procedures, beyond obtaining a representation from management, to test the results of certain significant variable interest entities that were consolidated by the issuer.

- The Firm's planned approach for auditing revenue included the performance of substantive analytical procedures. For purposes of these procedures, the Firm established its expectation for current-year revenue based on the results of certain of the issuer's competitors. The Firm, however, failed to determine that the use of the average of the historical results of certain of the issuer's competitors for its expectation was predictive of the issuer's revenue. In addition, other than by reading certain reports that management had provided to the issuer's Board of Directors, the Firm failed to obtain corroboration of management's explanations for approximately half of the significant unexpected difference between the Firm's expectation and the issuer's recorded revenue. Further, the Firm failed to investigate the remaining half of the significant unexpected difference.

In addition, for certain of the issuer's business units, which represented approximately 25 percent of revenue and 43 percent of inventory, the Firm's conclusion on the effectiveness of the issuer's process-level controls over revenue and inventory was based solely on the work of the issuer's internal audit group; however, there was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had reviewed that work.

- The Firm failed to substantively test the valuation of inventory at certain of the issuer's units, which represented almost half of the issuer's inventory.

4. Issuer D

In this audit, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and the effectiveness of ICFR –

- The Firm's planned approach to testing revenue and accounts receivable at one of the issuer's segments, which represented approximately 50 percent of revenue and 55 percent of accounts receivable, relied on two of the issuer's entity-level controls, the performance of substantive analytical procedures for revenue, and the performance of substantive procedures over accounts receivable. The Firm failed to sufficiently test revenue and accounts receivable for this segment in the following respects –
    - The two entity-level controls consisted of reviews performed by the issuer's management during management meetings. The Firm, however, failed to sufficiently test these entity-level controls. There was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had obtained an understanding whether these controls would satisfy the issuer's control objectives and would effectively prevent or detect errors or fraud that could result in a misstatement that could be material to the financial statements. In addition, the Firm failed to test the information technology general controls over one of the issuer's systems that were used in the operation of one of these entity-level controls. Further, there was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had tested the manual reports used in this entity-level control more than once.

- Regarding the analytical procedures that the Firm performed to test revenue at this segment, the Firm failed to test the completeness and accuracy of the data it used to establish its expectations. In addition, when establishing thresholds for investigation of significant differences, the Firm failed to consider the possibility that a combination of misstatements could aggregate to an unacceptable amount. As a result, the Firm failed to investigate differences that, in combination, exceeded the Firm's established materiality level by a significant amount. Further, the Firm failed to obtain corroboration for certain of management's explanations of significant unexpected differences between expected and actual revenues.

- To test accounts receivable, the Firm performed subsequent receipts testing at an interim date and performed testing of receivables over a certain amount at year end. The Firm failed to sufficiently test accounts receivable, as the Firm's subsequent receipts testing did not address receivables that had not been paid as of year end, and its year-end testing excluded a category of receivables that represented a significant amount.

- The Firm's planned approach to testing revenue at locations for another of the issuer's segments, which locations represented approximately ten percent of the issuer's revenue, was to test the details of significant contracts. In performing its tests of details, however, the Firm relied on reports that it failed to test for completeness. Further, the Firm failed to perform substantive procedures to test the recognition of revenue from contracts with total values below a certain threshold, which contracts represented over 90 percent of the location's recorded revenue.

- In testing the issuer's accounting for two business combinations, the Firm used the work of an external valuation specialist retained by the issuer, but failed to test the data that management provided to the specialist. Specifically, the Firm failed to test the forecasted revenues, costs, cash flows, and customer attrition rates used in determining the fair values of customer relationships, backlogs, and non-compete agreements. Further, the Firm failed to test the forecasted revenues used in determining the fair values of the acquired trademarks and trade names. Also, the Firm failed to test the market data of the guideline companies used to establish the issuer's weighted average cost of capital.

5. Issuer E

In this audit of a new client, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and the effectiveness of ICFR –

- The Firm relied on one of the issuer's entity-level controls, but failed to sufficiently test the operating effectiveness of the control. Specifically, there was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had tested whether the entity-level control operated at a level of precision that would prevent or detect misstatements that could be material. In addition, the Firm failed to obtain corroboration of management's explanations for variances identified through the operation of the control and to test any adjustments stemming from the issuer's performance of the control. Further, the Firm failed to test the accuracy and completeness of the forecasted data that the issuer used in its performance of the control.

- The Firm's planned approach for testing revenue for two of the issuer's reporting units placed reliance on the above entity-level control and the performance of substantive analytical procedures. The Firm failed to sufficiently test revenue for these two reporting units. Specifically, for its analytical procedures, the Firm established an expectation that the sales by each customer and product as a percentage of overall sales would be consistent with the corresponding percentage for the prior year, but failed to evaluate whether such an expectation was predictive of revenue for the current year. In addition, the Firm did not test certain of the current year and prior year data used in establishing its expectations. Further, the Firm failed to obtain corroboration of management's explanations of significant unexpected differences between expected and actual revenue for one of the reporting units. As a result of these failures, the analytical procedures provided little to no substantive assurance.

- During the year, the issuer recorded a significant impairment charge for its fixed assets, based on the assumption that all machinery and equipment that was more than four years old had a fair value of zero, while all machinery and equipment acquired within the past four years had a fair value that approximated net book value. There was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had tested this assumption.

- In planning the audit, the Firm determined that certain types of journal entries, including manual transaction-level journal entries, had defined characteristics that could potentially be indicative of fraud. For reporting units that represented almost half of the issuer's net sales, however, the Firm failed to include manual transaction-level journal entries meeting these predefined characteristics in its population that was subject to testing.

6. Issuer F

In this audit of a new client, the Firm's planned approach for auditing revenue, accounts receivable, unbilled accounts receivable, and deferred revenue for each of the issuer's three segments included reliance on certain entity-level controls, the performance of substantive analytical procedures, confirmation of accounts receivable, and testing of subsequent cash receipts. The Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and the effectiveness of ICFR –

- For one of its segments, the issuer formed revenue-sharing arrangements with other entities. For certain of these arrangements, the issuer was the manager responsible for maintaining the books and records. The managers for all of these arrangements reported each participant's share of the net revenue and receivables to that participant through a website. In all instances, regardless of whether the issuer was the manager, the Firm failed to obtain an understanding of the process by which the manager transferred the information from its financial records to the website, and in instances where the issuer was not the manager for the revenue-sharing arrangement, the Firm failed to obtain an understanding of how transactions were initiated, authorized, processed, and recorded. Further, the Firm failed to test the managers' allocation of the arrangements' net revenue and receivables to the issuer.

- For all three segments, the issuer had certain entity-level controls, which consisted of reviews and analyses that were performed using issuer-prepared budget documents. The Firm failed to sufficiently test these controls to determine whether they would prevent or detect a misstatement that could be material to the financial statements, as the Firm's testing was limited to determining that the reviews had occurred.

- When performing analytical procedures to test revenue for all three segments, the Firm developed certain of its expectations based on the issuer's budget. There was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had tested management's process for developing and updating the budget. In addition, the Firm failed to develop sufficiently precise expectations for certain of its analytical procedures, as it used ranges (for example, a decrease in revenue of five to ten percent) for these expectations that were in excess of the Firm's established materiality levels. Further, the Firm failed to obtain corroboration of management's explanations of significant unexpected differences between expected and actual revenues.

- The Firm failed to sufficiently test revenue cut-off at two of the issuer's segments. Specifically, the Firm failed to investigate and obtain corroboration of management's explanations of significant differences between expected and actual amounts that were identified from an analytical procedure for unbilled receivables. In addition, the Firm failed to perform procedures to test the completeness of deferred revenue. With respect to the third segment, for two of the revenue-sharing arrangements, the Firm failed to assess the reliability of the evidence obtained through its confirmation of receivables with the managers, who also were subsidiaries of the issuer. As a result, the Firm failed to obtain sufficient appropriate audit evidence over the existence and valuation of these receivables.

7. Issuer G

In this audit, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and the effectiveness of ICFR –

- For certain of the issuer's units that in the aggregate presented a reasonable possibility of material misstatement, the Firm's approach to testing revenue, cost of sales, accounts receivable, and inventories placed reliance on certain entity-level controls. The Firm failed to appropriately test the design of these entity-level controls because it failed to determine the level of precision at which the controls operated. Further, the Firm failed to perform substantive procedures to respond to the risk of material misstatement for the relevant assertions for the revenue, cost of sales, accounts receivable, and inventories at these units.

- For another of the issuer's units, which represented approximately 20 percent of revenue, the Firm's planned approach to testing revenue included the performance of substantive analytical procedures. The Firm failed, however, to develop appropriate expectations, because it used unaudited interim revenue as the basis for its expectations.

- The issuer used an outside service organization to value the assets held by its domestic pension plan, which consisted primarily of funds for which there was not an active market. To test the issuer's pension plan assets, the Firm obtained a confirmation of the values of the funds from this service organization; however, the Firm failed to evaluate the assumptions that the service organization used to value the pension plan assets.

8. Issuer H

In this audit, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements –

- The Firm's planned approach for auditing the issuer's revenue, inventory, and cost of sales included performing substantive analytical procedures. The Firm established expectations for revenue, inventory, and cost of sales for certain of the issuer's business units based on industry data or business metrics, but for some of these procedures, failed to determine whether these expected relationships had existed in the past and would be expected to exist in the current period. In addition, when establishing its thresholds for investigation of significant differences for revenue, the Firm failed to consider the possibility that a combination of misstatements could aggregate to an unacceptable amount. As a result, the aggregated uninvestigated differences exceeded the Firm's established materiality level by a significant amount. Further, for certain business units, the Firm failed to obtain corroboration of management's explanations of significant unexpected differences.

- The Firm failed to sufficiently test the valuation assertion related to the issuer's inventory. Specifically, the Firm's planned approach for auditing the issuer's allowance for excess and obsolete inventory at certain of the issuer's business units included the performance of substantive analytical procedures. For these procedures, the Firm established an expectation that the allowances for excess and obsolete inventory would approximate the historical relationship of these allowances to total inventory; however, the Firm failed to establish that these historical relationships would be expected to continue to exist in light of the issuer's recent results, current economic conditions, and management initiatives that could have had an effect on inventory levels and recorded allowances. In addition, with the exception of raw materials at one business unit, the Firm also failed to test the various components of the issuer's standard costs for manufactured products.

- The Firm also failed to perform sufficient substantive audit procedures for account balances at certain of the issuer's other locations that in the aggregate presented a reasonable possibility of material misstatement. Specifically, while the Firm tested entity-level controls that covered these locations and found them to be operating effectively, the Firm failed to perform substantive procedures to address the risk of material misstatement for the relevant assertions for net sales, cost of sales, accounts receivable, and inventory at these locations.

9. Issuer I

In this audit, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and the effectiveness of ICFR –

- For certain of the issuer's locations that in the aggregate presented a reasonable possibility of material misstatement, the Firm had planned to rely on certain entity-level controls that consisted of reviews performed during management meetings. The Firm had determined that these entity-level controls were also compensating controls for a significant deficiency related to inadequate segregation of duties. The Firm, however, failed to sufficiently test these entity-level controls because the Firm's testing of the operating effectiveness of the controls was limited to obtaining evidence that such reviews had occurred and performing inquiries of management. In addition, the Firm failed to sufficiently test the control over the accuracy of the data used in these entity-level controls as its testing was limited to verifying that management had signed off as having completed certain review procedures over the data. In addition, for these locations, the Firm failed to perform substantive procedures to address the risk of material misstatement for the relevant assertions for revenue and accounts receivable.

- For certain of the issuer's other locations that represented approximately 40 percent of its revenue, the Firm failed to perform sufficient substantive tests of revenue. Specifically, the Firm placed significant reliance on substantive procedures over the balance sheet accounts related to revenue, but failed to perform any substantive tests to obtain evidence with respect to the relevant assertions for revenue for the entire year.

10. Issuer J

In this audit, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and the effectiveness of ICFR –

- The Firm identified two review controls over financial instruments without readily determinable fair values ("hard-to-value financial instruments"), but failed to sufficiently test the controls, because the Firm's testing of their operating effectiveness was limited to inquiry and reviewing evidence that such reviews had occurred. In addition, the Firm failed to identify and test controls over the inputs that the issuer used to value the hard-to-value financial instruments.

- The issuer identified a significant deficiency relating to the lack of oversight by investment accounting professionals with the necessary expertise regarding the valuation process for hard-to-value financial instruments. The Firm failed to appropriately evaluate the severity of the deficiency in the following respects –

    - The Firm failed to evaluate all of the risk factors that affected whether there was a reasonable possibility that the deficiency would result in a material misstatement, including the nature of the investment account, the subjectivity, complexity, or extent of judgment required to determine the valuations, and possible future consequences of the deficiency. In addition, the Firm failed to consider in its evaluation the identification of five misstatements that resulted in a net unrecorded audit difference that would have increased the recorded amounts of these financial instruments and stockholders' equity by less than one percent but that exceeded the Firm's established materiality level by approximately 20 percent.

    - The Firm identified that the issuer had no controls over the inputs used to value certain hard-to-value financial instruments, but the Firm failed to include these financial instruments in its consideration of the magnitude of the potential misstatement.

    - The Firm failed to determine whether the investment expertise of the analysts responsible for valuing the financial instruments, which it had identified as a compensating control, was a control that operated at a level of precision that would prevent or detect a misstatement that could be material.

- In addition, the Firm failed to perform sufficient procedures to substantively test the valuation of certain hard-to-value financial instruments, as discussed below in Deficiencies in Testing Fair Value Measurements of Financial Instruments without Readily Determinable Fair Values.

Further, the Firm failed to perform sufficient procedures to test the issuer's equity-method investments in the following respects –

- The Firm failed to perform any substantive procedures to test the issuer's ownership percentages in these investments in order to assess whether the issuer's method of accounting for these investments was appropriate.

- The Firm failed to sufficiently test a quarterly impairment review control to determine whether it was operating at a sufficient level of precision to detect a misstatement that could be material, as the testing was limited to obtaining the quarterly impairment recommendations made by the issuer's internal analysts and obtaining evidence of review.

- The Firm tested the completeness, existence, and valuation assertions for the issuer's equity-method investments by testing investments with balances over a certain threshold. With respect to the remaining equity-method investments, which were significant in total, the Firm did not perform any substantive audit procedures.

- The Firm failed to appropriately evaluate whether the investments that it tested as described in the above bulleted paragraph were other-than-temporarily impaired. Specifically, the Firm failed to determine whether any significant events that could have affected the assessment of impairment had occurred in the parts of the year that were not covered by the investees' financial statements that the Firm had obtained.

11. Deficiencies in Testing the Fair Value Measurements and Disclosures of Financial Instruments without Readily Determinable Fair Values

In four audits,[10/] due to deficiencies in testing the fair value measurements of, and the disclosures related to, hard-to-value financial instruments, including private debt securities, auction-rate securities, asset-backed securities, collateralized debt obligations, collateralized mortgage obligations, and other mortgage-backed securities, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinions. The deficiencies are as follows –

- In all four of these audits,[11/] the Firm failed to obtain an understanding of the specific methods and/or assumptions underlying certain fair value measurements that were obtained from pricing services or other third parties and used in the Firm's testing of the fair value of the hard-to-value financial instruments. In addition, in one of these audits,[12/] for certain securities, the Firm tested the issuer's process of obtaining prices from third parties and corroborating these prices through the use of models. The Firm, however, failed to evaluate the appropriateness of the models and the reasonableness of the underlying assumptions. Further, in two of these audits,[13/] in an attempt to obtain independent fair value measurements, the Firm obtained measurements from pricing services, but the measurements the Firm used in its testing were from the same pricing service that the issuer had used.

- In two of these audits,[14/] the Firm failed to adequately test the issuers' disclosures of certain hard-to-value securities as level 2 or level 3 because it failed to obtain an understanding of whether the securities were valued using significant inputs that were observable or unobservable.

10/ Issuers J, K, L, and M

11/ Issuers J, K, L, and M

12/ Issuer J

13/ Issuers J and K

14/ Issuers J and K

- In addition, the Firm failed to evaluate the implications of significant differences in fair value measurements from different sources for individual financial instruments. Specifically –
    - In all four of these audits,[15/] for certain hard-to-value financial instruments, the Firm obtained multiple prices and used the price closest to the issuer's recorded price in testing fair value measurements, without evaluating the significance of differences between the other prices obtained and the issuer's prices.
    - In one of these audits,[16/] the Firm established a threshold to identify pricing differences for further testing, but instead of investigating certain pricing differences in excess of that threshold, the Firm compared the recorded price to the same pricing information that the issuer had obtained.
    - In one of these audits,[17/] the Firm failed to evaluate the reasonableness of certain adjustments that the issuer made when recording the value of certain financial instruments from the pricing information the issuer had obtained from a third party.

In addition, in one of these audits,[18/] the Firm failed to perform sufficient procedures to test the fair value of certain hard-to-value financial instruments for which it had requested, but not received, a price from its pricing services. Specifically, the Firm obtained certain financial information about these instruments as of a date nine months prior to the issuer's year end and used it in evaluating the issuer's estimate of fair value at year end. The Firm, however, failed to support its assumption that no changes had occurred that affected this financial information.

15/ Issuers J, K, L, and M

16/ Issuer L

17/ Issuer K

18/ Issuer M

12. Deficiencies in Testing the Fair Value Measurements of Investment Securities Held by Pension Plans

In three audits,[19] due to deficiencies in the Firm's testing of the fair value measurements of investment securities held by the issuers' pension plans, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinions on the issuers' financial statements. The deficiencies are as follows –

- In one of these audits,[20] the Firm failed to evaluate the specific methods and/or assumptions underlying the fair value measurements that the issuer had obtained from pricing services and that the Firm used in its testing of the valuation of certain investment securities. Further, the Firm tested the fair value of the investment securities as of an interim date, but failed to perform any procedures to provide a reasonable basis for extending its conclusions to year end.

- In one of these audits,[21] the Firm failed to perform any substantive procedures to test the fair value of certain investment securities without readily determinable fair values that were held by the issuer's domestic pension plan, for which the Firm had requested, but not received, a price from its pricing service. The Firm also failed to perform any substantive procedures to test the valuation of the pension plan assets held by the issuer's international pension plans.

- In one of these audits,[22] the Firm failed to perform any substantive procedures to test the valuation of the level 3 investment securities that were held by the issuer's domestic pension plan. The Firm also failed to perform

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[19] Issuers N, O, and P

[20] Issuer N

[21] Issuer O

[22] Issuer P

any substantive procedures to test the valuation of the pension plan assets held by the issuer's international pension plans.

13. Issuer Q

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its opinion on the effectiveness of ICFR. Specifically, the Firm identified control deficiencies related to the valuation of certain credit derivatives. The Firm concluded that certain compensating controls partially mitigated the effect of the deficiencies and that the control deficiencies therefore constituted a significant deficiency and not a material weakness. The Firm, however, failed to obtain sufficient appropriate audit evidence to support its conclusion that the compensating controls operated at a level of precision that would prevent or detect a misstatement that could be material. Specifically, the Firm identified a deficiency in the operation of one of the compensating controls. In addition, while the Firm concluded that two other compensating controls were operating effectively, the controls had not timely identified an error, which occurred in the first quarter of the year and was in excess of the Firm's established materiality level.

14. Issuer R

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its opinion on the effectiveness of ICFR. Specifically, the Firm identified a significant error in the issuer's calculation of the impairment of certain of its asset groups. Because the error had occurred and the issuer's controls had not detected it, the issuer determined that a control deficiency existed. The issuer also determined, and the Firm agreed, that two compensating controls partially mitigated the effect of the deficiencies and that the control deficiencies therefore constituted a significant deficiency and not a material weakness. The Firm, however, failed to adequately evaluate the severity of the control deficiency in the following respects –

- One of the two compensating controls that the issuer identified did not operate at an appropriate level of precision because, while the control operated as designed, it failed to detect the error in the impairment model. The other control did not address the accuracy of the impairment calculation, and therefore was not a compensating control.

- There was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had considered, in assessing the potential magnitude of the error, other asset groups that required an impairment evaluation and were subject to the same controls.

15. Issuer S

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and the effectiveness of ICFR. The Firm divided the issuer's business units into groups for the purpose of planning its testing. For two groups of units, which in the aggregate presented a reasonable possibility of material misstatement, the Firm tested entity-level controls. The Firm, however, failed to perform any substantive procedures to address the risk of material misstatement for revenue for the units in both of these groups.

The Firm also used the work of the issuer's internal auditors for other internal controls for certain of the units within one of these groups. The issuer's internal auditors determined that ICFR for some of these units was ineffective, and that certain controls related to revenue at other units were not operating effectively. The Firm, however, failed to evaluate whether similar control deficiencies existed at the other units in this group that were not subject to the internal auditors' testing.

16. Issuer T

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its opinions on the financial statements and the effectiveness of ICFR. The Firm's planned approach for auditing revenue included tests of controls and the performance of substantive analytical procedures. The Firm failed to sufficiently test revenue in the following respects –

- The Firm failed to sufficiently evaluate the severity of certain control deficiencies identified through tests of controls over revenue. Specifically, as part of the issuer's evaluation of the control deficiencies, management calculated the magnitude of the potential misstatement resulting from the control deficiencies using certain significant assumptions. The Firm used the issuer's evaluation even though the Firm failed to evaluate the reasonableness of these assumptions, which reduced the total amount of revenue exposed to the control deficiencies by approximately 98 percent.

Further, the Firm failed to adequately assess whether the compensating controls operated at a level of precision that would prevent or detect a misstatement that could be material to revenue. Specifically, the Firm's testing of the compensating controls did not address their precision or did so only through inquiry of management. As a result, the Firm failed to support its opinion on the effectiveness of ICFR and placed excessive reliance on internal control in its approach to testing revenue.

- The Firm failed to develop appropriate expectations of revenue for its substantive analytical procedures, because its expectations were based on unaudited interim revenue recorded by the issuer during the year. In addition, when establishing thresholds for investigation of significant differences, the Firm failed to consider the possibility that a combination of misstatements could aggregate to an unacceptable amount. As a result, the aggregated uninvestigated differences exceeded the Firm's established materiality level by a significant amount.

17. Issuer U

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and the effectiveness of ICFR. The Firm's plan to test revenue for one of the issuer's business units included tests of controls, including a dual-purpose test designed to obtain substantive evidence over customer contracts, and the performance of substantive analytical procedures. The Firm failed to sufficiently test revenue at this unit in the following respects –

- One of the controls the Firm selected for testing was management's review of contracts to identify non-standard terms. The Firm's test of this control was intended to be a dual-purpose test. The Firm, however, failed to design this test to achieve substantive assurance over the recognition of revenue, because its procedures did not test the revenue amounts recognized or the timing of the provision of services to the customer. In addition, the Firm did not identify the complete population of contracts subject to the control.

- The Firm's testing of the above control identified a number of deficiencies indicating that management either did not perform the review or did not do so timely. When evaluating the potential magnitude of these control deficiencies, the Firm, however, failed to include almost all of these deficiencies in its evaluation.

- Another control the Firm selected for testing was management's review and investigation of variances between recorded and forecasted amounts of revenue over a certain threshold amount. The Firm, however, failed to sufficiently test this review control as its testing was limited to verifying that management had signed off as having completed certain review procedures.

- When designing its analytical procedures, the Firm planned to use forecasted data prepared by management for its expectation for revenue. Instead of identifying differences between current-period revenue and its expectations, the Firm identified differences between current- and prior-period revenue. In addition, the Firm failed to sufficiently investigate the significant differences because it failed to test the issuer-supplied data that it used in its investigation of the differences.

18. Issuer V

In this audit, the Firm's planned approach for auditing revenue included the performance of substantive analytical procedures. The Firm failed to test the completeness and accuracy of a system-generated report that it used to develop its expectations. In addition, the Firm failed to investigate the differences between the current-period results and the Firm's expectations that the analytical procedures identified. Instead, the Firm investigated the differences between the current- and prior-period results, and its investigation of these differences was limited to referring back to the report that it had used to develop the expectations.

19. Issuer W

In this audit, the Firm's planned approach for auditing revenue placed reliance on internal control, substantive procedures for the balance sheet accounts related to revenue, and analytical procedures. The analytical procedures, however, provided little to no substantive assurance as the Firm failed to obtain corroboration of management's explanations of significant unexpected differences between expected and actual revenues. As a result, the Firm failed to obtain sufficient appropriate audit evidence to support the existence and valuation assertions for revenue throughout the year.

20. Issuer X

In this audit, the Firm's planned approach for auditing one of the issuer's significant sources of revenue included the performance of substantive analytical procedures. The Firm, however, failed to appropriately develop expectations for certain of these revenues as the expectations were based solely on management's representation that the revenues would be consistent with the prior period and on the Firm's general understanding of the industry. Further, the Firm failed to obtain corroboration of management's explanations of certain significant unexpected differences between expected and actual revenues and, for other significant unexpected differences, the Firm failed to perform any investigation.

21. Issuer Y

In this audit of a new client, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinion on the effectiveness of ICFR –

- The Firm used the work of the issuer's internal audit group to a greater extent than was appropriate. For revenue and inventories, which were significant accounts, the Firm used the work of the internal audit group to test the operating effectiveness of approximately half of the relevant internal controls that the Firm had selected for testing, including certain controls that the Firm had determined were moderate risk. The internal audit group consisted of a director hired during the year, a senior manager, and three other members. The Firm concluded that this group was objective and that the Firm could use the work of this group as described above even though the director of the group also was the director of the issuer's financial reporting group, and reported directly to the issuer's Chief Financial Officer, and the senior manager in the internal audit group had responsibilities related to the consolidation process.

- This issuer had a significant foreign location, which accounted for the majority of its revenue. One of the Firm's foreign affiliates performed audit procedures at this location and reported the results of its procedures to the Firm. The foreign affiliate identified a number of deficiencies in ICFR at the foreign location at year end, and the Firm instructed the foreign affiliate not to evaluate the significance of the control deficiencies, as the Firm would perform that evaluation at the consolidated level. The issuer classified two of the deficiencies related to controls over access to information technology systems residing at the foreign location as significant deficiencies. There was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had obtained the information necessary to understand and evaluate the effects of the access control deficiencies.

22. Issuer Z

In this audit of a new client, the Firm failed to sufficiently assess whether the issuer's methodology for determining the fair value of its reporting units for its annual goodwill impairment analysis was appropriate. Specifically, there was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had evaluated the appropriateness of the issuer's use of the ratio of its total market capitalization to its consolidated book equity to measure the fair value of all of its reporting units, when the reporting units had differing operating results, including one reporting unit that had reported net losses every year since it was organized.

23. Issuer AA

The issuer had significant property and equipment additions during the year. The Firm failed to perform sufficient substantive testing of these property and equipment additions, as the Firm limited its substantive procedures to testing certain manual journal entries related to property and equipment. In addition, the Firm failed to sufficiently test depreciation expense. The Firm's planned approach for auditing depreciation expense for property and equipment included the performance of substantive analytical procedures. For the analytical procedures, however, the Firm's expectation was developed using data derived from the same system that calculated the depreciation expense.

24. Issuer BB

The audit report on the consolidated financial statements of this issuer was issued by a foreign affiliate of the Firm, and the Firm played a role in the audit. The Firm failed to perform sufficient procedures to test the fair values of certain identifiable intangible assets acquired in a business combination. Specifically, there was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had performed procedures, beyond inquiry of management, to evaluate the reasonableness of the attrition-rate assumptions that the issuer had used to estimate the fair value of customer-related intangible assets, which were significantly higher than the historical attrition rates.

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 processes related to audit quality. This review addressed practices, policies, and procedures concerning audit performance and the following five areas (1) management structure and processes, including the tone at the top; (2) practices for partner management, including allocation of partner resources and partner evaluation, compensation, admission, and disciplinary actions; (3) policies and procedures for considering and addressing the risks involved in accepting and retaining clients, including the application of the Firm’s risk-rating system; (4) processes related to the Firm’s use of audit work that the Firm’s foreign affiliates perform on the foreign operations of the Firm’s U.S. issuer audit clients; and (5) the Firm’s processes for monitoring audit performance, including processes for identifying and assessing indicators of deficiencies in audit performance and independence policies and procedures and processes for responding to weaknesses in quality control. 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

PART II, PART III, APPENDIX A, AND APPENDIX B OF THIS REPORT ARE NONPUBLIC AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

APPENDIX C

THE INSPECTION PROCESS FOR ANNUALLY INSPECTED FIRMS

The inspection process is designed, and inspections are performed, to provide a basis for assessing the degree of compliance by a firm with applicable requirements related to auditing issuers. This appendix describes the inspection process for those annually inspected firms that have multiple practice offices and a national office structure. While this appendix describes the general inspection process applied in the 2010 inspections of these firms, the process was customized to each firm’s inspection, bearing in mind the firm’s structure, past inspection observations, observations during the course of the 2010 inspection, and other factors. Accordingly, procedures described in this Appendix, while generally applicable to annual inspections, may not have been applied, or may not have been applied fully, in the inspection of any individual firm, and additional procedures, not described in this appendix, may have been applied in the inspection of an individual firm.

The inspection process included reviews of aspects of selected issuer audits completed by the inspected firm. These reviews were intended both to identify deficiencies, if any, in those aspects of the audits and to determine whether those deficiencies indicated weaknesses or defects in the firm's system of quality control over audits. In addition, the inspection included reviews of policies and procedures related to certain quality control processes of the firm that could be expected to affect audit quality.

1. Review of Selected Audits

Inspections include reviews of aspects of selected audits of financial statements and ICFR. For each audit selected, the inspection team reviewed certain of the issuer's SEC filings. The inspection team selected certain aspects of the audits for review and inspected the engagement team's work papers and interviewed engagement personnel regarding those aspects. The inspection team also analyzed potential adjustments to the issuer's financial statements that were identified during the audit but not corrected. For certain selected engagements, the inspection team reviewed written communications between the firm and the issuer's audit committee and, for some engagements, the inspection team interviewed the chairperson of the issuer's audit committee.

When the inspection team identified a potential issue, it discussed the issue with members of the engagement team. If the inspection team was unable to resolve the issue through this discussion and any review of additional work papers or other documentation, the inspection team issued a comment form on the matter and the Firm was allowed the opportunity to provide a written response to the comment form.

2. Review of Firm Management and Monitoring Processes Related to Audit Quality Control

The inspection team's review of a firm's system of quality control was intended to provide a basis for assessing whether that system was appropriately designed and implemented to achieve the goal of conducting audits that are in compliance with applicable standards. This review included an evaluation of the firm's ability to respond effectively to indications of possible defects in its system of quality control.

a. Review of Management Structure and Processes, Including the Tone at the Top

Procedures in this area were designed to focus on (a) how the firm's management is structured and operates the firm's business, and the implications that the management structure and processes have on audit performance, and (b) whether actions and communications by the firm's leadership – the "tone at the top" – demonstrate a commitment to audit quality. The inspection team interviewed members of the firm's leadership to obtain an understanding of any significant changes in the firm's approach to, and processes for, its management, including the mechanisms, formal or informal, that assess, monitor, or affect audit performance. The inspection team also reviewed significant management reports and documents, as well as information regarding financial metrics and the budget and goal setting processes that the Firm uses to plan for, and evaluate the success of, its business.

b. Review of Practices for Partner Management, Including Allocation of Partner Resources and Partner Evaluation, Compensation, Admission, and Disciplinary Actions

Procedures in this area were designed to focus on (a) whether the firm's processes related to partner evaluation, compensation, admission, termination, and disciplinary actions could be expected to encourage an appropriate emphasis on audit quality and technical competence, as compared to marketing or other activities of the firm; (b) the firm's processes for allocating its partner resources; and (c) the accountability and responsibilities of the different levels of firm management with respect to partner management. The inspection team interviewed members of the firm's management and also reviewed documentation related to certain of these topics. In addition, the inspection team's interviews of audit partners included questions regarding their responsibilities and allocation of time and the interviews of firm management included the performance of partners being inspected, the evaluation and compensation process, any disciplinary actions, and any situations where a client requested a change in the lead audit partner. In addition, the inspection team reviewed a sample of partners' personnel files, including files of partners who resigned or took early retirement and partners who had significant negative inspection results from recent internal and PCAOB inspections.

c. Review of Policies and Procedures for Considering and Addressing the Risks Involved in Accepting and Retaining Clients, Including the Application of the Firm's Risk-Rating System

The inspection team selected certain issuer audits to (a) evaluate compliance with the firm's policies and procedures for identifying and assessing the risks involved in accepting or continuing the client and (b) observe whether the audit procedures were responsive to the risks identified during the process.

d. Review of Processes Related to the Firm's Use of Audit Work that the Firm's Foreign Affiliates Perform on the Foreign Operations of the Firm's U.S. Issuer Audit Clients

The inspection team reviewed the firm's policies and procedures related to its supervision and control of work performed by foreign affiliates on the operations of U.S. issuer clients, reviewed available information relating to the most recent foreign affiliated firms' internal inspections, interviewed members of the firm's leadership, and reviewed the U.S. engagement teams' supervision and control procedures concerning the audit work that the firm's foreign affiliates performed on a sample of audits. In some cases, the inspection team also reviewed, on a limited basis, certain of the audit work performed by the firm's foreign affiliates on the foreign operations of U.S. issuer clients.

e. Review of the Firm's Processes for Monitoring Audit Performance, Including Processes for Identifying and Assessing Indicators of Deficiencies in Audit Performance, Independence Policies and Procedures, and Processes for Responding to Weaknesses in Quality Control

(i) Review of Processes for Identifying and Assessing Indicators of Deficiencies in Audit Performance

Procedures in this area were designed to identify and assess the monitoring processes that the firm uses to monitor audit quality for individual engagements and for the firm as a whole. The inspection team interviewed members of the firm's management and reviewed documents regarding how the firm identifies, evaluates, and responds to possible indicators of deficiencies in audit performance, including internal inspection findings, PCAOB inspection observations, restatements, and litigation. In addition, the inspection team reviewed documents related to the design, operation, and evaluation of findings of the firm's internal inspection program. The inspection team also reviewed certain audits that the firm had inspected and compared its results to those from the internal inspection.

(ii) Review of Response to Weaknesses in Quality Control

The inspection team reviewed steps the firm has taken in the past several years to address possible quality control deficiencies. The inspection team then assessed the design and evaluated the effectiveness of the processes identified. In addition, the inspection team conducted focused inspections of audits of certain issuers whose audits had been reviewed during previous PCAOB inspections of the firm to ascertain whether the audit procedures in areas with previous deficiencies had been improved.

(iii) Review of Certain Other Policies and Procedures Related to Monitoring Audit Quality

The inspection team assessed policies, procedures, and guidance related to aspects of the firm's independence requirements and its consultation processes and the firm's compliance with them. In addition, the inspection team reviewed documents, including certain newly issued policies and procedures, and interviewed firm management to consider the firm's methods for developing audit policies, procedures, and methodologies, including internal guidance and training materials.

APPENDIX D

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.[23/]

[23/] 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.

October 17, 2011

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

Re: Response to Draft Report on 2010 Inspection of PricewaterhouseCoopers LLP

Dear Ms. Munter:

We are pleased to provide our response to the Public Company Accounting Oversight Board's ("PCAOB" or the "Board") Draft Report on the 2010 Inspection of our Firm's 2009 audits (the "Report").

We continue to support the PCAOB and we wish to convey our sincere appreciation for the professional efforts of the PCAOB Staff. We recognize our responsibility to assist the PCAOB in its efforts to protect the interests of investors and further the public interest through the preparation of informative, accurate and independent audit reports. The on-going communication and interactions between the PCAOB Inspections Staff and our Firm continue to contribute to improvements in our audit quality. The execution of quality audits in full compliance with the PCAOB standards has been and remains the top priority for our practice. On behalf of our Firm and its leadership, we are committed to addressing each of the issues identified in the Report in a diligent, conscientious and thoughtful manner.

We appreciate the objectivity and perspective that the PCAOB's inspection process brings to our Firm. As with any audit process, judgments are necessarily involved in the inspection process and professionals can reach different conclusions about the adequacy of audit evidence in a particular circumstance. To the extent there were such differences relating to the inspection findings detailed in this report (which involved only a minority of such findings), they generally related to the significance of the finding in relation to the audit taken as a whole and not the substance of the finding. Accordingly, the overall PCAOB inspection results, as well as the results of our internal inspections, were important considerations in formulating our quality improvement plan which includes the investments described below.

We have evaluated each of the findings set forth in *Part I - Inspection Procedures and Certain Observations* of your Report and taken appropriate actions under both PCAOB standards and our policies. Our evaluation included those steps that we considered necessary to comply with AU 390, *Consideration of Omitted Procedures After the Report Date,* and where applicable, AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditors Report*.

In addition to these actions, we have taken -- and will continue to take -- steps to enhance our audit quality. The following list, while not exhaustive, includes some of the investments we are making:

- Strengthening our culture of quality by reinforcing throughout the firm the tone at the top, stressing the importance of independence, objectivity, professional skepticism, and accountability for audit quality

- Allocating more time of seasoned audit partners and other audit professionals across the country to assist audit teams in consistently achieving our audit quality objectives

- Devoting additional experienced audit partners and other audit professionals to the ongoing process of enhancing our audit methodology

- Increasing the number of full time audit partners and other audit professionals who lead or participate in our internal inspections of selected, recently completed audits

- Reinforcing for partners at all levels of leadership their role, responsibility, and accountability with respect to audit quality

- Modifying our performance review and compensation models to more explicitly recognize individuals for achieving our audit quality objectives

- Enhancing training in specific audit areas involving complex judgments, such as fair value and other accounting estimates

Meeting the challenges that must be addressed to consistently perform high-quality audits is our top priority. We look forward to continuing our dialogue with the PCAOB in support of our unwavering commitment to audit quality. We would be pleased to discuss any aspect of our response or any further questions you may have.

Sincerely,

Bob Moritz
US Chairman and Senior Partner
PricewaterhouseCoopers LLP

Tim Ryan
US Assurance Leader
PricewaterhouseCoopers LLP