



June 27, 2007

[Via Email to rule-comments@sec.gov](mailto:rule-comments@sec.gov)

Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Subject: File Number PCAOB-2007-02

Dear Commission,

Thank you for providing us with the opportunity to comment on the Public Company Account Oversight Board's (PCAOB) proposed rules relating to Auditing Standard No. 5 (AS5), An Audit of Internal Control Over Financial Reporting That is Integrated with an Audit of Financial Statements.

XenoPort, Inc. is a small, publicly held biopharmaceutical company focused on developing a portfolio of internally discovered product candidates for the potential treatment of central nervous system (CNS) disorders. We are currently conducting Pre-clinical, Phase I, II and III stage trials as part of the development of our compounds. As of December 31, 2006 we had a total of 141 employees and for the fiscal year ending December 31, 2006, had total revenues of \$10.6 million. As at June 27, 2007 our market capitalization was \$1.1bn. We were required to comply with the provisions of Section 404 for the first time in 2006.

With regard to the specific comments requested by the Commission, we would like to provide our views specifically in regards to question six, "Will AS5 reduce expected audit costs under Section 404, particularly for smaller public companies, to result in cost-effective, integrated audits." In consideration of the proposed rules relating to AS5, we understand and appreciate the PCAOB and the Commission's intent to improve the execution of the internal control element of the integrated audit whilst simultaneously ensuring that the execution of these audits are cost-effective. Through our own experience, from discussions with our peers and audit professionals and from attendance at industry events, seminars and presentations etc, we have observed that small companies in our sector are typically being charged attestation fees for the 404 opinion of somewhere in the range of 100-200% of their base audit fee e.g. if a company had previously been charged \$250,000 for its financial statement audit, then it would typically be paying an additional \$250-500,000 for 404 attestation work for a total fee of \$500-750,000. While we have yet to receive a quote from our own auditors for the year ended December 31, 2007, we have recently attended various industry forums and seminars and have held discussions with peers and audit professionals and we have been surprised to find a consistent message emerging from the audit profession that a) they will be taking

taking 'aggressive' stances in the implementation of AS5 and b) that this will likely result in fee reductions of up to 20%. This was a consistent message we received from all of these sources. One 'Big Four' firm explained that as they would still be providing an attestation opinion their practice indemnity costs would likely not decrease, and therefore there would be very little room for a reduction in fees.

In summary, we note and appreciate the audit professions' efforts to aggressively pursue adoption of AS5 and the associated anticipated reduction of work and we thank the PCAOB and SEC for considering this matter, but we are surprised that the audit profession is communicating such small reductions in both the level of their efforts and the associated fees. We therefore consider that although the proposed standard does provide for reduced efforts on behalf of our external auditors, it is not to the level that we would argue leaves the internal controls audit being 'cost-effective'.

We would like to thank you again for our opportunity to comment and we hope that our response is taken into consideration of the final determination of the standard. We would be happy to discuss our comments further with the Commission if you would find it helpful. You may contact me at (408) 616-7268.

Yours truly,



Martyn Webster

VP of Finance, XenoPort, Inc