Ms. Nancy M. Morris

Secretary

U.S. Securities and Exchange Commission

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Washington, DC 20549-1090

RE: File Number S7-24-06 Proposed Interpretive Guidance - Management's Report on Internal Control Over Financial Reporting

First, let me say that, I appreciate the opportunity to provide comments and recommendations on the SEC's proposed interpretive guidance for Management's Report on Internal Control over Financial Reporting. Upon reading the proposed changes, I have discovered an issue that I would like to leave a comment on. The issue that I would like to comment on has to do with the proposed changes that are in support of smaller companies.

It states in the proposed changes that, "In its final report to the commission, issued on April 23, 2006, the commission's Advisory Committee on Smaller Public Companies ("Advisory Committee") raised a number of concerns regarding the ability of smaller companies to comply cost-effectively with the requirements of Section 404." First, I would like to let it be known that I have read through the proposal a couple of times and not once did I see a definition of what a small company is or what classifies a company as being small. Moving on, the Advisory Committee stated that it had identified as an overarching concern the difference of how smaller and larger companies operate. It goes on to say that the Advisory Committee focused in particular on three characteristics. One, "the limited number of personnel is smaller companies, which constrains the companies' ability to segregate conflicting duties." Once again seeing as how "Small Companies" have not been defined it is hard for one to understand the concept or idea the Advisory Committee has. Next, are we really supposed to believe that in a small company that the person signing the checks is also doing the books and monitoring internal controls? Also, would it not be beneficial to hire someone for these particular duties as these rules were put in place to protect the public and its money? Two, "top management's wider span of control and more direct channels of communication increase the risk of management override." To this I would have to agree, depending on what a small company is. However, in my opinion for this to be true we would have to be talking about "Ma and Pa shop" companies. Here I think it is important to look at how many locations a company has and how spread out these locations are. Do we really believe that top management is flying to all of these different locations to keep an eye on internal controls. Also, are we sure that small companies have a uniform system of control in place at all locations or are there different methods being applied at different locations for the same company? Three, "the dynamic and evolving nature of smaller companies limits their ability to have static processes that are well documented." If this is true, would the risk here not be greater, and therefore, shouldn't there be more reason for small companies to have internal controls?

In addition, the Advisory Committee noted some other serious ramifications for smaller public companies "stemming from the costs of frequents document changes and sustained review and testing of controls perceived to be necessary to comply with the Section 404 requirements". Are we saying that it is not necessary for small companies to keep up to date records of the changes they have made. In doing my research, and university studies, I have been led to believe that one of the biggest problems we have with internal controls deals with keeping accurate records of the changes.

Next, the Advisory Committee set forth several recommendations for the commission to consider regarding the implementation of Section 404 requirements for small companies. Here, it states that the advisory committee wants there to be partial or complete exemption from the internal control reporting requirements for "specified" small companies under certain conditions, "unless" or "until" a framework is developed for assessing ICFR that recognizes the characteristics and needs for those "specified" small companies. The proposal then goes on to say that COSO has been used by some smaller companies. If this is true, my question is, why can't or don't we put a system in place that works for all smaller companies?

Another area of concern is in the introduction of the proposal it states, "Management's assessment is based on whether a material weakness exists as of the end of the year." Is this really a cost effective way of doing things? To me it seems as if it would be much more cost effective and beneficial for firms to have an ongoing monitoring process. I believe that by having an ongoing monitoring process a firm would not waste as much of its limited number of resources (time & money) at the end of the year when it is trying to do all of the monitoring at once. Adding to this, wouldn't it also be more beneficial to and in the public's best interests if there was an ongoing monitoring process. Do we not want to give are investors an ongoing assurance of are control processes? If we were to just compile this at the end of the year, it would be based on the past. I, for one, as an investor do not want to dwell on the past of the company, I want confidence on controls for the future. Does this also bring light to what I stated above about requiring all companies, no matter what the size, to document their changes of internal control processes?

Going on, there is a section in the proposal where it is giving management of smaller companies an easy way out by having daily interaction with its controls

> *"In smaller companies, management's daily interaction with its controls may provide it with sufficient knowledge about their operation to evaluate the operation of ICFR. Knowledge from daily interaction includes information obtained by those responsible for evaluating the effectiveness of ICFR through their on-going direct knowledge and direct supervision of control operation. Management should consider its particular facts and circumstances when determining whether or not its daily interaction with controls provides sufficient evidence for the evaluation. For example, daily interaction may provide sufficient evidence when the operation of controls is centralized and the number of personnel involved in their operation is limited. Conversely, daily interaction in companies with multiple management reporting layers or operating segments*

would generally not provide sufficient evidence because those responsible for assessing the effectiveness of ICFR would not ordinarily be sufficiently knowledgeable about the operation of the controls. In these situations, management would ordinarily utilize direct testing or on-going monitoring type evaluation procedures to have reasonable support for the assessment."

Once again, I feel the need for us to define a small company. I'm not saying that this will not work; in fact I believe it will work for a company who only has one location and zero to fifty employees. However, I do not believe that these are the type of small companies we are dealing with. Let's look at a company from the "S&P SmallCap 600. The S&P SmallCap is an index consisting of small publicly traded companies. I went through the index and looked to see what companies are listed and also tried to find one that most people would be familiar with to make sure this example easily related to the common reader. The company that I chose to use is Applebee's International. According to Money Central, Applebee's International, Inc. (Applebee's) develops franchises and operates casual dining restaurants under the name Applebee's Neighborhood Grill & Bar. As of December 25, 2005, there were 1,804 Applebee's restaurants. Franchisees operated 1,318 of these restaurants and 486 restaurants were company operated. The restaurants were located in 49 states and 14 countries outside of the United States. Now that I have given you a detailed example of a company, let me get back to making my comment to the above proposed changes. How can we say that in small company, which according to the stock exchange Applebee's is, "management's daily interaction with its controls may provide it with sufficient knowledge about their operation to evaluate the operation of ICFR"? How will we be assured, and is it even feasible for top management to travel to 49 states and 14 countries to monitor internal control? If we look back at the proposal, that is what we must be assuming. Also, I believe that we can all see why it is important for us to have some sort of bounds in determining what a small company is, because I, do not believe that a company like Applebee's, with 32,000 plus employees should have any trouble delegating work to avoid conflict of interest with internal control matters.

With all of the above being stated, I believe that it is critical to the success of the ICFR, and in the public's best interest that we: 1, have a definition of what a small company is; 2, look very carefully at how we want a small company to abide by the rule for ICFR, and 3, understand that the majority of people who are investing into the market probably don't have the money to invest into the big companies. Therefore, feeling the need to protect the public, I suggest that we have a strong hold and watch on how "small companies" are fulfilling regulation 404 on ICFR.

Yours truly,

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