

3rd Annual CEP Symposium 

Certified Equity Professional Institute

They Said What?
An enlightening review of FAS 123R Audits from an Issuer perspective.


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Topics to be addressed

- FAS 123R approach and analysis
- Issues along the way
- Last minute issues
- Solution approach
- Final sign off and audit of FAS 123R expense


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How we started

- Get an understanding of FAS 123R for expense adoption
 - Approach and analysis began in 2004 (KLA)
 - Search for third party vendor in Spring 2005 (Adobe)
 - Analysis and discussion with auditors began in Summer 2005 (@Road)
- Internal analysis vs. third party vendors
- Expensing model selected and why
- Variables input changes from previous disclosure
- Guidance from internal auditors


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What we encountered

- Auditors valuation group contacted late
- Auditors began to analyze data late
- Software calculations not satisfactory
- Further analysis to be conducted by third party vendor
- Changes requested by auditors
 - Expensing model (Adobe)
 - Forfeitures and terms (Adobe - @Road)
 - APIC calculations and special agreements (KLA)


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How we resolved

- Further analysis of models, data, and reports with auditors
- Third party analysis and conclusions
- Calculations performed outside of software
- Accounting memo with description of each variable of model
- Review and sign off by accounting of FAS 123R variables calculation
- Manual testing of software calculations

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Resolutions and conclusions

- FAS 123R expense done in accounting and review by SEC reporting group
- Perform extensive calculations for forfeitures and expected terms outside of software
- Change expensing model to obtain sign off
- Early engagement of internal auditors didn't help process
- Auditors were unprepared for first audit of FAS123R

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