

Knowledge Management Company Learns How to Simplify the Audit Process

Technology Enables Finance Department to Focus on Financial Growth
OutStart exercises its option for better control, faster reporting, and lower legal fees

CUSTOMER CASE STUDY



KEY BENEFITS

- Provides better internal control
- Makes audits easier and faster
- Saves \$7,000 in legal fees annually
- Offers instant answers to employee inquiries
- Centralizes all stock plan information and documents

CFOs and stock plan administrators are quickly learning that traditional ways of doing business are no longer acceptable given the higher levels of scrutiny from auditors and the need to comply with the new stock option expensing requirements under FAS 123R. As a result, organizations can no longer rely on error-prone, manual spreadsheets — something that until recently was the most often used method for tracking stock option information. Today, companies are seeking to implement automated FAS 123R solutions capable of simplifying the process while providing critical information faster and with greater accuracy and accountability. Consequently, financial executives are requiring that systems enable all participants to rely on the same set of consolidated records and be capable of combining stock plan administration, stock option expensing, and corporate governance management. Such was the case at OutStart, Inc.

Challenge: Gain better control and increase efficiency

Financial executives at OutStart, a knowledge management and e-learning software provider with a broad-based employee stock option plan, knew they didn't have a system that was capable of managing their growing stock option plan. For many years, OutStart used one of the nation's leading law firms to administer its stock option plan. Initially the process worked well, primarily because the plan was not that complex. However, over time, the number of participants grew, as did the number of spreadsheets required to manage the information. Consequently, the number of executive hours spent reconciling the law firm's reports with the company's spreadsheets also increased.

"We really had two systems in place," said Rob Lubash, V.P., Corporate Controller at OutStart. "We had to verify the accuracy of *their* documents, then compare and verify the accuracy of *our* documents with the source information. Not only was this an expensive way to track options, it was not the best use of our time."

Because Lubash did not have central control of the entire process, it became a time-consuming effort to compare records, double-check formulas, and confirm dates. As an example of how the hours – and legal fees – could add up, Lubash explained that before a board meeting, he would put together the list of proposed option grants. At that point, the list could be modified by either the President or CFO. Then, the lawyers would prepare their paperwork for the board based on whichever version they received. After the board meeting, Lubash would have to research and confirm whether the numbers had in fact changed during any step in the process in order to develop his numbers for financial reporting purposes.

"We looked at the process cost-wise and found a compelling argument for moving our entire stock plan administration work in-house," he explained.

Solution: Shift to cost-effective and comprehensive reporting

Because there were so many people in the process, Lubash was concerned about the potential for inaccuracy which he long ago learned stems from the very nature of using spreadsheets. This issue, coupled with the expense of using a large law firm to administer a relatively straight-forward stock option program, prompted OutStart to look for a new solution that they could administer themselves.

"Instead of reconciling two sets of books, we wanted one system and one source of information that would give us a greater comfort level and would satisfy our auditors," he said. "More specifically, the solution needed to be reasonably priced, have a fast initial start-up, and include the highest levels of support and training."

Complete stock plan administration, FAS 123R valuation and expensing, and capitalization table management for venture-backed and other privately held companies.

- One centralized location for all equity transactions
- Intuitive administration with easy-to-use tracking wizards
- Complete audit trail with supporting legal documentation
- Fully diluted capitalization tables for all types of securities
- World class hosting facility so you can get started right away

ABOUT OUTSTART

OutStart software powers formal and on-demand knowledge sharing and learning solutions that enable knowledge workers – such as sales and marketing professionals, partners and customers – to perform their roles far more efficiently and effectively. Major organizations rely on OutStart to increase individual and organizational performance, improve knowledge transfer, and lower operating costs.

TWO STEP[®]
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OutStart evaluated Equity Focus™ from Two Step Software, Inc., a stock plan administration system that connects stock option records to the supporting corporate governance documents, and quickly determined it satisfied their requirements. In fact, at the time they began their search, they knew they would be facing their first audit under the new FAS 123R stock option valuation and expensing requirements and wanted the solution to simplify compliance with FAS 123R.

“Equity Focus had all the functionality we needed and the other solutions we considered were cost-prohibitive,” said Lubash. “Moreover, having a hosted system is a big benefit for us because I can get secure access to the information even when I work remotely.”

Results: Greater comfort, better control, and faster access

Faster Response Results in an Easier Audit

The company’s first audit after deploying Equity Focus went very well. Furthermore, since all the data is tracked in a single application, it can also be used to create the footnotes for the financial statements. At OutStart, Equity Focus was used to calculate the grant date valuations as well as the equity compensation expense numbers for the income statement. Once reported, the auditors reviewed and verified the numbers and were satisfied with OutStart’s data management, expense amortization, and option reporting.

In addition, as part of their ‘Big Four’ accounting firm’s review, the company’s auditors examined the source documents for selected transactions. In the past, Lubash would have spent a great deal of time collecting the back-up documents for specific transactions, such as option agreements, board minutes, or employee termination notices. Now, he just uploads all the supporting documents into Equity Focus and knows they’re always available in one central location in case they’re needed down the road.

Option Holders Grade the Company Higher Due to Its Instant Answers

Since adopting Equity Focus, the company no longer needs to spend hours to find the right spreadsheet, check the formulas for accuracy, or confirm that the dates are accurate. “Now, when we get calls from employees who are interested in exercising their options and need to know how many shares are vested on a certain date, I have instant access to that kind of information,” Lubash said. “I just go into the system, put in the date, and generate the report. That was at least a 20-minute process before. Now, it just takes minutes.”

With respect to his quarterly board meetings, Lubash simply scans the board minutes into Equity Focus. As a result, there’s no wasted time looking through different versions of spreadsheets, finding the right one, and making sure it was updated with the most recent changes. “We know the numbers are accurate and timely because there’s only one source of information,” said Lubash. “In fact, in just about an hour’s time, all our reports are up-to-date.”

Company Calculates Better Control and Cost Savings

From a business standpoint, OutStart has realized cost savings and significant improvements in administrative controls since automating their stock option functions. “Equity Focus has reduced much of the administrative burden resulting in real process improvements and bottom-line savings,” explained Lubash. “Since we’re spending less time reconciling the numbers, we can get answers to our investors faster.”

By taking back the option tracking work from their law firm, the company has realized a cost savings of several thousand dollars a year. More specifically, incurring the legal fees of a large, international law firm for tracking options no longer made sense for the company which had previously spent about \$1,000 per month in stock option administration related fees. Leveraging Equity Focus, OutStart has dramatically reduced its legal fees for stock option related tasks which has already saved the company about \$7,000 per year.

Technology Creates Process Improvements and Enables Focus on Growth

At OutStart, automating the stock plan administration has had greater benefits than just those that show up in the bottom line. “Since we brought our stock plan administration in-house, not only have we saved time and money, we now have better control, more timely reporting capabilities, and faster access to our information.” More importantly, Lubash can now focus his attention back on more strategic tasks like the financial growth of the business.