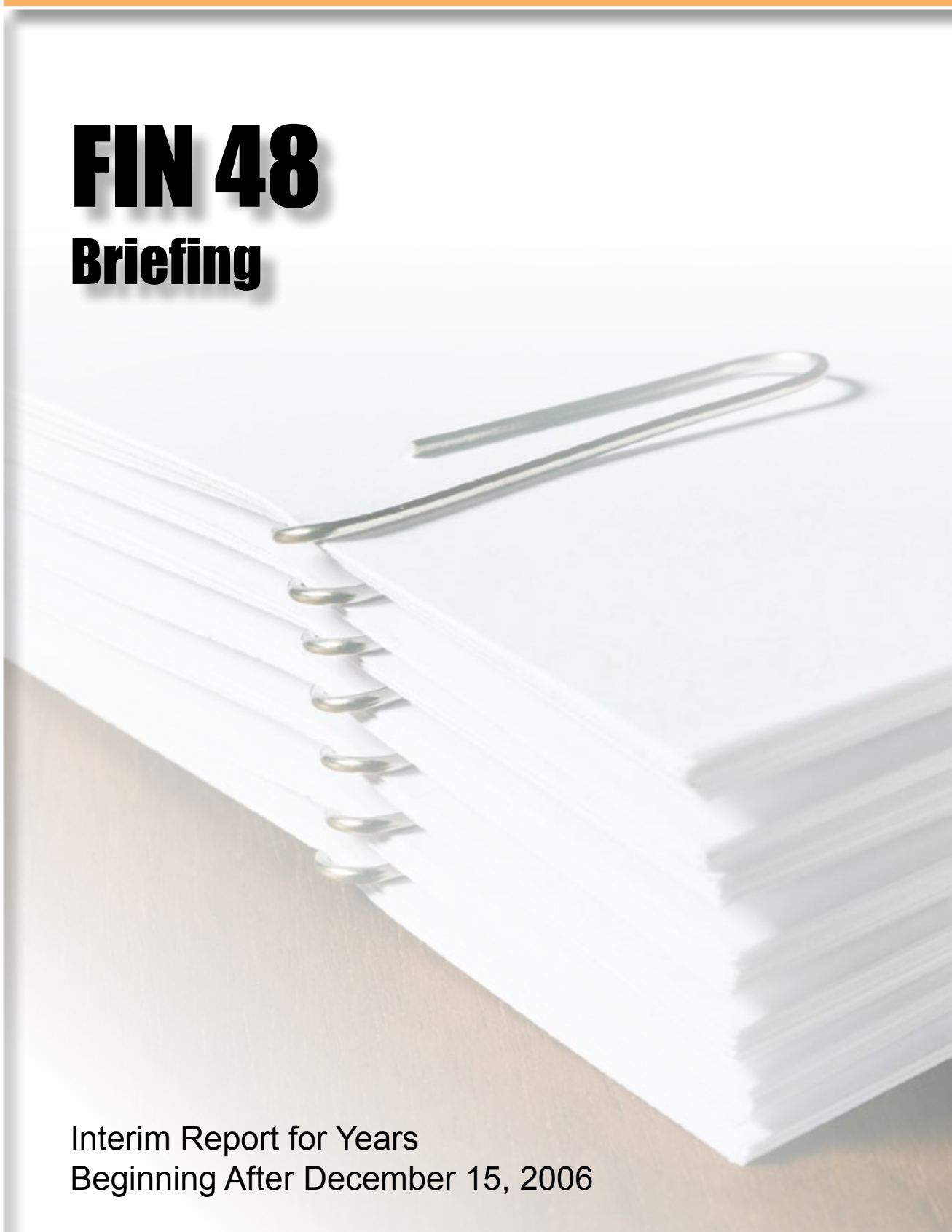


FIN 48

Briefing



Interim Report for Years
Beginning After December 15, 2006

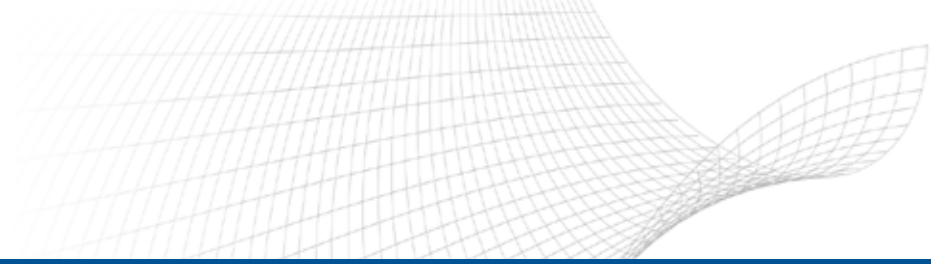


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FIN 48

Introduction

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB statement No. 109 (FIN 48)". FIN 48 is effective for fiscal years beginning after December 15, 2006 and should be applied in the first fiscal year thereafter. Early adoptions are strongly encouraged for all SEC filers.

Executive Summary

1. Through the first ten months of application, FIN 48 early adoptions reached 1,641¹, affecting more than 25% of all active non SB filer 1934 Act registrants². The extent of these adaptations raises issues with respect to both the complexity of tax accounting and the historical effectiveness of financial reporting related to same.
2. 67% of the FIN 48 adoptions had a negative cumulative impact on beginning retained earnings, 22% had a positive impact and the remaining 11% had no material impact on beginning retained earnings. As with SAB 108 provisions one of the most controversial aspects of this interpretation is its provision that adjustments should be recorded as changes to beginning retained earnings effectively allowing companies to bypass income statement recognition of these changes.
3. The dollar amount of the cumulative adjustments to retained earnings associated with FIN 48 restatements that had a negative impact on retained earnings was \$ 10.4 billion. The increase in the beginning retained earnings associated with positive adoptions was \$7.3 billion. Net impact of all the adoptions was a negative cumulative adjustment of approximately \$3.1 billion³.
4. Of the major accounting firms, Deloitte clients comprised the largest number of adoptees, making up 24.7% of all FIN 48 filers and 43% of their own client bases. In comparison, among the Big Four, KPMG clients made up both the fewest adoptions (216) and the lowest percentage of their client base (26%).
5. Clients of PricewaterhouseCoopers made up the highest dollar cumulative positive charge to retained earnings (\$4.7 billion).
6. Errors related to Unrecognized Tax Benefit Liabilities made up a significant number and percentage of all FIN 48 restatements ⁴.

¹ The population of FIN 48 restatements is based on September 30, 2007 downloads and includes analysis of 10-K's and 10-Q's only.

² This analysis examines FIN 48 adjustments from 10-K's and 10-Q's filers only, with one exception that REIT filers were added back.

³ Financial impact on retained earnings is as based on early adoptions disclosed in 10-K's and 10-Q's filings. Many companies disclosed financial impact on retained earnings as preliminary estimate rather than final charge.

⁴ A significant number of companies reported multiple tax issues in their FIN 48 filings.

⁵ Based on the number of their clients that were native and non SB 1934 Act filers. In addition, only non tickered subsidiaries were removed from the population.

FIN 48

Background

Prior to the adoption of FIN 48, accounting for uncertainty in income taxes was governed by FAS 5 – Accounting for Contingencies. Under FIN 48, a company may recognize an uncertain tax position only if it is “more-likely-than-not” that this tax position can be sustained if examined by a tax authority. The provision also provides reporting guidance for de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition of tax positions. If existing tax positions do not meet the “more-likely-than-not” threshold, tax assets and liabilities should be stated at their correct balances, with an offsetting cumulative impact of the adoption of FIN 48 reported as an adjustment to the beginning retained earnings (or to another appropriate component of stockholders equity, assets or liabilities).

This briefing presents an overview of early FIN 48 adoptions as disclosed in forms 10-K and 10-Q only. Given the complexity of tax accounting issues and lack of a clear-cut rule in FASB 109 with regard to uncertain tax positions, it was anticipated that many companies would have to re-evaluate their tax positions after the adoption of the FIN 48 regulation. Our preliminary analysis reveals that during the first ten months of 2007 almost 25% of the registrants disclosed a material impact due to FIN 48 adoptions. The final number of adoptions is likely to be even higher than the preliminary results presented in this briefing.

More than 67% of FIN 48 restatements had a negative impact on beginning retained earnings. About 22% had a positive impact and 11% didn't have a material impact. The relatively high percentage of companies that disclosed FIN 48 adoptions with no impact on retained earnings might be attributed to those registrants that had carry forward losses and therefore have never been able to take advantage of those tax benefits.

One of the interesting features of FIN 48 adoptions was a relatively high adjustment to the beginning retained earnings that companies were required to take in order to comply with the recognition requirement. As shown on Figure 6, net charges to the beginning retained earnings associated with FIN 48 restatements exceeded \$ 3 billion. Figures 1 and 2 describe the 10 largest positive and 10 largest negative FIN 48 adoptions as a percentage of last year's net income.

As shown in Figure 3, clients of the eight largest audit firms account for more than 95% of all FIN 48 adoptions. The results also show that clients of the Big Four were more likely to disclose early adoption of FIN 48 than clients of smaller audit firms. One of the possible explanations is that many of the Big Four clients are very large international corporations with complex operations. These companies have to take into account multiple factors (such as effects of foreign tax regulations) to estimate their tax reserves. As a result, they are likely to have more uncertainty in their tax positions than small domestic companies.

As follows from Figure 8, FIN 48 restatements affected some industries more than others, with the manufacturing industry alone accounting for about 38% of all FIN 48 adoptions. The Retail and Wholesale industry had the highest share of FIN 48 adjustments as a percentage of the corresponding population. The high percentage of FIN 48 in the Retail and Wholesale industry might be explained by the requirement of FIN 48 to evaluate tax positions on jurisdiction-by-jurisdiction level. Retailers are more likely than companies in other industries to have multi state operations. Therefore, it was likely that at least in some jurisdictions their tax positions would not meet “more-likely-than-not” recognition threshold established by the FIN 48 regulation.

Figure 7 describes total counts of FIN 48 adjustments and other tax-related restatements in years 2005, 2006 and the first ten months of 2007. Given the recent scrutiny of tax authorities to FIN 48 restatements, the question of how many of those other tax-related (regular and SAB 108) restatements should have been corrected under the FIN 48 – remains open.

Figure 1

10 largest **positive** FIN 48 adoptions

Company	Impact on retained earnings \$	Net Income \$	Income understatement %
Ford Motor CO	1,300,000,000	-12,613,000,000	11.49%
Altria Group, Inc	711,000,000	12,022,000,000	5.58%
J P Morgan Chase & CO	436,000,000	14,444,000,000	2.93%
IAC/Interactive Corp.	420,697,000	192,635,000	68.59%
Exxon Mobil Corp.	267,000,000	39,500,000,000	0.67%
Cisco Systems Inc	250,000,000	7,333,000,000	3.30%
Edison International	250,000,000	1,181,000,000	17.47%
Kraft Foods Inc	213,000,000	3,060,000,000	6.51%
Intel Corp.	181,000,000	5,044,000,000	3.46%
Caterpillar Inc	141,000,000	3,537,000,000	3.83%

The table above describes the 10 largest positive FIN 48 adoptions. The “Impact on retained earnings” column describes total cumulative impact that the FIN 48 adoption had on retained earnings. The “Net income” column reflects the most recent annual net income. The last column describes the net income effect assuming that the adoption had been made at the end of the previous year. Positive means that historical retained earnings were increased from adoption of FIN 48.

Figure 2

10 largest **negative** FIN 48 restatements

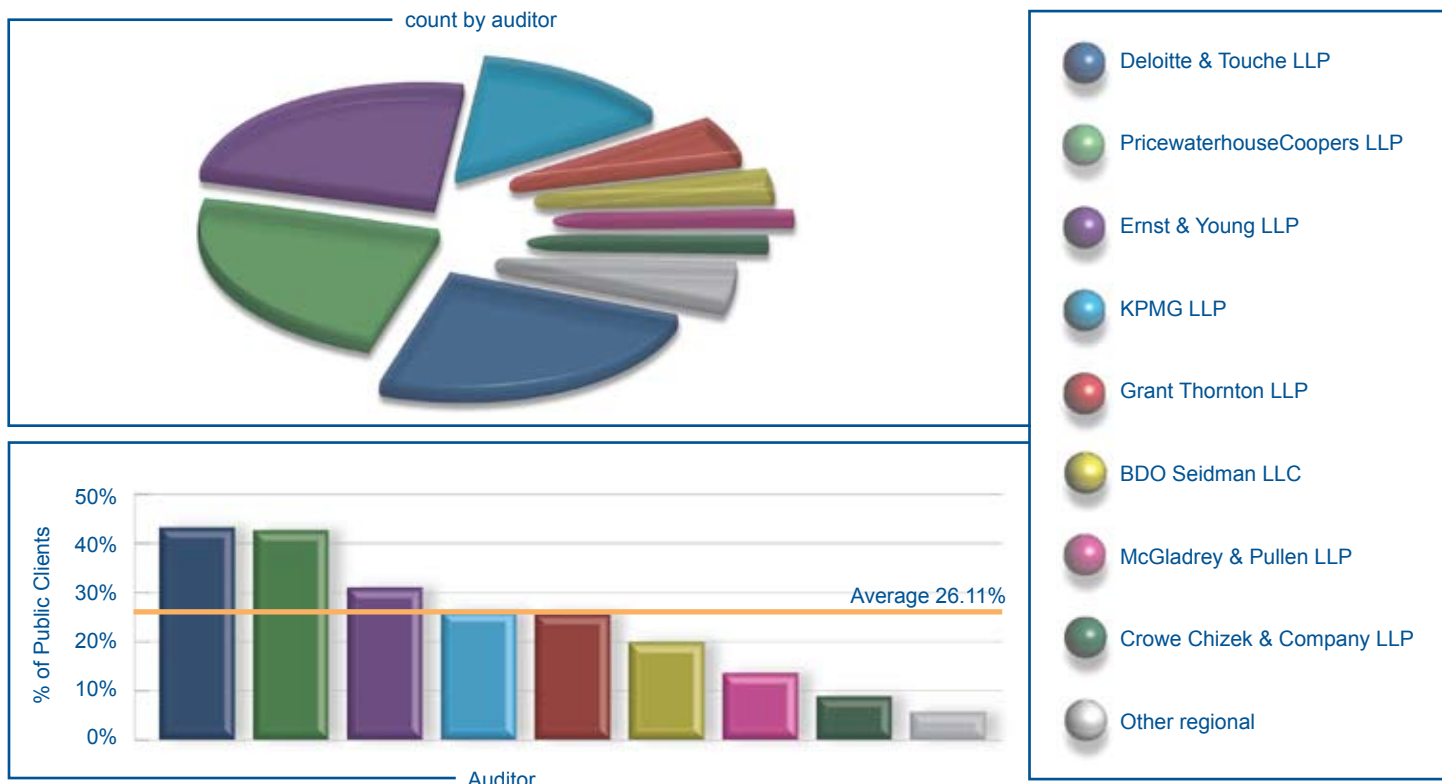
Company	Impact on retained earnings	Net Income	Income Overstatement
Microsoft Corp	-395,000,000	14,065,000,000	2.89%
Regions Rinancial Corp	-259,000,000	1,353,145,000	23.67%
Procter & Gamble CO	-232,000,000	10,340,000,000	2.30%
Occidental Petroleum Corp /DE/	-219,000,000	4,182,000,000	5.53%
Centex Corp	-208,295,000	268,366,000	346.75%
Praxair Inc	-158,000,000	988,000,000	19.04%
Marriott International Inc /MD/	-155,000,000	608,000,000	34.22%
Bank of America Corp /DE/	-146,000,000	21,133,000,000	0.70%
Ingersoll Rand Co Ltd	-145,600,000	1,032,500,000	16.42%
American Express Co	-127,000,000	3,707,000,000	3.55%

The table above represents the 10 FIN 48 restatements with the largest negative impact on historical retained earnings

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Figure 3 – FIN 48 adoptions
count by auditor

Auditor	Number of FIN 48 restatements	Decrease in retained earnings \$	Increase in retained earnings \$	% of auditor's clients
Deloitte & Touche LLP	405	-3,776,553,336	626,779,755	42.95%
PricewaterhouseCoopers LLP	390	-2,837,554,840	4,719,291,600	42.39%
Ernst & Young LLP	385	-2,825,150,254	1,089,383,791	30.80%
KPMG LLP	216	-671,323,825	841,345,358	26.02%
Grant Thornton LLP	87	-78,452,365	7,167,000	25.51%
BDO Seidman LLP	49	-98,828,585	19,714,035	19.76%
McGladrey & Pullen LLP	13	-7,283,000	210,000	13.54%
Crowe Chizek & Company LLC	8	-7,649,000	1,308,000	8.79%
Other regional	88	-74,650,030	13,975,253	5.62%
Total	1641	-10,377,445,235	7,319,174,792	26.11%



The chart above represents the breakdown of FIN 48 restatements by auditor. As evident from the chart, clients of Big Four audit firms were more likely to disclose early adoption of FIN 48 than clients of smaller companies.

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Figure 4 – FIN 48 adoptions

count by filer type

Filer	Number of FIN 48 restatements
Accelerated filer	1346
Non-Accelerated filer	265
Not disclose	30
Total	1641

Figure 5 – FIN 48 adoptions

count by exchange type

Exchange	Number of FIN 48 restatements
Nyse	777
Nasdaq	638
Amex	51
OTCBB	37
Other	138
Total	1641

The above charts break down FIN 48 adoptees by size and exchange type. The vast majority of the adoptees was accelerated filers and traded on NYSE and NASDAQ stock exchanges.

FIN 48

Figure 6 – FIN 48 adoptions
count by impact on retained earnings

Type	Number of FIN 48 restatements	Impact on retained earnings
Negative	1106	-10,377,445,235
Positive	358	7,319,174,792
Other	177	0
Total	1641	-3,058,270,443

Figure 7 – FIN 48 adoptions
count by restatement type

	Number of restatements
FIN 48 restatements	1641
Regular tax restatements 2005-2007	492
SAB 108 tax restatements	114

The figure above describes the total number of tax restatements disclosed under FIN 48, SAB 108 or regular restatements categories. In theory, restatements disclosed in the FIN 48 category should all be related to the tax positions that do not meet the 51% likelihood threshold. The SAB 108 category should include only those adoptions that disclosed tax-related adjustments to retained earnings that were previously considered immaterial to any given year or in aggregate. The regular tax restatement category includes all the restatements that resulted from an incorrect application of FASB 109 – such as tax calculation errors or improper tax assets or liabilities classification. In practice, there is likely some overlap between the different forms of restating previous tax accounting disclosures.

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Figure 8 – FIN 48 adoptions

count by tax issue

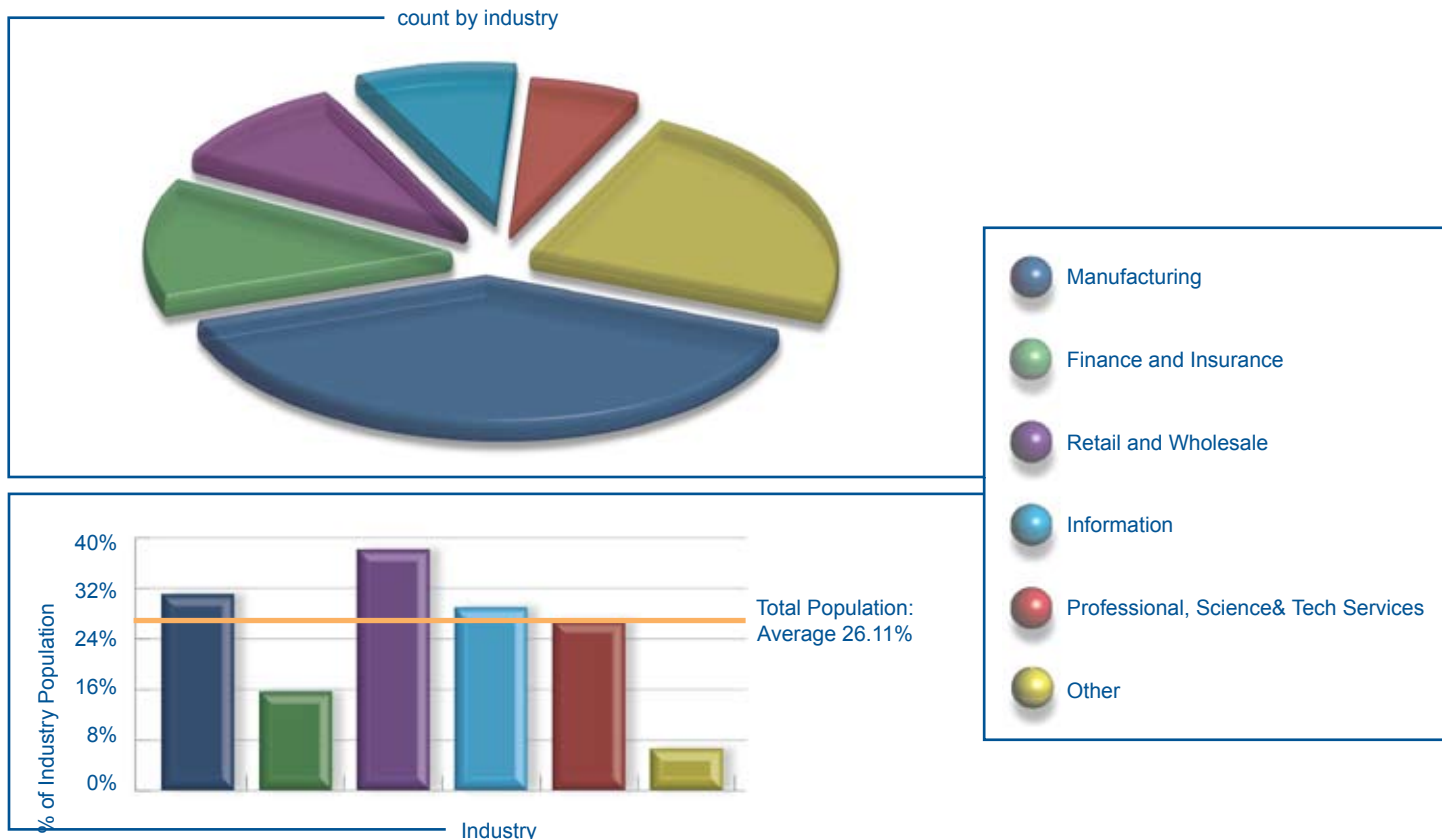
Tax issue	Number of adoptions with negative impact on retained earnings	Number of adoptions with positive impact on retained earnings	Number of adoptions with no impact on retained earnings	Total number of FIN 48 adoptions	% of total FIN 48 adoptions
Tax - FIN 48 Retained Earnings Cumulative Adjustment	1106	358	0	1464	89.21%
Tax - FIN 48 Statutory Tax Periods Noted	873	287	138	1298	79.10%
Tax - FIN 48 Unrecognized Tax Benefit Liability Affected	530	154	50	734	44.73%
Tax - FIN 48 Liabilities for Interest and Penalties Affected	243	36	26	305	18.59%
Tax - FIN 48 Deferred Tax Assets Affected	139	47	50	236	14.38%
Tax - FIN 48 Reserve For Uncertain Tax Position Affected	130	52	7	189	11.52%
Tax - FIN 48 Reclassification among BS accounts noted	105	33	47	185	11.27%
PPE issues - Intangible assets, goodwill only	78	33	18	129	7.86%
Tax - FIN 48 Uncertain Tax Position Liability	84	31	5	120	7.31%
Tax - FIN 48 Misc. Account Affected	72	27	7	106	6.46%
Tax - FIN 48 Liabilities For Taxes Payable Affected	63	21	13	97	5.91%
Tax - FIN 48 Tax Asset Valuation Allowance Affected	27	8	44	79	4.81%
Tax - FIN 48 Deferred Tax Liability Affected	44	15	7	66	4.02%
Tax - FIN 48 Additional Paid-In Capital Affected	16	12	3	31	1.89%
Tax - FIN 48 Tax Receivables Affected	15	12	2	29	1.77%
Tax - FIN 48 Estimate Only of F/S Effect Provided	10	4	0	14	0.85%
Tax - FIN 48 Unaffected or Unidentified Affects			1	1	0.06%

The above breakdowns have been drawn from the actual FIN 48 disclosures. Many of the disclosures impacted several categories. Alternatively, a few of the categories may need to be combined to gain the full picture.

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Figure 9 – FIN 48 adoptions
count by industry

Industry	Number of FIN 48 restatements	% of industry population
Manufacturing	641	31.06%
Finance and Insurance	217	15.65%
Retail and Wholesale	164	38.14%
Information	143	28.95%
Professional, Science and Tech services	97	26.87%
Other	379	6.61%
Total	1641	26.11%



- Industries are as defined by US census bureau

The table above describes breakdown of FIN 48 restatements by industry. The manufacturing industry has the highest count of FIN 48 adoptions, while retail & wholesale industry has the highest share as a percentage of total population.

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