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## **Internal probes of backdating can take months SEC USUALLY WAITS FOR COMPANIES' DATA BEFORE TAKING ACTION**

By Mark Schwanhausser,  
San Jose Mercury News

Stock-option backdating cases are proving to be cumbersome long before federal investigators start nosing around.

The Securities and Exchange Commission's practice is to wait for companies to turn over the findings of internal reviews before launching their own probes -- causing months of delay.

"The SEC does not have anywhere close to the bandwidth to come in and do the level of scrutiny the company is doing," said Jerry Behar, chief executive of Financial Intelligence, a Palo Alto consulting firm that specializes in managing stock option restatements.

Internal investigations typically take three months to complete, according to Financial Intelligence's analysis of 100 internal reviews into backdating by companies nationwide. But some ongoing investigations are dragging on nearly eight months. "And counting," Behar said.

That means more revelations of option manipulation will continue to unfold for months. Though Silicon Valley firms generally launched internal reviews last May and June, companies such as Adobe Systems, Actel and Coherent didn't do so until the fall.

The investigations are time-consuming for many reasons. For starters, they involve reviewing piles of documents and e-mail for errors, fakery and evidence of an intent to break the rules.

For example, Mercury Interactive said it sifted through 2 million documents, Apple spent more than 26,500 hours culling through more than 1 million paper and electronic documents, and Maxim pored over 270,000 electronic documents (comprising "13 terabytes of data") and 50,000 paper documents.

"Everybody wants to be thorough -- the auditors, the board, the management," Behar said. "Nobody wants to be second-guessed or challenged that they didn't approach it seriously."