



Xactly Corporation Lauds Research Paper That Highlights Risks When Using Spreadsheets for Financial Reporting

SAN JOSE, Calif. – August 15, 2006 – Xactly™ Corporation, (www.xactlycorp.com), the leader in automated on-demand sales compensation management, today announced its unilateral support for a new “Spreadsheets and Sarbanes–Oxley: Regulations, Risks, and Control Frameworks” research paper developed by Dr. Raymond R. Panko, a professor of IT management in the College of Business Administration at the University of Hawaii.

Dr. Panko’s research details the potential for error and/or fraud when using spreadsheets in corporate financial reporting, and the subsequent liability this exposure creates as regards compliance with federal regulations including the Sarbanes-Oxley Act. Dr. Panko’s report will be published in the Communications of the AIS, 2006, and can be viewed in its entirety at: www.xactlycorp.com/resource_center/SOX_Whitepaper.pdf

“Dr. Panko’s research confirms what our customers tell us - - that spreadsheets are quite literally a danger for sophisticated corporate financial reporting,” said Christopher W. Cabrera, Xactly founder, president and CEO. “Companies of all sizes can mitigate this risk as it pertains to the management of sales incentive compensation data simply by using an automated on-demand solution such as Xactly Incent™.”

According to his research, Dr. Panko “spoke independently with experienced spreadsheet auditors in two different companies in the United Kingdom, where certain spreadsheets must be audited by law. Each company audited about three dozen spreadsheets per year. Both said that they had never seen a major spreadsheet that was free of errors. Both also indicated that about five percent of the spreadsheets they audited have very serious errors that would have had major ramifications had they not been caught.”

The Sarbanes-Oxley Act of 2002 (SOX) has forced corporations to re-examine their spreadsheet use in financial reporting. Xactly Incent functions as an internal process control over incentive compensation to help minimize the risk of non-compliance that manual spreadsheets expose companies to, because spreadsheet-based compensation plans typically do not provide adequate audit trail as required by SOX. Xactly Incent allows companies to introduce an automated process for defining and paying compensation that provides full auditing to meet federal regulations.

Xactly is the first and only company completely focused on delivering a 100% on-demand sales compensation management solution. It is also the first and only company to deliver a true multi-tenant solution in a SAS 70, Type II certified environment. This single-minded approach enables Xactly to minimize hardware and software infrastructure costs – savings that are then passed on to customers – and accelerate the process by which it delivers new features and functionality.

About Xactly Corporation

Xactly Corporation delivers automated on-demand sales compensation applications that enable companies to incent right and sell more. In today’s spreadsheet paradigm, companies tend to simplify or unnecessarily complicate their incentive programs. These programs, delivered with no real-time visibility, often leave the sales force unmotivated, resulting in unpredictable results. Xactly Incent™ allows companies to easily and affordably design, implement, manage and audit optimized incentive programs. With these improved programs in place, Xactly Incent provides sales with unprecedented real-time visibility via the web. The combination of the right incentives with complete visibility motivates sales to sell more. For more information, visit www.xactlycorp.com or call 1-866-GO-XACTLY.

Sample Audits of Real-World Spreadsheets

Authors	Year	Number of Spreadsheets Audited	Average Size (Cells)	Percent of Spreadsheets with Errors	Cell Error Rate	Comment
Hicks	1995	1	3,856	100%	1.2%	One omission error would have caused an error of more than a billion dollars.
Coopers & Lybrand	1997	23	More than 150 rows	91%		Off by at least 5%. At 5%, financial errors are considered to be material (Vorhies, 2005).
KPMG	1998	22		91%		Only significant errors that could affect decisions.
Lukasic value	1998	2	2,270 & 7,027	100%	2.2%, 2.5%	In Model 2, the investment's was overstated by 16%. Quite serious.
Butler	2000	7		86%	0.4%	Only errors large enough to require additional tax payments.*
Clermont, Hanin, & Mittermeier	2002	3		100%	1.3%, 6.7%, 0.1%	Computed on the basis of non-empty cells.
Interview I**	2003	~36 / yr		100%		Approximately 5% had extremely serious errors.
Interview II**	2003	~36 / yr		100%		Approximately 5% had extremely serious errors.
Lawrence and Lee	2004	30	2,182 unique formulas	100%	6.9%	30 most financially significant spreadsheets audited by Mercer Finance & Risk Consulting in previous year.
Total/Average			88		94%	5.2%

*The low cell error rate probably reflects the fact that the methodology did not inspect all formulas in the spreadsheet but focused on higher-risk formulas. However, error has a strong random component, so the practice of not checking all formulas is likely to miss many errors.

**In 2003, the author spoke independently with experienced spreadsheet auditors in two different companies in the United Kingdom, where certain spreadsheets must be audited by law. Each company audited about three dozen spreadsheets per year. Both said that they had never seen a major spreadsheet that was free of errors. Both also indicated that about five percent of the spreadsheets they audited have very serious errors that would have had major ramifications had they not been caught. Audits were done by single auditors, so from the research on spreadsheet and software auditing, it is likely that half or fewer of the errors had been caught. In addition, virtually all of the spreadsheets had standard formats required for their specific legal purposes, so error rates may have been lower than they would be for purpose-built spreadsheet designs.

Source: Panko (© 2005)

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