Antelope Run Inc. — Suggested Solution — Controls With a Review Element

Note: This document represents the suggested solution for documenting the procedures performed to test a control with a review element.

Component A — Control Description

Control Activity — Summary Description

**C-5: Antelope Run Inc.’s (Antelope’s) fitness trackers business planning committee (the “BPC”) meets to review, challenge, and approve the revenue forecast for the fitness trackers reporting unit (Fit Stride) for appropriateness using historical performance and their knowledge of management’s strategic plans, as well as industry projections and peer-company data.**

Control Description — Detailed Description of How the Control Is Expected to Be Performed

**Inputs Used by Reviewer**

The following are inputs for this control:

Reports by product:

- Forecasted vs. historical sales volumes for each fitness tracker product.
- Forecasted vs. historical sales price per unit for each fitness tracker product.
- Forecasted sales price per unit vs. competitor’s sales prices per unit for each fitness tracker product.
- Prior forecasted revenues by product vs. actual sales revenue for the prior three years.

Reports for the fitness trackers reporting unit (overall):

- Forecasted vs. historical revenues.
- Forecasted vs. historical year-over-year percentage change in revenues.
- Current-year vs. prior-year forecasted revenues.
- Forecasted year-over-year percentage change in revenues versus forecasted year-over-year percentage change in industry and peer company revenues.
- Prior forecasted revenues by reporting unit vs. actual sales revenue for the prior three years.

For additional consideration of each report used in the control, refer to the Information Used in the Review section below.

**Specific Activities Performed by Reviewer (Steps of the Review):**

To review, challenge and approve the revenue forecast for each fitness tracker product and for the fitness trackers reporting unit overall, the BPC performs the following procedures:

**Step 1 — Sales Volume and Price**

**Step 1a:** For sales volume, the BPC will compare the historical sales (i.e., most recent three years’) volumes for each product to the forecasted sales volume by comparing (based on judgment) year-to-year percentage change in volume to identify any anomalies. The BPC will pose questions to the Fit Stride director of sales and marketing (the “Director”) for further explanation to understand what is driving the forecasted sales volume. To complete this review the BPC members use the following report:

*Forecasted vs. historical sales volumes for each fitness tracker product.*

**Step 1b:** For sales price, the BPC will compare the historical sales price (i.e., most recent three years) to the forecasted sales price by comparing the year-to-year percentage change in price to identify anomalies,
based on judgment. The BPC and will pose questions to the Director for further explanation to understand what is driving the forecasted sales price changes. To complete this review the BPC members use the following report:

*Forecasted vs. historical sales price per unit for each fitness tracker product.*

**Step 1c:** The BPC will compare the forecasted price of each product to competitor prices and, based on judgment, identify differences to investigate. To complete this review the BPC uses the following report:

*Forecasted sales price per unit vs. competitor sales prices per unit for each fitness tracker product.*

**Step 1d:** The BPC will also perform a retrospective review by comparing the forecasted revenues by product for each of the past three years to actual sales revenue in those years to evaluate (based on judgment) the reasonableness of the forecast. To complete this review the BPC members use the following report:

*Prior forecasted revenues by product vs. actual sales revenue for the prior three years.*

### Step 2 — Revenue

The BPC reviews the revenue forecast for the fitness trackers reporting unit.

**Step 2a:** The BPC will (1) compare the historical revenues (i.e., most recent three years) to the forecasted revenues for the fitness trackers reporting unit overall and (2) compare the most recent three years’ revenues (i.e., annual revenue growth) to the annual percentage change in forecasted revenues to identify anomalies (changes over 5 percent or $1 million). The BPC will pose questions to the Director for the respective reporting units for further explanation to understand what is driving the forecasted revenue. To complete this review the BPC members use the following reports:

*Forecasted vs. historical revenues.*

*Forecasted vs. historical year-over-year percentage change in revenues.*

**Step 2b:** The BPC will also compare the forecasted revenues to the prior-year forecast for the fitness trackers reporting unit overall to identify anomalies (changes over 5 percent or $1 million). To complete this review the BPC members use the following report:

*Current-year vs. prior-year forecasted revenues.*

**Step 2c:** The BPC will also compare the percentage change in forecasted revenues to the industry forecasts (e.g., *Heart Healthy Quarterly* publication and peer-company forecasts published by industry analysts) to identify anomalies (changes over 5 percent or $1 million). To complete this review the BPC uses the following report:

*Forecasted year-over-year percentage change in revenues vs. forecasted year-over-year percentage change in industry and peer company revenues.*

**Step 2d:** Lastly, the BPC will also perform a retrospective review by comparing the forecasted revenues for the fitness trackers reporting unit for each of the past three years to actual sales revenue in those years to evaluate the reasonableness of the forecast. To complete this review the BPC members use the following report:

*Prior forecasted revenues by reporting unit vs. actual sales revenue for the prior three years.*

### Step 3:

The revenue forecast for the fitness trackers reporting unit is (1) revised on the basis of the feedback provided by the BPC and (2) submitted to the BPC for review to ensure the revisions are consistent with the questions and comments posed by the BPC.
Outputs of the Control
Revenue forecast approved by the BPC; meeting minutes.

<table>
<thead>
<tr>
<th>Risk of Material Misstatement Addressed by the Control:</th>
<th>RoMM Classification</th>
<th>Significant</th>
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</thead>
<tbody>
<tr>
<td>Management’s revenue projections and revenue growth rate assumptions that are used in various estimates may not be based on the best and most supportable information and contain a high degree of estimation uncertainty. Specifically, management’s estimates of revenue growth are not only aggressive when compared to the historical performance of the Fit Stride products, but also incorporate subjective assumptions associated with revenue growth of the new Fit Belt product line.</td>
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Significant Account(s) and Related Assertion(s) Addressed
Significant Account: Goodwill
Related Assertion: Valuation and Allocation

Component B — Test of Design

Procedures Performed to Test the Design of the Control
Test of design for each step of the review:

<table>
<thead>
<tr>
<th>Step 1:</th>
<th>Inquiry</th>
<th>X</th>
<th>Observation</th>
<th>X</th>
<th>Inspection</th>
<th>X</th>
</tr>
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</table>

To evaluate the design effectiveness of this control, we attended the annual BPC review meeting on September 15 of the current year to observe the nature of the BPC’s review of the revenue forecast for the fitness trackers reporting unit, which included an evaluation of the revenue forecast assumptions used in management’s projections.

Review Activities Performed (Forecast by Product)

Documentation of procedures performed to test design aligns with the steps of the control (i.e., Step 1a, Step 1b).

Step 1a: During the meeting, we observed the committee members reviewing and discussing the report on forecasted vs. historical sales volumes for each fitness tracker product Antelope sells to identify anomalies and obtain an understanding of what is driving the forecasted sales volume. BPC members compared the percentage change in volume from year-to-year in comparison to the latest forecast. The discussion centered on the following product:

Fit Belt: The BPC discussed the forecasted sales volumes for Fit Belt, a new product to be manufactured under the Fit Stride brand, which were approximately 740,000 units ($99 million in revenue) in NY1 per our inspection of the report. The director of financial planning and analysis (FP&A) inquired about whether management expects to have the product ready for launch in January NY1 as is reflected in the projections for the next year. Despite some delays in acquiring the design patent for the Fit Belt, the chief legal officer (CLO) reported that it was received at the beginning of the month. The chief operating officer (COO) indicated that production of Fit Belt inventory in anticipation of the product launch is scheduled to begin in a few weeks at Antelope’s Kingston manufacturing facility. Finished goods will be ready to sell beginning in January NY1. Thus, the forecast reflects a full 12 months of forecasted sales in NY1 for the new Fit Belt product.
**Step 1b:** During the meeting, we observed the committee members reviewing and discussing the report on forecasted vs. historical sales price per unit for each fitness tracker product Antelope sells to identify anomalies and obtain an understanding of what is driving the forecasted sales price per unit. The BPC members compared the historical sales prices for the most recent three years to the forecasted sales price to understand what is driving the forecasted sales price changes. The discussion centered on the following products:

**Fit Band and Fit Clip:** The BPC discussed the forecasted sales price in comparison to the historical sales price for the Fit Band and Fit Clip, noting that the variances were reasonable (+1 percent) based on normal price increases as a result of inflation.

**Step 1c:** During the meeting, we observed the committee members reviewing and discussing the report on forecasted sales price per unit vs. competitor’s sales prices per unit for each fitness tracker product Antelope sells to evaluate the reasonableness of the prices used in the forecast. The discussion centered on the following product:

**Fit Belt:** The BPC discussed the forecasted price point for the new Fit Belt ($134), which, as we observed in our inspection of the forecasted sales price per unit vs. competitor’s sales price per unit, is 5 percent to 10 percent higher than their competitors. The Director indicated that the higher price is reflective of the advanced technology used in the manufacture of Fit Belt, as compared to competitor products. The Fit Belt will be able to track heart rate and calories burned more accurately than competitor products. In addition, the design of the Fit Belt provides an increased level of comfort because of the type of material used in the chest strap. The Director further explained that extensive research performed revealed that one of the top complaints from customers about these types of fitness trackers that are currently on the market is an inaccurate reporting of heart rate and calorie burn, as well as skin irritation often caused by the chest strap. The majority of users indicated they would be willing to pay a higher price for a mechanism that provides more accurate reporting and comfort.

**Step 1d:** During the meeting, the BPC performed a retrospective review by comparing the forecasted revenues by product for each of the past three years to actual sales revenue in those years to evaluate the reasonableness of the forecast.

With regard to fitness tracker products (Fit Band and Fit Clip) that have been historically carried by Antelope, management observed the following trends as part of their retrospective review:

When comparing the forecasted revenues used in the initial valuation performed as part of the Fit Stride acquisition in September PY3 to actual revenues recorded since the acquisition, forecasted revenues exceeded actual revenues by approximately 3 percent.
When comparing the forecasted revenues for the products that were used in the prior-year impairment assessment for the fitness trackers reporting unit to actual sales recorded in the current year, forecasted revenues exceeded actual revenues by approximately 1 percent.

The chief financial officer (CFO) indicated that the initial sales projections used in the initial valuation performed as part of the Fit Stride acquisition were aggressive. When Fit Stride was acquired, the company was a struggling manufacturer of fitness trackers and did not have capital to invest in elaborate advertising campaigns to promote its products. While Antelope had strategic plans to promote the Fit Band and Fit Clip to increase revenues, actual sales did not quite meet expectations because of the highly competitive nature of the market. Antelope struggled at first with earning customer loyalty because of problems with tracker technology used in the Fit Band and Fit Clip. The issues have since been remediated by the introduction of the Trackem© technology, which is patent-protected for five years and is much more advanced than competitor technology. In addition, when management was developing its projections to be used in the impairment assessment performed the following year, it revisited their forecast and adjusted revenues for these products downward on the basis of initial sales trends.

The BPC then inquired about the 1 percent shortfall in the most recent year’s sales as compared to historical projections. The chief executive officer (CEO) indicated that the 1 percent shortfall was a result of unforeseen circumstances at one of Antelope’s retailers, Hippit Sporting Goods, which led to Hippit’s filing for bankruptcy in the current year. A fire occurred at Hippit’s primary distribution center and the company was unable to fulfill its sales orders as expected. The CEO stressed that the circumstances were unusual and management does not expect this to reoccur with any of Antelope’s existing customers. The Controller for Antelope’s fitness trackers reporting unit agreed on the basis of management’s review of Antelope’s existing customer contracts, as well as the financial condition of its top 10 customers.

With regard to the Fit Belt product launch anticipated in January of the next year, the BPC members asked management to consider the accuracy of the first-year forecasts, which have historically been higher than other product launches. For example:

**Antelope’s Trail Running shoes** — Antelope launched its line of Trail Running shoes in PY4. A comparison of management’s initial forecast to actual sales in the first two years since the launch shows that actual sales fell short of the forecast by approximately 1.5 percent.

**Antelope’s moisture-wicking athletic wear** — Antelope launched its line of moisture-wicking athletic wear in PY3. While sales have been growing for this product line, similarly to the Trail Running shoes, management’s initial forecast was higher than actual sales. When comparing forecasted sales figures to actual sales in the first two years since launch, a variance of 3 percent was noted.

The BPC discussed reasons for these variances, noting that although sales growth was strong owing to the superior design of Antelope’s products and the resources invested in advertising campaigns, actual sales were lower than forecasted sales because of the competitive nature of the industry. On the basis of trends reviewed by the BPC, it was agreed that the sales forecast for the Fit Belt product would be reduced by 2 percent to bring it within a range that better reflected the historical sales for new product launches. The BPC indicated that the forecast would be revisited again once actual sales amounts were recorded.

As a result of the discussions at the meeting, as we observed and noted above, the group determined that the following adjustments to the revenue forecast by product were necessary:

Reduce forecast for Fit Belt by 2 percent.
**Step 2:** Inquiry | Observation | Inspection

**Review Activities Performed (Overall Fitness Trackers Reporting Unit)**

**Step 2a:** During the meeting, we **observed** the committee members reviewing and discussing the reports on **forecasted vs. historical revenues and forecasted vs. historical year-over-year percentage change in revenues for the fitness trackers reporting unit overall** to identify anomalies and obtain an understanding of what is driving the forecasted revenue. The amounts were compared for the most recent three years, and questions were posed by the BPC to the Director when variances exceeded 5 percent and $1 million.

On the basis of our **inspection** of the reports showing the forecasted revenue in comparison to the historical revenue for fitness trackers, and consistent with discussions we **observed** in the meeting, the current-year revenue forecast for the fitness trackers reporting unit is higher than the historical forecast by approximately 2 percent as a result of the Fit Belt product launch. The historical data indicated revenue growth, on average, of 6.2 percent, while management is projecting an overall 8 percent growth for this reporting unit. The BPC inquired about what impact the reduction in the projected growth for the Fit Belt product that was discussed at the meeting would have on the overall reporting unit. The Controller indicated that a reduction in the projections for Fit Belt of 2 percent would bring the overall reporting unit’s revenue growth down by 0.8 percent to 7.2 percent. The Controller reported that changing the revenue growth rate assumption in its impairment analysis to 7.0 percent would trigger an impairment, and thus, with a 7.2 percent growth rate, the carrying value of the fitness trackers reporting unit is only slightly above fair value. The BPC further challenged whether the 7.2 percent growth rate is appropriate in light of the sensitivity of the growth rate given the small cushion. The Director expressed confidence in his reporting unit’s ability to meet the projections given the following:

**Fit Belt:** There has been an extensive amount of resources put into the research and development (R&D) to produce the Fit Belt, as well as costs associated with the strategic plan and advertising campaign. **Fit Band and Fit Clips:** The fire that caused Hippit Sporting Goods to declare bankruptcy was an extreme unforeseen circumstance and represents an isolated event. Also, given the excitement around the Fit Belt, customers have entered in longer-term contracts for the new product, with contract terms ranging from 3 to 5 years. Historically, the majority of customers had contracts for Fit Stride products that only ranged from 6 to 24 months. It was noted that these contracts have agreed-upon volumes and price, which cannot be modified for any reason during the life of the contract.

**Step 2b:** During the meeting, we **observed** the committee members reviewing and discussing the report on **current-year vs. prior-year forecasted revenues** for the fitness trackers reporting unit. Any variances over 5 percent or $1 million were discussed. The Director acknowledged that the forecast is aggressive in comparison to prior years because of the Fit Belt product launch. The BPC again communicated their recommendation to reduce the Fit Belt forecast by 2 percent given the historical trends when comparing forecasts for new products to actual sales, ultimately reducing the overall reporting unit’s revenue growth by 0.8 percent.

**Step 2c:** During the meeting, we also **observed** the committee members reviewing and discussing the report on **forecasted year-over-year percentage change in revenues v. forecasted year-over-year percentage change in industry and peer company revenues**, and also compared the change in forecasted revenues to industry forecasts by industry experts and analysts. The BPC discussed the latest industry trends published in the **Heart Healthy Quarterly** publication, a leading industry publication on fitness trackers, which forecasted that industry growth is expected to be 2 percent lower than the revenue growth Antelope is projecting, before any adjustments, further supporting their suggestion to reduce the forecast for the fitness trackers reporting unit. While Antelope’s revenue for the fitness trackers reporting unit remains higher than the industry, the Director explained that Antelope is launching the Fit Belt behind
other companies that have already been selling these types of trackers for several years. Despite not previously selling a fitness tracker like the Fit Belt, Antelope has invested a significant amount of resources in R&D and developing an advertising campaign for this “state-of-the-art” fitness tracker that will surpass those currently on the market. The BPC acknowledged that while initial forecasts for newly launched products (i.e., Antelope’s Trail Running shoes and moisture-wicking athletic wear) fell short of actual sales, ultimately the product launches were successful and the entity realized sales growth for such products over several years.

We obtained and inspected the June current-year copy of the Heart Healthy Quarterly publication, noting that the growth rates included agreed to what was discussed during the BPC meeting.

Step 2d: Lastly, we observed that the BPC performed a retrospective review by comparing the forecasted revenues for the fitness trackers reporting unit for each of the past three years to actual sales revenue in those years to evaluate the reasonableness of the forecast. While for some years the revenue forecast was higher than actual sales for the reporting units in total, the variances were less than $1 million, or 5 percent. On the basis of this statistic, the BPC concluded that the forecast has typically been accurate in predicting revenue by reporting unit, without taking into account new product launches, which supported the conclusions herein.

As a result of the discussions among the meeting participants, as we observed and noted above, the group determined that the following adjustments to the revenue forecast by product were necessary:

Reduction of the revenue forecast for the fitness trackers reporting unit by 0.8 percent as a result of the adjustment made to revenue projections for the new Fit Belt product.

In addition to observing the decision and agreement of the BPC to reduce the fitness trackers reporting unit revenue forecast during the annual review meeting, we also inspected the meeting minutes and subsequent e-mail communications among the BPC members dated October 10 to obtain evidence that the appropriate actions were taken subsequent to the meeting to adjust the forecast. We inquired with the Controller and Director of FP&A, who corroborated that the forecast was adjusted for their recommendations that were made at the meeting. We obtained and inspected e-mail communications, along with a copy of the final revenue forecast that showed that each member of the BPC subsequently reviewed the final revenue forecast and agreed that the revisions were consistent with their recommendations.

Component C — Evaluation of Design

How the Control Satisfies the Control Objective
Document whether the control satisfies the corresponding control objective, including whether it addresses the risks of material misstatement to the relevant assertion of the significant account or disclosure.

<table>
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<th>Risk Addressed by the Control</th>
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<tr>
<td><strong>Documentation includes a discussion of how the design of the procedures performed by the BPC specifically addresses the risk identified.</strong></td>
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</table>
The purpose of the control is to review the revenue forecast for the fitness trackers reporting unit for reasonableness. This is done by conducting a meeting with participants who possess the requisite knowledge to challenge the assumptions made during the preparation of the forecast. Participants include members of Antelope’s overall management, as well as management dedicated to the fitness trackers reporting unit.

The risk identified above is addressed by the design of the review procedures performed by the BPC. Those review procedures are such that the assumptions made by management (e.g., revenue projections and revenue growth rate) when preparing the revenue forecast are challenged for consistency with economic trends, industry trends, historical entity-specific financial results, and entity-specific knowledge held by the BPC members. Specifically, management performs a retrospective review of the forecast against prior-year actual revenues to assess the reasonableness of the forecast, and the BPC takes into account any missed projections from the prior years and what impact that may have (if any) on the current year’s projections. In addition, the members of the BPC have specific knowledge about Antelope’s customers and any contracts that are currently being negotiated, which are discussed as part of their review of the sales volumes and sales prices by product. BPC members also have significant industry knowledge and familiarity with Antelope’s competitors to assess any impact on the projections as part of their review of the revenues in comparison to peer/industry performance.

Lastly, note that the revenue forecast is not used for purposes other than forecasting future financial performance (e.g., to drive sales performance by setting aspirational sales goals or to set performance metrics for executive compensation, which could introduce bias with respect to the incentives for the reviewers to sufficiently challenge the accuracy and completeness of the forecast).

### Competence and Authority of the Person(s) Performing the Control

Document the person(s) who perform the control, including the competence and authority of the person(s).

| Control Owner(s) | The BPC meeting includes the following participants: The CEO (Antelope Run), CFO (Antelope Run), COO (Antelope Run), CLO (Antelope Run), Director of FP&A (Antelope Run), Controller (Fit Stride), and Director of Finance (Fit Stride). |

The competence and authority of each participant is assessed as follows:

**Competence**

Antelope Run’s CEO has more than 23 years of tenure with the company and 10 years of experience in the CEO position. The CEO has a background in finance provided by previous experience in the FP&A department of Antelope. The role of the CEO also provides appropriate experience to the review process, since the CEO drives the strategic vision of the entity. The role and entity-specific knowledge of the CEO provides the competency to perform an effective review (as outlined by the design of this control).

The CFO joined Antelope in the current year, and is a CPA with 10 years of experience in public accounting as well as more than 20 years of industry experience in the fitness tracker industry (both retail and manufacturing) before joining Antelope in April. This individual has significant experience with financial planning and budgeting, including evaluating economic and industry trends relating to sporting goods manufacturing. The role of the CFO also provides appropriate experience to the review process, since the CFO leads the accounting and finance departments, has knowledge of the industry, and has been working with those in the accounting and finance departments to further refine the
The role and entity-specific knowledge of the CFO provides the competency to perform an effective review (as outlined by the design of this control).

Antelope’s COO has more than 14 years of tenure with the company in the COO position and has more than 25 years of industry experience in retail and manufacturing. This individual has significant experience with operational management and forecasting production, including evaluating economic and industry trends relating to sporting goods manufacturing. The role of the COO also provides appropriate experience to the review process, since the COO is heavily involved in the planning of capital improvements for production, production scheduling, and review of production performance. The role and entity-specific knowledge of the COO provides the competency to perform an effective review (as outlined by the design of this control).

Antelope’s CLO has over 10 years of tenure with the company. Before joining Antelope, the CLO focused on corporate litigation for a national law firm. The CLO is familiar with Antelope’s pending litigation claims, and has a deep understanding of the past cases and the related outcomes that Antelope has been involved in. As part of the responsibilities of the position, the CLO frequently meets with other members of upper management to discuss the impact any pending litigation may have on the strategic vision of the entity, and thus the CLO has appropriate insight into how the litigation may impact future revenue projections.

Antelope’s Director of FP&A has over 10 years of tenure with the company and is a CFA with 8 years of prior experience in the financial advisory consulting practice of a Big Four public accounting firm. He has significant experience with forecasting methods and techniques, including an understanding accounting for goodwill and testing goodwill for impairment, which provides the appropriate insight into the mechanics and drivers of fair value. We have had experience working with this individual throughout prior audits, which included the testing of the revenue forecast for the fitness trackers reporting unit and note that the Director of FP&A’s questions and explanations are demonstrative of someone who understands valuation methodology and forecasting methods. Further, the knowledge and experience gained in this role supports the responsibilities of the Director of FP&A to challenge the revenue forecast.

The Controller of Antelope’s fitness trackers reporting unit (Fit Stride) has over 10 years of tenure with the company and is a CPA with 8 years of prior experience in public accounting. Before the acquisition of Fit Stride in September PY3, he served as the controller of Antelope’s footwear reporting unit. Serving in this role allowed the Controller to gain significant experience with GAAP and financial reporting considerations, including understanding accounting for goodwill and testing goodwill for impairment, which provides appropriate insight into the mechanics and drivers of fair value. We have had experience working with this individual throughout prior audits, which included the testing of the forecasting process, and note that the Controller’s questions and explanations are demonstrative of someone who understands the day-to-day activity associated with the company, the reporting units, and the industry as a whole.

The Director of Finance for the fitness trackers reporting unit has over 15 years of tenure with the company and was formerly the Corporate Controller for Antelope for 13 of those years. The Director of Finance has 6 years of prior experience in public accounting. The Director has significant experience with GAAP and financial reporting considerations, including understanding financing requirements to execute capital expenditure plans, which provides appropriate insight into the feasibility of plans to expand the entity. In addition, as a part of the responsibilities of the position, the Director of Finance for the fitness trackers reporting unit also works closely with other members of Antelope’s management in maintaining the company’s capital structure, monitoring current and maturing debt, monitoring interest rates, and working with underwriters to access financing. This gives the Director of
Finance appropriate insight into the entity’s ability to procure financing when necessary and supports the Director of Finance’s responsibility to assess the feasibility of the revenue forecast.

**Authority**

The collective group’s authority is appropriate because the participants are those chiefly responsible for the activities of their respective departments. In addition, they are given an equal voice to participate in the BPC meeting discussions, deliberations, and conclusions.

On the basis of our understanding as noted above, we conclude that the BPC members have a sufficient level of competency and authority to perform this review.

**Frequency of the Performance of the Control**

Document the frequency of performance of the control, that is, whether the review occurs often enough to prevent or detect misstatements before they have a material effect on the financial statements.

The control is performed annually and in the same manner each year, by the same people, using a standard formatted revenue forecast and a standard agenda. The frequency and consistency of this control’s operation is appropriate because the meeting is conducted using a set agenda and consistent control procedures, and is conducted as frequently as the annual goodwill impairment assessment is performed.

**Level of Aggregation and Predictability**

Document the appropriateness of the level of aggregation and predictability of the control.

This control includes not only the review of the revenue forecast for the overall fitness trackers reporting unit, but also a review of the revenue forecast at a disaggregated level (i.e., a product-by-product forecast). Note that reviewing the forecast on a product-by-product basis represents the lowest level of disaggregation and therefore provides an appropriately precise review of the forecast in combination with the review by the reporting unit.

With regard to the review of the overall reporting unit revenue forecast, note that management uses this reporting unit revenue forecast in its goodwill impairment analysis, and the reporting unit level is the prescribed level at which the performance of a goodwill impairment test occurs (ASC 350-20-20). Therefore, the inclusion of the reporting unit level review of the forecast further demonstrates the appropriateness of the level of disaggregation.

Lastly, note that the control has a degree of unpredictability; however, this is mitigated by the following factors:

- The considerable experience of those involved in the review.
- The customer base is fairly stable year-over-year.
- While there will be a new product launch in the upcoming year and the entity is entering into some new markets, a portion of the sales included in the revenue forecast represent actual contracted sales (contracts have a term between three and five years).

**Criteria for Investigation (i.e., threshold) and Process for Follow-Up**

Document the factors affecting the precision of the review, including the objective of the review and the appropriateness of the expectations, level of aggregation, and criteria for investigation for identifying
potentially material misstatements. Also document the steps involved in identifying, investigating, and resolving significant differences from expectations.

As noted in the detailed steps of the control, the BPC members investigate the reasonableness of forecasted results as compared to historical, peer, and industry performance, with consideration of entity-specific events.

The criteria for investigation for the reviews by product and overall reporting unit are separately documented. In addition, the documentation includes how management considers contradictory evidence, and the process for follow-up and resolution.

Criteria Used for Investigation

Considerations for Review of the Forecast by Product

While management does not have a specific threshold for investigation and follow-up, we did observe that the meeting participants generally did not discuss individual product SKUs with total historical sales of less than $1 million, noting that they considered such amounts to be immaterial. In addition, management did not question any variances between the forecast and the historical or peer/industry amounts that were below 5 percent and $1 million. These thresholds appear to be acceptably low in light of our materiality. Further, we noted that during the meeting, management specifically discussed all of Antelope’s three fitness tracker product lines — Fit Band, Fit Clip, and the new Fit Belt. For these products, any variance over 5 percent and $1 million on an individual SKU basis was investigated further.

Considerations for Review of the Forecast by Reporting Unit

There are established thresholds for each step of the BPC’s review, as described in the detailed description of the control. These thresholds appear to be acceptably low in light of the revenue amounts and our materiality and are therefore appropriate to identify a material misstatement.

Consideration of Contradictory Information

Through the consideration of analyst reports, industry data (e.g., Heart Healthy Quarterly publication), peer-company data, and other sources, the entity’s projections are challenged by the BPC for consistency with economic trends, industry trends, historical entity-specific financial results, and entity-specific knowledge held by the BPC members. We noted in our observation of the BPC meeting that management considers both positive and negative evidence in reaching conclusions about the appropriateness of the forecast, and adjusts accordingly on the basis of the weight of the contradictory evidence.

Process for Follow-Up

All revisions identified by the BPC will be incorporated into the final revenue forecast for the fitness trackers reporting unit. Further, from our test of design we noted that there is a defined process for the preparers of the revenue forecast to address the revisions identified during this review. In addition, there is a review of the revised revenue forecast performed by the BPC members to verify that the revisions were appropriately made. Thus, the criteria for investigation and the process for follow-up are sufficiently precise to address the risk identified.
### Dependency on Other Controls or Information

Is the control dependent on other controls?

If yes, indicate which other control(s), where the other control(s) is tested, and the conclusion on the control’s design and operating effectiveness.

| No. | N/A. |

### Information Used in the Review

Is the effectiveness of the control dependent on information used in the review?

If yes, identify the controls that address the accuracy and completeness of the information used in the review, where this information is tested, and the conclusions reached as a result of that testing.

**Yes.**

*Note — For the purposes of this example, we have listed the information used in the review and noted that we have identified controls over the source data, user-entered parameters, and report logic. In practice, you would complete the data fields for each information used in the review separately below.*

**Step 1:** Reports used in the review of the revenue forecast by product:

**Step 1a.** Forecasted vs. historical sales volumes for each fitness tracker product.

**Step 1b.** Forecasted vs. historical sales price per unit for each fitness tracker product.

**Step 1c.** Forecasted sales price per unit vs. competitor’s sales prices per unit for each fitness tracker product.

**Step 1d.** Forecasted revenues by product vs. actual sales revenue for the prior three years.

The four reports above are generated from the Hyperion system. The accuracy and completeness of the forecasted data is addressed by the control that is documented in the workpaper herein. The accuracy and completeness of the historical data in the reports is addressed by the following:

- Transaction-level controls over the initiation, authorization, processing, and recording of sales.
- General IT Controls (GITCs) over the extraction of data from the Hyperion system, including the query script and query tool used to pull information from system.
Management’s review of the reconciliation of the historical data back to the general ledger.

**Step 2: Reports used in the review of the revenue forecast for the fitness trackers reporting unit overall:**

**Step 2a.** Forecasted vs. historical revenues and forecasted vs. historical year-over-year percentage change in revenues.

**Step 2b.** Current-year vs. prior-year forecasted revenues.

**Step 2c.** Forecasted year-over-year percentage change in revenues vs. forecasted year-over-year percentage change in industry and peer company revenues.

**Step 2d.** Forecasted revenues by reporting unit vs. actual sales revenue for the prior three years.

The four reports above are generated from the Hyperion system. The accuracy and completeness of the forecasted data is addressed by the control that is documented in the workpaper herein. The accuracy and completeness of the historical data in the reports is addressed by the following:

Transaction-level controls over the initiation, authorization, processing, and recording of sales.

GITCs over the extraction of data from the Hyperion system, including the query script and query tool used to pull information from system.

Management’s review of the reconciliation of the historical data back to the general ledger.

<table>
<thead>
<tr>
<th>Design Effectiveness Conclusion</th>
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<tbody>
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<td>If the Design Effectiveness Conclusion is deemed ineffective, document the basis for this conclusion.</td>
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<td>N/A</td>
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**Risk Associated With the Control**

**Considering the factors in PCAOB AS 2201.47, conclude on the risk associated with the control.**

Higher
Document the basis for the conclusion on the risk associated with the control

As noted above, this control is designed to address a significant risk of material misstatement. We considered the risk associated with the control to be “higher” on the basis of the nature of misstatements that the control is intended to prevent (valuation errors), as well as the complexity of the revenue forecasting process for Antelope’s fitness trackers reporting unit, the specialized expertise required to operate the control effectively, and the significance of the judgments that are made in connection with its operation.

Component D — Test of Operating Effectiveness

**Planned Nature, Timing, and Extent of Operating Effectiveness Testing**

**Nature of Procedures**

For each step, we will supplement the procedures performed as a part of the design effectiveness testing to obtain evidence of operating effectiveness through the following additional procedures:

<table>
<thead>
<tr>
<th>Step 1:</th>
<th>Inquiry</th>
<th>Observation</th>
<th>Inspection</th>
<th>Reperformance</th>
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We will **observe** the annual BPC meeting to review the revenue forecast for the fitness trackers reporting unit. We will also **inspect** the information reviewed and discussed as part of that meeting to determine whether it is consistent with the amounts being discussed by the BPC to conclude whether any specific adjustments to the forecast were necessary. The information reviewed and discussed will include the following:

1a. Forecasted vs. historical sales volumes for each fitness tracker product.
1b. Forecasted vs. historical sales price per unit for each fitness tracker product.
1c. Forecasted sales price per unit vs. competitor’s sales prices per unit for each fitness tracker product.
1d. Prior forecasted revenues by product vs. actual sales revenue for the prior three years.

We will **reperform** the review of the revenue forecast by product by:

1a. Comparing historical sales volumes to forecasted sales volumes.
1b. Comparing forecasted sales price per unit to historical sales prices per unit.
1c. Comparing forecasted sales price per unit to competitors’ sales price per unit.
1d. Comparing the forecasted revenues by product for each of the past three years to actual sales revenue in those years to evaluate the reasonableness of the forecast.

<table>
<thead>
<tr>
<th>Step 2:</th>
<th>Inquiry</th>
<th>Observation</th>
<th>Inspection</th>
<th>Reperformance</th>
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</table>

We will **observe** the annual BPC meeting to review the revenue forecast for the fitness trackers reporting unit. We will also **inspect** the information reviewed and discussed as part of that meeting to determine whether it is consistent with the amounts being discussed by the BPC to conclude whether any specific adjustments to the forecast were necessary. The information reviewed and discussed will include the following:
2a. Forecasted vs. historical revenues and forecasted vs. historical year-over-year percentage change in revenues for the fitness trackers reporting unit overall.
2b. Current-year vs. prior-year forecasted revenues for the fitness trackers reporting unit overall.
2c. Forecasted year-over-year percentage change in revenues vs. forecasted year-over-year percentage change in industry and peer-company revenues.
2d. Prior forecasted revenues by reporting unit vs. actual sales revenue for the prior three years.

We will **reperform** the review of the revenue forecast for the fitness trackers reporting unit by:
2a. Comparing historical revenue to forecasted revenue and comparing the percentage change in forecasted revenues versus the historical percentage change.
2b. Comparing current-year forecasted revenue to prior-year forecasted revenue.
2c. Comparing current-year forecasted revenue to industry and peer-company revenue to consider whether there is any indication of contradictory evidence.
2d. Comparing the forecasted revenues by reporting unit for each of the past three years to actual sales revenue in those years to evaluate the reasonableness of the forecast.

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<th>Step 3:</th>
<th>Inquiry</th>
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<th>Observation</th>
<th>X</th>
<th>Inspection</th>
<th>X</th>
<th>Reperformance</th>
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<td>Timing and Extent of Procedures</td>
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We will **inspect** the minutes of the meeting and any supporting documentation, if applicable, and verify that feedback provided by the BPC was incorporated into the final revenue forecast for the fitness trackers reporting unit by product and by reporting unit. Any revisions noted will be traced from the draft revenue forecast to the final revenue forecast to determine whether they were appropriately addressed. To understand how the revisions were to be made, we will **inspect** the instructions noted by the BPC members in subsequent e-mail communications. We will also perform **inquiries** with BPC members to corroborate that the adjustments to the revenue forecast were consistent with what was recommended in the meeting.

**Timing and Extent of Procedures**
Because this control operates annually, we will test that instance of the control.

### CONTROL ACTIVITY TESTING:

For each step, we will supplement the procedures performed as a part of the design effectiveness testing to obtain evidence of operating effectiveness through the following additional procedures:

<table>
<thead>
<tr>
<th>Selection Number</th>
<th>Selection Date</th>
<th>Procedures Performed</th>
<th>Exception or Deviation?</th>
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</thead>
<tbody>
<tr>
<td>1</td>
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<td><strong>Step 1:</strong> Comparing historical sales volumes to forecasted sales volumes</td>
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The documentation includes a record of our attendance at the meeting. The documentation is also specific in terms of the relevant documentation we inspected and how we reperformed the control using the same information considered by the control performer for each product and each event or circumstance identified during the meeting.
We reperformed the review of the analysis by comparing the historical sales volumes to forecasted sales volumes to identify any instances in which products changed significantly year over year utilizing the *forecasted vs. historical sales volumes for each product Antelope sells* report.

The Fit Belt product exceeded the $1 million change threshold because the product line is new in the forecast year and has sales forecasted at $99 million. Through inspection of the Q2 Board of Directors meeting minutes, we noted that the board is targeting a Q1 launch of the product line in NY1, which corroborates the discussion in the BPC’s meeting. See additional considerations below regarding the analysis of the Fit Belt forecast.

We noted per our inspection that for the remaining products, the forecasted sales units were within +/-1 percent of actual sales units for the past three years and did not trigger the $1 million change threshold. We concurred with the BPC that no other products appeared to require further investigation.

**Step 1b. Comparing forecasted sales price per unit to historical sales prices per unit**

We reperformed the review of the forecasted sales prices, noting any significant fluctuations in the forecasted amounts per inspection of the *forecasted vs. historical sales price per unit for each fitness tracker product*. Per inspection of this report, the increase in price compared to historical sales prices ranged between -1 percent to 1 percent, which is consistent with flat prices or increases for inflation. We concurred with the BPC that no products appeared to require further investigation.

**Step 1c. Comparing forecasted sales price per unit to competitors’ sales price per unit**

We reperformed the review of the forecasted sales price per unit vs. competitor’s sales prices per unit for each fitness tracker product. We recalculated the differences on the reports, noting that the items that exceeded the 5 percent or $1 million threshold were appropriately discussed during the meeting, in particular the price for the Fit Belt as compared to Antelope’s competitors.

**Step 1d. Comparing the forecasted revenues by product for each of the past 3 years to actual sales revenue in those years in order to evaluate the reasonableness of the forecast**

We reperformed the review of the prior forecasted revenues by product vs. actual sales revenue for the prior three years report. We noted, similarly with the above, that forecasted...
revenues for the Fit Belt and Fit Clip products exceeded actual sales by 3 percent in the year following the acquisition, and by 1 percent in the most recent year. These differences were appropriately discussed during the meeting. We corroborated management’s explanation regarding the timing of the bankruptcy of Hippit Sporting Goods by reviewing press releases on Hippit’s Web site. As it relates to the Fit Belts, we inspected reports that were discussed by the BPC regarding the product launched for Antelope’s Trail Running shoes, as well as its moisture-wicking athletic wear. To corroborate the company’s past success with product launches, we noted that the variances discussed by the BPC in the meeting were consistent with the trends for these product launches, which indicated that initial sales forecast exceeded actual sales in the first two years of launch by 1.5 percent to 3 percent. Thus, we concurred with the BPC’s suggestion to reduce the Fit Belt forecast down by 2 percent to be more in line with historical trends.

Step 2:

**Step 2a. Comparing historical revenue to forecasted revenue and comparing the percentage change in forecasted revenues versus the historical percentage change**

We reperformed the review of the forecasted vs. historical revenues and forecasted vs. historical year-over-year percentage change in revenues for the fitness trackers reporting unit overall. We recalculated the differences on the reports, noting that the variances were consistent with those discussed at the meeting, which indicated that forecasted revenues exceeded historical revenues by approximately 2 percent and were showing higher growth trends as a result of the launch of the Fit Belt product. We also reperformed the calculation as discussed by the BPC, which shows that the reporting-unit revenue would be reduced by 0.8 percent to 7.2 percent as a result of the reduction in sales revenues for the Fit Belt products that were previously discussed. We also reperformed the sensitivity analysis and our results were consistent with what was discussed by the BPC (breakeven point triggering an impairment is 7.0 percent). On the basis of our inspection of the Board of Directors meeting minutes discussing the launch of the Fit Belt products, including the overall strategic plan and advertising campaign, as well as the existence of customer contracts for Fit Stride products that range from three to five years, we concurred with the BPC’s approval of the overall adjusted reporting-unit revenue growth rate of 7.2 percent.
Step 2b. Comparing current year forecasted revenue to prior year forecasted revenue

We reperformed the review of the current-year vs. prior-year forecasted revenues on a reporting-unit-by-reporting-unit basis. We recalculated the differences on the reports, noting that the items that exceeded the 5 percent or $1 million threshold were appropriately discussed by the BPC during the meeting.

Step 2c. Comparing current year forecasted revenue to industry and peer company revenue to consider if there is any indication of contradictory evidence

We reperformed the review of the forecasted year-over-year percentage change in revenues vs. forecasted year-over-year percentage change in industry and peer-company revenues. We recalculated the differences on the reports, noting that the items that exceeded the 5 percent or $1 million threshold were appropriately discussed by the BPC during the meeting. In addition, we further reperformed the analysis by the BPC members by reviewing the Heart Healthy Quarterly publication corroborating the industry trends as discussed in the Test of Design section above.

Step 2d. Comparing the forecasted revenues by reporting unit for each of the past 3 years to actual sales revenue in those years in order to evaluate the reasonableness of the forecast

We reperformed the review of the prior forecasted revenues by reporting unit vs. actual sales revenue for the prior three years. We recalculated the variances in the report, noting that there were no variances in excess of the 5 percent or $1 million threshold when removing the effect of new product launches.

Step 3: No additional Operating Effectiveness procedures were deemed necessary beyond those procedures performed in the Test of Design.

Operating Effectiveness Testing Conclusion

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