1666 K Street, N.W.
Washington, DC 20006
Telephone: (202) 207-9100
Facsimile: (202) 862-0757
www.pcaobus.org

ORDER INSTITUTING DISCIPLINARY PROCEEDINGS, MAKING FINDINGS AND IMPOSING SANCTIONS *In the Matter of Gordon Brad Beckstead, CPA*, *Respondent.*	PCAOB Release No. 105-2015-007 April 1, 2015

By this Order, the Public Company Accounting Oversight Board (the "Board" or "PCAOB") is (1) censuring Gordon Brad Beckstead, CPA ("Beckstead" or "Respondent"); (2) suspending him from being an associated person of a registered public accounting firm for a period of one year from the date of this Order; (3) limiting his activities in connection with any "audit," as that term is defined in Section 110(1) of the Sarbanes-Oxley Act of 2002, as amended (the "Act"), for an additional period of one year following the expiration of his suspension; and (4) requiring that he complete forty (40) additional hours of continuing professional education in subjects that are directly related to the audits of issuer financial statements under PCAOB standards. The Board is imposing these sanctions on the basis of its findings concerning Beckstead's violations of PCAOB rules and auditing standards in connection with an audit and an interim review of the financial statements of one issuer audit client during 2011 and 2012.

I.

The Board deems it necessary and appropriate, for the protection of investors and to further the public interest in the preparation of informative, accurate, and independent audit reports, that disciplinary proceedings be, and hereby are, instituted pursuant to Section 105(c) of the Act and PCAOB Rule 5200(a)(1) against Beckstead.

II.

In anticipation of institution of these proceedings, and pursuant to PCAOB Rule 5205, Beckstead has submitted an Offer of Settlement ("Offer") that the Board has determined to accept. Solely for purposes of these proceedings and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the Board's jurisdiction over Beckstead and the subject matter of these proceedings, which is admitted,

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Beckstead consents to entry of this Order Instituting Disciplinary Proceedings, Making Findings and Imposing Sanctions ("Order") as set forth below.[1]

III.

On the basis of Respondent's Offer, the Board finds that:[2]

A. Respondent

1. Gordon Brad Beckstead, CPA, age 50, of Henderson, Nevada, is a certified public accountant licensed by the Nevada State Board of Accountancy (License No. CPA-2701). At all relevant times, Beckstead was an audit principal in the Las Vegas, Nevada office of L.L. Bradford & Company, LLC ("L.L. Bradford"). Beckstead was the engagement partner on L.L. Bradford's audit of the financial statements of WebXU, Inc. ("WebXU") for the year ended December 31, 2011 ("2011 WebXU Audit") and review of WebXU's financial statements for the period ended June 30, 2012 ("2012 WebXU Review"). Beckstead is no longer employed by L.L. Bradford. He is the sole proprietor of Beckstead & Company, which was registered with the Board from June 19, 2013 until the Board granted Beckstead & Company's request to withdraw its registration on February 6, 2015. At all relevant times, Beckstead was an associated person of a registered public accounting firm as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).

B. Summary

2. This matter concerns Beckstead's failures to appropriately plan and perform the 2011 WebXU Audit. Specifically, during audit planning, Beckstead failed to properly assess the risk of material misstatement with respect to WebXU's 2011 financial statements. As a result, Beckstead failed to properly identify significant risks in

[1] The findings herein are made pursuant to Respondent's Offer and are not binding on any other persons or entities in this or any other proceeding.

[2] The Board finds that Respondent's conduct described in this Order meets the conditions set out in Section 105(c)(5) of the Act, 15 U.S.C. § 7215(c)(5), which provides that certain sanctions may be imposed in the event of (1) intentional or knowing conduct, including reckless conduct, that results in a violation of the applicable statutory, regulatory, or professional standard; or (2) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.

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connection with the 2011 WebXU Audit. Beckstead also failed to properly establish an overall strategy for the audit and develop an audit plan that included planned risk assessment procedures and planned responses to the risk of material misstatement. In addition, Beckstead failed to perform audit procedures that addressed the risks of material misstatement.

3. In connection with the WebXU 2011 Audit, Beckstead violated PCAOB standards in multiple other respects as well. Among other things, Beckstead failed to evaluate the qualifications and competence of a specialist that WebXU retained to value a significant acquisition. He also failed to evaluate the reasonableness of the significant assumptions used by the issuer and its specialist to determine the fair value of purchase consideration for that acquisition. Beckstead also failed to test data WebXU provided to the specialist and properly evaluate whether the specialist's findings supported the related financial statement assertions. Beckstead further violated PCAOB standards by failing to evaluate the adequacy of WebXU's disclosure of the terms of the acquisition. In addition, Beckstead also failed to perform, or ensure that the engagement team performed, sufficient audit procedures to test WebXU's reported revenue.

4. This matter also concerns Beckstead's failure to comply with PCAOB rules and auditing standards in connection with the 2012 WebXU Review. Specifically, Beckstead failed to properly communicate with management and the audit committee regarding the engagement team's inability to complete the review.

C. Beckstead Violated PCAOB Rules and Auditing Standards in Connection with the 2011 WebXU Audit

5. In connection with the preparation or issuance of an audit report, PCAOB rules require that a registered public accounting firm and its associated persons comply with the Board's auditing and related professional practice standards.[3] An auditor may express an unqualified opinion on an issuer's financial statements only when the auditor has formed such an opinion on the basis of an audit performed in accordance with PCAOB standards.[4] Among other things, PCAOB standards require that an auditor exercise due professional care, exercise professional skepticism, and obtain sufficient

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[3] PCAOB Rules 3100, *Compliance with Auditing and Related Professional Standards*, and 3200T, *Interim Auditing Standards*.

[4] See AU § 508.07, *Reports on Audited Financial Statements.*

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appropriate evidential matter to afford a reasonable basis for an opinion regarding the financial statements.[5]

6. PCAOB auditing standards also require that an audit be properly planned, that auditors identify and assess the risks of material misstatement at the financial statement level and the assertion level, and that auditors design and perform audit procedures in a manner that addresses the risks of material misstatement for each relevant assertion of each significant account and disclosure.[6]

7. When an auditor relies on the work of a specialist, PCAOB standards require the auditor to "consider the . . . qualifications of the specialist in determining that the specialist possesses the necessary skill or knowledge in the particular field" and conduct "appropriate tests of data provided to the specialist."[7]

8. PCAOB standards further require that the auditor test an issuer's fair value measurements and disclosures. In doing so, the auditor should evaluate whether (1) "[m]anagement's assumptions are reasonable and reflect, or are not inconsistent with, market information," (2) "[t]he fair value measurement was determined using an appropriate model," and (3) "[m]anagement used relevant information that was reasonably available at the time."[8]

9. PCAOB standards also require that the auditor evaluate whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework. In doing so, "the auditor should evaluate

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[5] See AU § 150.02, *Generally Accepted Auditing Standards*; AU § 230, *Due Professional Care in the Performance of Work*; and Auditing Standard No. 15, *Audit Evidence* ("AS 15").

[6] See Auditing Standard No. 9, *Audit Planning* ("AS 9"), ¶ 4; Auditing Standard No. 12, *Identifying and Assessing the Risks of Material Misstatement* ("AS 12"), ¶ 59; Auditing Standard No. 13, *The Auditor's Response to the Risks of Material Misstatement* ("AS 13"), ¶ 8; and AS 15 ¶¶ 4-6.

[7] AU §§ 336.08-.09, .12, *Using the Work of a Specialist*.

[8] AU § 328.26, *Auditing Fair Value Measurements and Disclosures*. For purposes of AU § 328, management's assumptions include assumptions developed by a specialist engaged or employed by management. See AU § 328.05 n.2.

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whether the financial statements contain the information essential for a fair presentation of the financial statements."[9]

10. As detailed below, Beckstead failed to comply with these PCAOB standards in connection with the audit of the December 31, 2011 financial statements of WebXU, Inc.

11. WebXU was, at all relevant times, a Delaware corporation headquartered in Los Angeles, California. WebXU's public filings disclosed that it was a media company engaged in developing high-value branded websites to service consumers for products and services. During the relevant period, its common stock was registered under Section 12(g) of the Securities Exchange Act of 1934 and was quoted on the OTC Bulletin Board.[10] At all relevant times, WebXU was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

12. L.L. Bradford became the auditor for WebXU on December 5, 2011. L.L. Bradford audited WebXU's financial statements for the year ended December 31, 2011, and issued an audit report containing an unqualified opinion dated April 9, 2012, which was included in WebXU's Form 10-K filed with the Commission on April 9, 2012. The audit report stated that, in L.L. Bradford's opinion, WebXU's financial statements presented fairly, in all material respects, the issuer's financial position in conformity with U.S. generally accepted accounting principles ("GAAP") and that L.L. Bradford's audit was performed in accordance with PCAOB standards. Beckstead served as the engagement partner on the 2011 audit of WebXU and authorized the issuance of L.L. Bradford's audit report.

13. Beckstead failed to comply with PCAOB standards in connection with the 2011 audit of WebXU. During audit planning, Beckstead failed to identify and assess the risks of material misstatement at the financial statement and assertion level. Beckstead's assessment of risk was limited to assessing inherent risk, control risk, and

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9 Auditing Standard No. 14, *Evaluating Audit Results* ("AS 14"), ¶¶ 30-31.

10 On June 5, 2014, the Commission temporarily suspended trading in WebXU's securities due to "questions that have been raised about the accuracy and adequacy of publicly disseminated information concerning, among other things, the company's finances." SEC, Exchange Act Release No. 72323. On December 18, 2014, the Commission revoked the registration of WebXU's securities due to the issuer's failure to file periodic reports with the Commission since its December 31, 2012 Form 10-K. SEC, Exchange Act Release No. 73869.

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audit risk. The risks of material misstatement were not properly assessed. Furthermore, Beckstead's risk assessment was performed at a level of aggregation above that permitted by PCAOB standards.[11] For example, Beckstead assessed risk on all assets collectively. A similar approach was taken with liabilities. As a result, cash carried the same risk assessment as goodwill (identified in the financial statements as "Investment in Lot6").

14. Because Beckstead failed to properly assess the risks of material misstatement and failed to identify significant risks at the financial statement and assertion level, he also failed to properly establish an overall strategy for the engagement and develop an audit plan that included planned risk assessment procedures and planned responses to the risks of material misstatement. In addition, Beckstead failed to perform audit procedures that addressed the risks of material misstatement.[12]

15. Beckstead also failed to perform appropriate procedures with respect to a significant acquisition WebXU made in 2011. In November 2011, WebXU acquired Lot6 Media LLC ("Lot6"), an affiliate marketing company. Under the terms of the share exchange agreement, purchase consideration included 1,000,000 shares of WebXU common stock, a $5,000,000 note payable, a $1,861,532 working capital note payable, and contingent consideration in the form of an earn-out agreement. In the event WebXU failed to repay or timely repay the notes payable, the share exchange agreement included a penalty provision that required WebXU to issue additional shares to the seller, as well as a right of rescission clause, which gave the seller the right to terminate the acquisition in the event of non-payment. At December 31, 2011, the goodwill WebXU recorded in connection with the acquisition of Lot6 was the largest item on WebXU's balance sheet and constituted nearly two-thirds of total reported assets. By September 30, 2012, less than a year after the acquisition and less than six months after the Firm issued its audit opinion on the December 31, 2011 financial statements, WebXU wrote off the full value of the Lot6 goodwill.

16. As a result of the acquisition of Lot6, Beckstead understood that WebXU retained a specialist to value the assets and liabilities acquired, including any goodwill, as well as the purchase consideration given. Beckstead failed to exercise due professional care and professional skepticism and failed to comply with PCAOB standards on the use of specialists when he failed to evaluate the qualifications and

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[11] See AS 12 ¶ 59.

[12] See AS 9 ¶¶ 4-5; AS 12 ¶ 59; AS 13 ¶¶ 3, 8; and AS 15 ¶¶ 4-6.

competence of the specialist retained.[13] The work papers contained no evaluation of the specialist. Further, Beckstead acknowledged that he was aware the specialist had no experience valuing affiliate marketing companies, and though he knew the specialist had done other valuations, he did not know how many, or her qualifications for doing valuations in general.

17. In violation of PCAOB standards, Beckstead and the engagement team also failed to perform sufficient procedures to test the valuation of purchase consideration.[14] Specifically, Beckstead and the engagement team failed to evaluate the reasonableness of the significant assumptions used by the issuer and its specialist to determine the fair value of shares and notes payable issued in connection with the acquisition.[15] In particular, neither Beckstead nor anyone else on the engagement team properly evaluated the reasonableness of the share price used to value the restricted common stock given as consideration. Beckstead and the engagement team also failed to test the imputed interest rate applied to the notes payable issued as part of the purchase consideration.

18. Finally, Beckstead and the engagement team failed to test data provided to the specialist by the issuer and properly evaluate whether the specialist's findings supported the related financial statement assertions.[16] Beckstead and the engagement team failed to test the data utilized by the valuation specialist to assess the probability of triggering the earn-out targets included as part of purchase consideration. Specifically, there is no indication as to how, if at all, Beckstead or the engagement team tested the Lot6 historical growth rates utilized by the specialist. The valuation report included historical information for 2009 and 2010, as well as each of the quarters in 2011; however, Beckstead acknowledged that the engagement team did not perform procedures to test the financial information for the year ended December 31, 2009, and there are no work papers indicating that L.L. Bradford audited the financial information for the year ended 2011 or the quarters therein.

19. In violation of PCAOB standards, Beckstead also failed to evaluate the adequacy of WebXU's disclosure of the terms of the Lot6 acquisition in the financial

[13] <u>See</u> AU § 150.02; AU § 230; AU §§ 336.08-09.

[14] <u>See</u> AU §§ 328.05 n.2, 328.23.

[15] <u>See</u> AU § 328.28.

[16] <u>See</u> AU § 336.12.

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statements.[17] The share exchange agreement with Lot6 included: (a) a right of rescission clause in the event WebXU failed to timely repay notes payable issued in connection with the acquisition and (b) penalties for late or non-payment of the notes payable. At the time the financial statements and audit opinion were issued, Beckstead was aware that WebXU had triggered the penalties clause because WebXU failed to make any payments on the notes payable and that WebXU was actively considering whether to service the notes payable or walk away from the transaction. WebXU did not disclose in its 2011 financial statements or the notes thereto the right of rescission or the penalty provision. Despite the significance of Lot6 to WebXU's financial condition, Beckstead failed to evaluate the need for WebXU to disclose those terms of the Lot6 acquisition, in violation of PCAOB standards.[18]

20. Beckstead also failed to perform, or direct the engagement team to perform, sufficient audit procedures to test WebXU's reported revenue.[19] Specifically, Beckstead and the engagement team failed to evaluate whether revenues recognized by Lot6 satisfied the relevant revenue recognition criteria. As of December 31, 2011, Lot6 had been a subsidiary of WebXU for less than two months but contributed 32% of WebXU's total reported revenues for the year. Despite the significance of Lot6 revenue, Beckstead and the engagement team failed to: (1) test the completeness of the population from which the selected revenue transactions were chosen by, for example, failing to reconcile the population to the issuer's general ledger; (2) obtain, understand, and evaluate customer contracts to determine whether the issuer's recognition of revenue was in accordance with GAAP; and (3) perform cutoff procedures on Lot6 revenues to test whether revenue was recognized in the correct period.

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[17] See AS 14 ¶¶ 30-31.

[18] See id.

[19] See AS 15 ¶¶ 4-6. PCAOB standards explain that an auditor "should presume that there is a fraud risk involving improper revenue recognition and evaluate which types of revenue, revenue transactions, or assertions may give rise to such risks." AS 12 ¶ 68. PCAOB standards further provide that, "[f]or significant risks, the auditor should perform substantive procedures, including tests of details, that are specifically responsive to the assessed risks." AS 13 ¶ 11.

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D. Beckstead Violated PCAOB Standards in Connection with the 2012 WebXU Review

21. In performing a review of interim financial information, if an accountant becomes aware of information that causes the accountant to believe that the interim financial information may not be in conformity with GAAP, PCAOB standards require that the accountant "make additional inquiries or perform other procedures . . . to provide a basis for communicating whether he or she is aware of any material modifications that should be made to the interim financial information."[20] If an accountant is unable to perform procedures he or she considers necessary to achieve the objective of a review, the review is incomplete.[21] The inability to complete the review, as well as any material modification that should be made to the financial information for it to be in conformity with GAAP, should be communicated to management, and if management does not respond appropriately, those matters should be communicated to the issuer's audit committee.[22] The accountant is also required to communicate certain other items to the audit committee, including issues relating to sensitive accounting estimates and adjustments that could have a significant effect on the financial statements.[23]

22. As detailed below, Beckstead failed to comply with these PCAOB standards in connection with the review of the June 30, 2012 financial statements of WebXU.

23. On August 21, 2012, WebXU filed its Form 10-Q with the Commission. Included in the Form 10-Q was an explanatory note that stated that the auditors had failed to complete the required field work and review of WebXU's filing due to technical problems with the auditor's email system. Beckstead, aware that WebXU had filed before the completion of its review, discussed with the engagement quality reviewer for the audit whether WebXU would need to file an amended Form 10-Q once the review was complete, but took no further action and continued the review.

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[20] AU § 722.22, *Interim Financial Information*.

[21] AU § 722.28.

[22] AU §§ 722.28-.30.

[23] AU § 722.34.

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24. On September 25, 2012, more than a month after WebXU filed its Form 10-Q, Beckstead and other members of the engagement team signed the Completion Document and the Supervision, Review, and Approval Form indicating that L.L. Bradford had completed the quarterly review. The next day, Beckstead sent an email to WebXU stating: "Just so everyone is on the same page here, we are still analyzing the goodwill impairment for the quarter ended 6/30/2012 . . . In other words, the quarter is still not final. In the event that the adjustment to the impairment write-down is deemed material, a restatement of the financials and an amended 10Q will need to be filed."

25. As part of its review procedures, the engagement team identified a likely misstatement of goodwill impairment of more than $2 million, an amount that was material to the financial statements, but the team understood that it needed to do more work to conclude. The engagement team did not complete its additional inquiries and procedures prior to signing off on the quarterly review. According to other email communications among Beckstead, the engagement quality reviewer, and the engagement manager, the engagement team was still assessing in October 2012 whether the second quarter impairment charge taken by WebXU was misstated. Although Beckstead was aware of the potential impact of the likely misstatement, the amount of the likely misstatement was not discussed with management or the audit committee. Beckstead and the engagement team never completed their additional inquiries and review procedures related to goodwill impairment.

26. By failing to complete procedures "necessary to achieve the objective of a review of financial information, . . . the review [was] incomplete."[24] Because Beckstead failed to make the appropriate communications to management and the audit committee regarding L.L. Bradford's inability to complete the review, he violated PCAOB standards.[25]

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[24] See AU § 722.28.

[25] Id.

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IV.

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports, the Board determines it appropriate to impose the sanctions agreed to in Respondent's Offer. Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), Gordon Brad Beckstead is hereby censured;

B. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Gordon Brad Beckstead is suspended for one (1) year from the date of this Order from being an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i);[26]

C. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(3), for one (1) year following the termination of the suspension ordered in paragraph B, Gordon Brad Beckstead's role in any "audit," as that term is defined in Section 110(1) of the Act and PCAOB Rule 1001(a)(v), shall be restricted as follows: Beckstead shall not (1) serve, or supervise the work of another person serving, as an "engagement partner," as that term is used in the Board's Auditing Standard No. 10, *Supervision of the Audit Engagement*; (2) serve, or supervise the work of another person serving, as an "engagement quality reviewer," as that term is used in the Board's Auditing Standard No. 7, *Engagement Quality Review*; (3) serve, or supervise the work of another person serving, in any role that is equivalent to engagement partner or engagement quality reviewer, but differently denominated (such as "lead partner," "practitioner-in-charge," or "concurring partner"); or (4) exercise authority, or supervise the work of another person exercising authority, either to sign a registered public

[26] As a consequence of the suspension, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Beckstead. Section 105(c)(7)(B) provides: "It shall be unlawful for any person that is suspended or barred from being associated with a registered public accounting firm under this subsection willfully to become or remain associated with any issuer, broker, or dealer in an accountancy or a financial management capacity, and for any issuer, broker, or dealer that knew, or in the exercise of reasonable care should have known, of such suspension or bar, to permit such an association, without the consent of the Board or the Commission."

accounting firm's name to an audit report, or to consent to the use of a previously issued audit report, for any issuer, broker, or dealer; and

D. Pursuant to Section 105(c)(4)(F) of the Act and PCAOB Rule 5300(a)(6), Gordon Brad Beckstead is required to complete, within one (1) year from the date of the issuance of this Order, forty (40) hours of continuing professional education ("CPE") in subjects that are directly related to the audits of issuer financial statements under PCAOB standards (such hours shall be in addition to, and shall not be counted in, the CPE he is required to obtain in connection with any professional license).

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

April 1, 2015