

Now is the Time for Financial Accounting Valuations

September 2010

As the end of the fiscal year rapidly approaches for many companies, management should consider the need for a fair value appraisal. These valuations are commonly needed when companies make acquisitions, have goodwill on their balance sheets, or issue stock based compensation.

Financial Accounting Standards Board (FASB) ASC Topic 805: Business Combinations and ASC Topic 350: Goodwill and Other Intangible Assets provide investors with better financial information regarding the performance of acquisitions. ASC Topic 805 requires using the purchase method of accounting to evaluate acquisitions and estimate the fair value of acquired intangible assets. ASC Topic 350 requires that goodwill emerging from acquisitions undertake a yearly market test to determine whether it has been impaired. If the value of the goodwill is less than the unit's carrying value then goodwill has been impaired and assets are valued as standalone entities.

FASB ASC Topic 718: Accounting for Stock-Based Compensation requires a company to measure and recognize the cost of the employee stock option based on the options grant-date fair value, which will be estimated using option-pricing models adjusted for the unique characteristics and features of those financial instruments. Under Internal Revenue Code (IRC) Section 409A, any stock option having an exercise price less than the fair market value of the underlying stock constitutes a deferred compensation arrangement that typically results in heavy tax consequences, including taxation at the time of option vesting rather than the date of exercise, immediate payment of withholding and employment taxes by the issuing company, and a 20% tax on the option holder in addition to regular income and employment taxes. The way to avoid a penalty is to have your securities valued at the fair market value.

For more information please call Marvin Ritchie, AVA or Alexander Woods, AVA at (617) 367-7300.

Highlighted Deal:

Ipswitch, Inc. develops and markets software products and services for businesses worldwide. The Company provides software solutions which monitor networks, transfers files, and facilitates communications. Ipswitch recently acquired Dorian Software Creations, Inc., a provider of network management software solutions and engaged Newbury, Piret & Company, Inc. to provide an ASC Topic 805 Business Combination valuation to record the acquired assets at fair value.



200 STATE STREET, 12TH FLOOR
BOSTON MA 02108
TEL: 617-367-7300 FAX: 617-367-7301
www.newburypiret.com
A Member of FINRA and SIPC

About Us:

Founded in 1981, Newbury Piret & Company, Inc. is a leading middle market investment bank providing corporate finance services including mergers and acquisitions, equity and debt financings, fairness opinions, valuations, and financial and strategic alternatives advice. Its professionals bring judgment and expertise to company sales, acquisitions, and divestitures, and to financings including growth investments, project financings, special situations and recapitalizations. Through its accredited professionals, Newbury Piret & Co. provides independent valuations for financial accounting and reporting, gift, estate and income tax planning, and for equity buy/sell and internal planning purposes. Headquartered in Boston, Newbury Piret & Co. serves public and private companies and entrepreneur, corporate manager and family owned businesses in the United States and internationally. For further information, please visit www.newburypiret.com or call (617) 367- 7300.