FINANCIAL ACCOUNTING STANDARDS
PURCHASE METHOD AND GOODWILL

Financial Accounting Standards Board promulgations (FAS No. 141 and No. 142) dramatically change the recording and reporting of business combinations after June 30, 2001. The pooling-of-interests is replaced by a modified purchase method which treats the amount allocated to goodwill as non-amortizable.

Significant requirements of the new standards are as follow:

1. Asset values will be assigned at a reporting unit level, defined as the operating segment reporting level. Goodwill and identifiable intangible assets will be assessed for impairment on an annual basis, or sooner if certain events occur.

2. Identifiable intangibles with a finite useful life will be separated from goodwill, and tested for impairment according to the current provisions of SFAS 121.

3. Goodwill impairment tests are to be completed annually.

4. Impairment testing will involve two steps:

   - Comparison of the estimated fair value of the company to its carrying value
   - If the carrying value exceeds the current fair value, impairment is indicated. Valuation of all tangible and intangible assets to determine the amount of goodwill and/or intangible asset impairment.

5. Companies will be required to maintain documentation of their impairment testing activities; public companies will be required to include significant disclosure in their filings on a business combination and impairment charges.

Compliance Impetus

Most public (and private) companies will require external valuation assistance by a source independent of the attest accounting functions. It is also anticipated that companies may initially want to avoid the cost of detailed allocation of purchase price valuations and assign a large amount to goodwill. Mitigating that over-simplified response will likely be the compliance urging from the outside audit partner and the SEC. Recently, the SEC has intensified the pressure for full disclosure on other valuation issues – pre-IPO option values, fairness opinions, etc.

Recommended Action

1. Determine which reporting units need to comply with the impairment criteria.

2. Allocate certain corporate assets and liabilities to reporting units, as well as goodwill.

3. Analyze purchase method combinations prior to June 30, 2001 and consider reallocations among goodwill and amortizable intangibles at a reporting unit level.

4. Analyze long-lived identifiable intangibles on a unit level for possible impairment.

5. Complete transitional benchmark assessment of goodwill impairment within six months of your fiscal year beginning after December 15, 2001.

6. If transitional impairment is indicated, revalue individual assets of each reporting unit (including goodwill and amortizable intangibles).

7. Consider a model for future acquisitions which accounts for the new impairment standards <u>and</u> the extensive disclosures now required as to the basis for the merger/acquisition.

8. Consult with us regarding your particulars and how we can tailor our services to balance the costs and benefits.