Dealmaker's Dialogue

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Changes in the Accounting for Acquisitions

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As discussed in previous editions, merger and acquisition transaction activity was down significantly in late 2008 and 2009. However, over the last several months we have seen buyer and seller activity increase dramatically. This increase in activity, forces dealmakers who had been sitting on the sidelines to confront and understand the new accounting rules regarding accounting for acquisitions and the costs associated with doing a deal.

Statements of Financial Accounting Standards ("SFAS") 141 and 142, the pronouncements that forced acquirers to record identifiable intangible assets to be valued and amortized over the life benefited by the asset, have been updated by SFAS 141R and SFAS 157. These pronouncements, which were effective for years beginning after November 15, 2007, require additional analysis and valuation at the time of a transaction and have significant accounting ramifications.

Changes Due to SFAS 141R

	SFAS 141	SFAS 141R
Acquisition Costs	Capitalized	Expensed as incurred
Contingent Consideration	Capitalized as determinable	Capitalized at the time of transaction

SFAS 157 defines the value of intangible assets as the exit price, or the amount required to exchange an asset or liability in an orderly transaction with a market participant. The key points in this definition are that the transaction is with a market participant and the value is the amount available for selling it, or exit price, compared with the entry price, or what the acquirer was willing to pay for the asset.

SFAS 141R requires that the entire transaction price, both upfront proceeds and expected earnout or contingent consideration, be reflected as of the date of the transaction. Under previous guidance, contingent consideration, unless it was readily determinable, was recorded at the time it became known, often when it was paid to the seller. Now, acquirers are required to estimate the entire transaction price, recording the contingent consideration as a liability. Then, as time passes, adjust the contingent consideration payable as factors become known or as it is earned. Any additional consideration is immediately expensed to the income statement, while reductions in the anticipated contingent consideration payable result in a reduction of expense on the acquirer's income statement.

Identifiable intangible assets must still be valued and amortized over the period receiving the benefit of the investment. As under SFAS 141 and 142, identifiable intangible assets and goodwill must be tested on an annual basis for impairment. If circumstances would lead the company to believe the asset was impaired, it must revalue the assets. These tests are especially important given the poor economy, protracted soft market in P&C, and now the looming effects of healthcare reform. We have seen several instances of impairment or near impairment in the last six months.

An additional change required by SFAS 141R is the requirement that costs associated with an acquisition must be expensed as incurred, compared to previous guidance that required the costs to be capitalized along with the purchase price and amortized over their useful life.

It should be noted that none of these changes impact the tax treatment of asset acquisitions. Internal Revenue Code Section 197 has not changed, which requires that all intangible assets and expenses to acquire them are capitalized and amortized over fifteen years on a straight-line basis.

MarshBerry consultants are available to assist acquirers with understanding the impact of issues on their transactions and to value the intangible assets, along with the related tests for impairment of the identifiable intangible assets or goodwill.

MarshBerry M&A Advisory Services

Deal Strategy

1. Acquisition Planning
2. Deal Return Modeling
3. Strategic Options Analysis
4. Alternative Buyer Comparison

Deal Preparation

1. Sale Preparation Management
2. Offering Memorandum Development
3. Strategic Pitch Book Design
4. Candidate Profile Creation

Deal Representation

1. Buy Side Representation
2. Sell Side Representation
3. Letter of Intent Development / Negotiation
4. Creative Deal Structure Alternatives

Deal Analysis

1. Agency Fair Market Valuation
2. Market Comparables / Deal Benchmarking
3. After-Tax Return Optimization
4. IRR, ROI and EPS Analysis

Deal Execution

1. Diagnostic and Confirmatory Due Diligence
2. Intangible Asset Allocation - GAAP Reporting
3. Fairness Opinion
4. Definitive Agreement Best Terms and Conditions

Post-Deal Management

1. Post-Closing Integration
2. Goodwill Impairment Testing
3. Peer-to-Peer CEO Exchange
4. Earn-Out Maximum Consultation

SNL Financial
M&A Advisor Rankings

Insurance Broker Merger & Acquisition Deals
1997-2009

Rank	Firm	1997 - 2009 # of Deals	2009 # of Deals	2010 YTD
1	**Marsh Berry & Co. Inc.***	**275**	**23**	**3**
2	Hales & Co. Inc.	123	14	1
3	Reagan Consulting Inc.	122	7	2
4	Mystic Capital Advisors Group, LLC	95	11	4
5	Macquarie Capital Advisors Group, LLC	44	8	0
6	Bank of America Merrill Lynch	22	2	0
7	Sica Consultants, Inc.	18	3	0
8	B.H. Burke & Co., Inc.	16	0	0
8	Harbor Capital Advisors, Inc.	16	0	0
10	Keefe Bruyette & Woods, Inc.	15	0	1
11	North Bridge Advisors, Inc.	13	0	0
12	Sandler O'Neill & Partners, L.P.	11	1	0
13	Philo Smith & Co.	10	0	0
14	Credit Suisse (USA) Inc.	9	0	0
15	Business Management Group, Inc.	8	0	0
15	Curtis Financial Group, LLC	8	0	0
15	J.P. Morgan Securities, Inc.	8	0	0
18	Boenning & Scattergood, Inc.	7	0	0
18	Gill and Roeser Holdings, Inc.	7	0	0
18	Nexus Group, Inc.	7	0	0
21	2nd Generation Capital Corporation	6	0	0
21	Garland McPherson & Associates, Inc.	6	0	0
21	Goldman, Sachs & Co.	6	0	0
24	Lazard Freres & Co. LLC	5	0	0
24	Wells Fargo Securities, LLC	5	0	0
26	Austin Associates, LLC	4	1	0
26	Nomura Securities International, Inc.	4	0	0
26	Piper Jaffray & Co.	4	1	0
26	Russell Miller Corporate Finance, Inc.	4	0	0
26	UBS Investment Bank	4	0	0

All States // Completed Transactions
Whole deals as reported by SNL Financial, March 23, 2010

*** MarshBerry has closed 28% of total deal flow since 1997**

MarshBerry's clients are committed to realizing their fullest potential with respect to growth, profit, survival and shareholder value. Our agent, broker, bank and carrier clientele engage us to achieve their goals within the retail and wholesale channels of the insurance distribution system. Our unparalleled industry-specific services include consulting, performance benchmarking, peer-to-peer exchange networks, merger and acquisition intermediation and producer recruiting.