HDH ADVISORS LLC

August 23, 2013

Via email to director@fasb.org

Ms. Susan Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. PCC-13-01B; Private Company Council's Proposed Accounting Standards Update – Accounting for Goodwill

Dear Ms. Cosper:

We appreciate the opportunity to provide our comments regarding the Private Company Council's ("PCC") exposure draft regarding the proposed changes to accounting for goodwill. HDH Advisors LLC is a financial advisory firm that specializes in providing business valuation services for a variety of purposes including, but not limited to, financial reporting, tax compliance and reporting, employee benefit plans, and litigation support. Our clients include private and public operating companies, asset holding companies, and high-net worth families. At present, our firm consists of 20 professionals with offices in Atlanta, Georgia and Des Moines, Iowa.

General Comments to Exposure Draft

Various studies have shown that premiums paid in acquisitions many times do not yield the return on investment that a company's board of directors expected based on management's presentation to them. Investors are generally aware that management's own self-interest may not always be perfectly aligned with maximizing shareholder wealth (i.e., the principal-agent problem). In our opinion, one of the primary benefits to testing goodwill for impairment is that users of the financial statements, particularly shareholders and lenders, are given greater insight into management's ability to achieve the desired outcome and expected yield on its corporate acquisitions. A goodwill impairment charge alerts shareholders that their expected return on an investment may have significantly diminished and consequently it may be necessary to consider management's ability to appropriately manage the business on go-forward basis.

With that said, we do acknowledge that the preparers of private company financial statements do find the process to be complex and costly, particularly in instances where the company's operations meets the criteria for multiple reporting units. We believe that PCC's exposure draft addresses relevant issues to private companies with regards to accounting for goodwill within the context of the decision-making framework and the cost-benefit analysis. The exposure draft contains several changes to the process of goodwill impairment testing that we believe preparers of private company financial statements will welcome and seek to implement, which we discussed later in this letter.

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Specific Responses

Question 4: *Would the proposed amendments reduce overall costs and complexity compared with existing guidance? If not, please explain why.*

We believe that it would be a welcome change for private companies to elect to test goodwill for impairment at the entity-level. Also, we believe that the elimination of Step Two would significantly reduce the costs and complexity, as well as more closely converging with the impairment model under International Financial Reporting Standards ("IFRS").

Question 5: *Do you agree that the accounting alternative for goodwill would provide relevant and decision-useful information to users of private company financial statements? If not, what accounting alternative, if any, would provide more relevant information to users?*

Ultimately we believe that the guidance, as modified per our recommendations contained in this letter, would provide relevant and decision-useful information to users of private company financial statements. While our preference is no amortization of goodwill, we acknowledge that it may create an administrative and economic burden on certain private companies. In consideration thereof, a longer term amortization period may reasonably reflect the economic life of goodwill. It is important to remember that goodwill is comprised on many different components, including synergies, assembled workforce, and future customers. Synergies are generally expected to be realized over the entire life of the investment, rather than just commensurate with the useful life of the primary asset.

Elimination of the Step 2 analysis would also simplify the process, provide decision-useful information, and accomplish the PCC's goal of providing plain English guidance.

Question 6: *Do you agree with the PCC's decision to amortize goodwill on a straight-line basis over the life of the primary asset acquired in a business combination, not to exceed 10 years? If not, please tell us what alternative approach or useful life you would prefer.*

It's important to understand that the concept of a "primary asset" in many situations is the customer-related intangible asset, which under the PCC-13-01A proposal will not be separately identifiable. Perhaps the primary asset concept within this context is too vague, which may or may not be intentional. Thus, it would appear that the suggested alternative may in effect intend for private companies to simply default to the 10-year useful life assumption in nearly all acquisitions.

Secondly, we believe that it would be beneficial to extend the default useful life period for goodwill to 15 years. One benefit of that change is that it would match the amortization period used for tax purposes under Section 197 of the Internal Revenue Code. It is our opinion that this would be more consistent with the longer-term nature of such assets, it would reduce confusion amongst the users of financial statements when reconciling amortizable lives, and this could also simplify the accounting related to temporary differences due to different amortization rates in the event that a transaction is structured as a taxable asset sale.

Question 7: *Do you agree that goodwill accounted for under this alternative should be tested for impairment at the entity-wide level? If not, should an entity be either required or given an option to test goodwill at the reporting unit level? What issues, if any, arise from amortizing goodwill at the individual acquired goodwill level while testing for goodwill impairment at the entity-wide level?*

As previously stated, we believe that it would be a welcome change for private companies to elect to test goodwill for impairment at the entity-level. The only concern with testing goodwill at the entity-wide level is that a poorly performing acquisition of a company may be obfuscated by its other operations that are performing at or near expectations. Thus, it would require in nearly all cases that the acquired entity to be a significant portion of the consolidated company to fail impairment testing.

Question 8: *Do you agree that goodwill accounted for under this alternative should be tested for impairment only upon the occurrence of a triggering event that would indicate that the fair value of the entity may be below its carrying amount? If not, when should goodwill be tested for impairment? Should there be an annual requirement to test goodwill?*

Under the proposed alternative to amortize goodwill, impairment will become increasingly unlikely. For instances, testing a company for impairment in Year 8 following an acquisition would likely be a meaningless exercise, given that 80.0 percent of the goodwill has already been amortized.

Question 10: *Do you agree with the alternative one-step method of calculating goodwill impairment loss as the excess of the carrying amount of the entity over its fair value? Why or why not?*

Yes, we agree that private companies would see overall reductions in costs and complexity if they were to elect to use the alternative one-step method for calculating goodwill impairment. We noted also that this alternative method creates greater convergence with the IFRS impairment model.

Question 13: *Do you agree that goodwill existing as of the effective date should be amortized on a straight-line basis prospectively over its remaining useful life not to exceed 10 years (as determined on the basis of the useful life of the primary asset of the reporting unit to which goodwill is assigned) or 10 years if the remaining useful life cannot be reliably estimated? Why or why not?*

While our preference is no amortization of goodwill, this does create a possible administrative and economic burden on private companies. In consideration thereof, a longer term amortization period may reasonably reflect the economic life of goodwill. However, a 10-year life may not achieve the objectives of increasing understandability, reducing confusion and reducing costs of private company compliance. We believe that it would be beneficial to extend the default useful life period for goodwill to 15 years. One benefit of that change is that it would match the amortization period used for tax purposes under Section 197 of the Internal Revenue Code. It is our opinion that this would be more consistent with the longer-term nature of such assets, it would reduce confusion amongst the users of financial statements when reconciling amortizable lives, and this could also simplify the accounting related to temporary differences due to different amortization rates in the event that a transaction is structured as a taxable asset sale.

Question 16: *For users, would the proposed amendments result in less relevant information in your analyses of private companies?*

It is our opinion that for the typical user of private company financial statements, the proposed guidance would provide sufficiently relevant information, possibly with more transparency and understandability.

Conclusion

As previously mentioned, we believe that PCC's exposure draft addresses several areas of accounting for goodwill for private companies that will achieve the objectives of reducing overall cost and complexity. We urge the Committee to take into consideration the issues we have enumerated herein as they move towards finalizing this alternative approach.

Thank you for the opportunity to comment on this important proposal. If you would like to discuss any of the comments herein, please feel free to contact me at (770)790-5000.

Respectfully submitted,

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Managing Director

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