

PARTNERS' NETWORK NEWSLETTER

NOVEMBER 2010

LETTER FROM THE EDITOR



WITHUMSMITH+BROWN, PC

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To our colleagues,

Here is the latest issue of the Partners' Network Newsletter with information we think you will find helpful in your practice. We've included an interview with Bill Hagaman, our Managing Partner/CEO, with insights about the profession and new initiatives at Withum, a "test" to qualify tax reviewers – try taking it yourself without looking at the answers, a checklist of ways strategic value can exist in a business, and my thoughts on bond funds in this age of super low interest rates.

We've also included information about our annual Pre-Tax Season CPE program that will be held on Monday, February 7th from 5 to 9:50 PM at the Forsgate Country Club in Jamesburg, NJ. The program schedule appears on the next page. There is no charge for Partners' Network members. Non members are \$125.00. Note that a membership is \$145 and also entitles you to an \$80 discount at our June CPE Conference and free attendance at the Annual Power Breakfast in September. If you are not a member, please consider joining.

An added bonus of our meetings and conferences is the opportunity to network and discuss current issues. Partnerships and mergers have taken place with colleagues meeting at our conferences.

The Partners' Network is a program of WithumSmith+Brown intended to support smaller accounting practices in areas where they need help or do not perform services. Members are welcome and encouraged to call us with any issues and questions they have where we might be able to assist them. This includes managing their practices and succession planning as well as accounting, auditing, specialized tax services, business valuation, and forensic accounting. We also assist in niche areas where we are particularly strong such as construction contractors, manufacturers, health care organizations, real estate developers, and financial services including hedge funds, broker dealers and public companies.

Be sure to sign up for this valuable CPE program being held February 7th. Attendees will receive a thick handbook that will be a complete reference source to refer to in the future.

Sign up today and reserve your seat! We look forward to seeing you on February 7th.

Cordially,

Edward Mendlowitz
Editor

P.S. We perform many other services for CPAs including peer and quality reviews, business valuations, and audits that you may not be in a position to perform. Please keep us in mind when you are in need of these services. We can also lend a hand to controllers who need assistance on special projects including tax basis conversions to GAAP and state tax compliance issues.

WITHUMSMITH+BROWN

PARTNERS' NETWORK: PRE TAX SEASON CPE PROGRAM (5 CPE)

Monday, February 7, 2011 • Forsgate Country Club, Jamesburg, NJ • 5:00PM to 9:50PM

TIME	PROGRAM	SPEAKER
5:00PM - 5:20PM	DINNER/NETWORKING	
5:20PM - 7:00PM	MANAGING YOUR TAX SEASON. Learn more on how to better service clients with greater skill, more fun, and increased revenue. This program will be interactive and contain much new and never before discussed material.	Edward Mendlowitz, CPA Author of AICPA book: <i>Managing Your Tax Season</i> , Second Edition which is available at www.cpa2biz.com .
7:00PM - 7:20PM	SHORT NETWORKING BREAK	
7:20PM - 8:10PM	PETER WEITSEN'S IRS UPDATE. Get the most recent IRS news and procedures and how they affect your clients.	Peter A. Weitsen, CPA
8:10PM - 8:35PM	STATE TAX UPDATE. See what's new with New Jersey and New York taxes.	John Daly, MST
8:35PM - 9:00PM	SOFTWARE AND PREPARATION PROCEDURES UPDATE. What is available? How do you use it? Why do we use it? This program will answer these questions and will feature our experiences with tax flow and intelligent scanning software.	Brian Lovett, CPA
9:00PM - 9:50PM	TAX CHANGES AND TRAPS WHEN PREPARING RETURNS. Get up-to-the-minute insights in the tax law changes and highlights of the issues that tend to be overlooked.	Peter A. Weitsen, CPA



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Delivery Method: Group-Live • **Program Level:** Intermediate • **Prerequisites:** Must be a CPA in own practice or a Partner/Manager in a firm • **Advanced Preparation:** None

SAVE THE DATE • SUNDAY, FEBRUARY 6, 2011 • 10:15 AM • CONGREGATION BETH OHR, ROUTE 516, OLD BRIDGE, NJ

HOW THE LARGE FINANCIAL INSTITUTIONS ARE OUT TO GET YOU

How to protect yourself, avoid doing the wrong things and what you should do.

Presented by Edward Mendlowitz, CPA, Partner, WithumSmith+Brown

A financial self-defense presentation that will show you how to take charge of your personal finances; what advisors to trust; how to monitor your investment progress; ways to understand what is being done for you and catch what is being done to you; establishing safety nets; managing risk; dealing with and reacting to financial disasters and melt downs; and understanding, looking at and conquering the big picture.

31st Annual WithumSmith+Brown Financial Program • Sponsored by The Men's Club, Congregation Beth Ohr

No charge. RSVP not necessary. Bagel breakfast served at 10:00 AM. A descriptive handout will be distributed.

INTERVIEW WITH WS+B'S MANAGING PARTNER, CEO

BILL HAGAMAN, CPA

In 2010, Bill Hagaman became Managing Partner succeeding Ivan Brown, one of the Firm's founders. The Partners' Network asked Bill some questions about his new position. Previously Bill was the Partner-in-Charge of the New Brunswick office.



HOW DID YOU FIND THE TRANSITION FROM PARTNER-IN-CHARGE OF AN OFFICE TO MANAGING PARTNER AND CEO OF THE ENTIRE FIRM?

Mostly the transition is mental. All of a sudden the weight and fate of 370 people are my primary responsibility and that bears heavily on my strategic thinking and ultimate decisions.

WHAT DIFFERENCES ARE THERE BETWEEN THE TWO ROLES?

I was on the managing committee and that takes a big view of the Firm—a difference now is that I am relieved of the direct management of 100 people in the New Brunswick office and only have to manage about a dozen people—the partners in charge of each office and key department heads. That gives me much more time to think and plan and to try to model where we should be going forward. My emphasis is more global in scope—Firm-wide. Also, the niches are being developed as future centers of influence, and I am working with each niche leader to determine how they will develop and grow their segments.

CAN YOU TELL US SOME MAJOR DIFFERENCES BETWEEN MANAGING AND LEADING?

A main difference is that managing requires adherence to the Firm's rules and guidelines with a sharp eye on the profits for the office, department, or group. Leading consists of positioning the overall Firm competitively so that we will allow everyone to be successful—it is more strategic and motivational.

HOW ARE YOU ADAPTING THESE DIFFERENCES INTO THE TRAINING OF YOUNGER STAFF THAT ARE EMERGING INTO SUPERVISORY AND MANAGEMENT POSITIONS?

Actually, we have strong management, sales, and leadership training programs in place that are designed for seniors and managers. We want to prepare them for their future roles.

WHAT CHANGES DO YOU SEE OCCURRING WITHIN THE PROFESSION IN THE NEXT FIVE YEARS?

More large firm mergers, IFRS, tighter credit and erosion of banking relationships, more competitive pressures, a scarcity of the availability of great staff, increasing services to existing clients, trend toward industry specific specialization, and the globalization of clients' activities as well as our trending toward globalization. A key issue is the baby boomers that own CPA firms are getting older with many of their firms having inadequate succession plans that will fuel the growth of super regional firms to compete with the national firms by offering themselves as alternatives to local business.

...AND HOW IS WS+B RESPONDING TO THEM?

We are doing more niche marketing, providing leadership in IFRS matters, and spending more time developing relationships with smaller firms so that there could be a mutual consideration should they look to an upward merger. We also have a strong succession plan in place, with me being an example of the thought that went into it by the Firm's founders. Also, we are extremely proud that more than half of our 69 partners started with us and worked their way up to partner.

WHY HAS WS+B GONE "ALL IN" WITH THE REORGANIZATION INTO NICHE AREAS?

The market is telling us that is what they want. Our research and feedback tells us clients don't want to train accountants and auditors in the specifics of their industries yet want people who understand them and can add value from day one.

ARE THE NICHE LIMITED TO INDUSTRIES OR DOES IT ALSO RELATE TO SERVICES?

We have 16 industry niches and 4 service niches, understanding that each niche has subspecialties. For instance, the tax niche includes individual tax, business tax, international tax, estates and trusts, and financial planning. Our website gives the full complement of our industry and services specialties.

HOW HAS THE RELATIONSHIP WITH HLB INTERNATIONAL HELPED WS+B?

It gives us the ability to help our clients as they grow and develop and need to reach out beyond the United States. It enables us to retain the client by introducing them to firms we know in the countries they will be moving into. This keeps the services and relationships transparent, coordinated, and eliminates a lot of time spent searching for suitable firms in the foreign countries. Presently, we have clients spanning the globe.

WHAT ARE SOME OF THE UNIQUE THINGS THAT YOU BELIEVE WSB HAS DONE AND WILL EXPAND UNDER YOUR LEADERSHIP?

We have a shadow stock program that includes over 80 staff where they are assigned "ownership interests" in WS+B and receive benefits the same as the actual stockholders. We instituted staff Strength Awards recognizing exceptional activities of our team members. Also, we have had a part-time partner for a few years, just promoted a person to partner that lives and works in Colorado,

CONTINUED ON NEXT PAGE

INTERVIEW WITH BILL HAGAMAN, WS+B'S MANAGING PARTNER, CEO

(CONTINUED)

and are continually sensitive to changing conditions and expanding opportunities with flexible work hours, telecommunicating, and staff specialization. With regards to the telecommunicating, we have had that in place for over several years now, and it has greatly expanded the range of what we could do.

WHAT INITIATIVES DO YOU SEE DEVELOPING WITHIN WS+B?

Staff retention initiatives that transition them from a job to a career.

WHY DOES WS+B SUPPORT THE PARTNERS' NETWORK SO STRONGLY TO HELP SMALLER PRACTITIONERS?

It is a way to give back to the profession and assist our colleagues in areas where we have experience and possibly have gone through what they are doing now. You know, Withum started as an entrepreneurial business with Fred Withum, Len Smith and Ivan Brown combining to realize a vision of establishing an accounting firm where the partners will be hands-on and have direct contact with the clients —many of whom have become long time friends. We also situated our offices throughout the state to make us available and, you might say, user-friendly. We also use the combined strengths of our 370 people, including 69 partners, to address the needs and concerns of our clients and their financial security. Through the Partners' Network we are making our experiences available to our colleagues. It also works two ways —if we help them, they might think of us when they come across work they either do not have the expertise for or are not independent with respect to that client. We look at the Partners' Network as a 2-way partnership and are committed to seeing it get stronger.

ARE THERE ANY AREAS, AS A CEO, YOU ARE STAYING AWAY FROM?

The IT area. Jim Bourke and Edgar Basilio have done such a great job and are on top of what I believe is the best IT of any CPA firm that I am keeping a distance – so I don't interfere with them. Our IT is fully state of the art and is upgraded as rapidly as new methods are developed. Also, my style is to not micro-manage and to let department heads and office partners handle their areas. I try to stay away from day to day activities.

FINAL QUESTION: ANY SPECIAL EMPHASIS YOU ARE LEANING TOWARD?

Increased training, staff development, and improving our already great client service. We also are looking for revenue and client growth which fuels opportunities for staff by adding slots, services, and intellectually challenging opportunities.

Power Bites:

Short and to the Point Management, Leadership and Lifestyle Advice I Give My Clients! Published by iUniverse

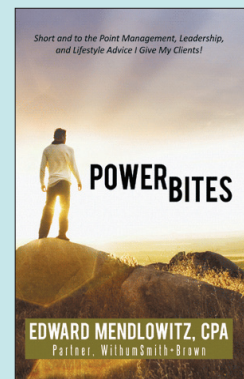
You've heard of sound bites: those 10-second bits of information and quotable facts given by the media in a news report. But what's a Power Bite?

A Power Bite is a short saying, brief explanation, or even shorter call to action given by expert businessperson Ed Mendlowitz —and something that can help anyone needing motivating and practical advice for improving their management techniques, leadership skills, or life.

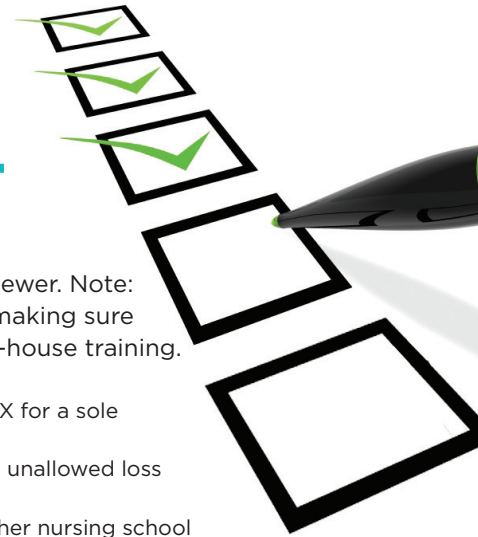
In *Power Bites: Short and to the Point Management, Leadership and Lifestyle Advice I Give My Clients*, Ed Mendlowitz dishes out dozens of advice he has given clients during his 40 years practicing as a CPA. With access to some of the smartest and most resourceful people including entrepreneurs and chief executives, he shares what he has seen and heard. His clients confide in him with their problems and concerns, and he has consistently presented effective, immediate, and practical guidance to help them gain perspective and confidence. Mendlowitz is one of the country's most successful accountants and authors, and his speeches and books have helped thousands learn to better manage, serve, and advise their clients.

Here's are a few Power Bites: "How Can You Learn Anything When You're Talking?" "Never Trouble Trouble Till Trouble Troubles You!" "When Other's Push the Pencil for You, Make Sure it is Your Pencil" and "Never Seek Total Victory...Unless You Are in a Dark Alley or a Courtroom." *Power Bites* is seven parts, focusing on self-management, leadership, delegating, efficiency, business development, negotiating and you, including advice on listening, self-awareness, how to stay focused, setting goals, admitting mistakes, thinking positively, and how a smile really does make a difference.

Available from: www.iUniverse.com, www.bn.com, and www.amazon.com



REVIEWER QUALIFICATION TEST



Following are 10 questions reviewers should be able to answer in order to qualify as a reviewer. Note: whether or not you agree with the questions below, you have to consider the method of making sure the reviewers are qualified. Doing so should also include reviewer-appropriate CPE and in-house training.

1. What is the latest date a simplified employer pension (SEP) plan can be opened for 20XX for a sole proprietor?
2. What date is used as the “date purchased” to report a stock transaction that includes an unallowed loss because there was a previous wash sale?
3. Are extra payments made to an ex-spouse to cover unanticipated increases in tuition in her nursing school deductible as alimony?
4. What is the maximum federal capital gains tax rate from any portion of the gain on commercial real estate that an individual tax client sells?
5. When would you use the annualization exception for the 2210 penalty?
6. How are Section 1256 gains taxed by individuals?
7. How would you advise a client who gives large amounts of annual charitable contributions and typically has large long-term capital gains?
8. What cost basis is used when a client sells at their point of vesting their employer issued restricted stock shares that had no cost and the stock broker has provided a 1099B showing proceeds of \$8,100?
9. What would a minimum strategy be for a client with Incentive Stock Options to avoid the Alternative Minimum Tax?
10. What is the equivalent taxable interest amount for a client with 4 percent municipal bond interest if his or her marginal federal tax rate is 25 percent (assume no state tax)?

ANSWERS

1. It can be opened until through the latest due date, including extensions, of the tax return for the previous year. 2. The date the first or original lot of stocks was purchased. 3. Voluntary payments to an ex-spouse are not deductible as alimony. 4. Pre 1987 recaptured depreciation on real estate is taxed at ordinary income rates. 1987 or later recaptured depreciation on real estate is taxed, for 2010 tax reporting, at a top capital gains rate of 25%. 5. When the income or deductions are earned erratically, bunched or not received or paid equally during the year, and it results in a lower 2210 penalty. 6. The gains are taxed as 60% long term capital gains and 40% short term capital gains regardless of holding period. 7. To consider donating appreciated long term held securities. They would get a charitable deduction for the full value of the securities and not have to report the capital gain income. 8. \$8,100. The employer is required to report the entire gain as wages on the employees Form W-2. 9. To consider exercising as much of the ISOs as the client can to the point where the Alternative Minimum Tax would kick in. 10. 5.33%, 4% would be divided by 75% (1 - 25%).

STRATEGIC VALUE

A company has strategic value where the price to be paid is substantially in excess of its fair market value and is in some manner not tied to the stand alone earnings stream and the buyer looks for some synergistic benefit to acquire it.

Usually the buyer has a greater interest in the business than the seller. Perhaps the buyer is a foreign company wanting to penetrate the United States market. In that situation, they would be willing to pay a price based upon what they foresee their costs of entering the market are and not based upon the value of your individual company.

Other reasons to buy the business that can create exceptional value for the buyer is the value assigned to a larger market share by the acquirer; the synergy flowing from the combination or association with other products; enhanced value created when a more sophisticated company becomes the owner; or importance of the product in a much bigger product.

Going concern value is another area that might have a value greater than the fair market value. This is the assemblage of the business as it exists (including personnel, contracts, office facilities, dies and molds, distribution outlets, customer lists, and supplier relationships) might cost far more to duplicate than the indicated value from its earnings. This also makes it an attractive acquisition for the right buyer. This, too, is strategic value.

STRATEGIC VALUE

(CONTINUED)

Strategic value could exist in situations where a company:

- wants to enter a market and it is less costly to acquire a business already in that market;
- where a company has a patent or secret process that has a value to certain companies;
- where a company wants to eliminate the threat of a competitor;
- where a company wants to acquire “critical mass” quickly, irrespective of cost;
- where the combination of two or more companies creates a major niche player, specialty business, or one stop shopping source;
- where the acquisition of a company enhances the acquirer’s reputation in the business they are already in;
- where the acquirer wants to guarantee a source of supply for an essential ingredient in their major product line;
- where the synergy of the purchase will enable additional sales of the products of the company being bought almost effortlessly;
- wants to acquire human capital in a given specialty area;
- where a company has assets the acquirer could use that the seller is not aware of;
- where there is tremendous ego value to the buyer;
- or where someone is desirous of protecting their job, or company they helped create or build.

Many of these situations do not fall within the fair market value definition because there is no hypothetical “willing and able buyer and willing and able seller, neither being under a compulsion to buy or sell and both having reasonable knowledge of relevant facts.”

ED ON BOND FUNDS

Some thoughts I have about investing in bond mutual funds for you to consider

Everyone is taught that stocks are risky and bonds are safe. They are also told that bond fund gains will offset stock market losses since the value of bond funds usually rise when stocks decline.

QUESTION: If bond funds are safe, then how come the value rises? If bond funds can rise in value, then can they fall in value? And if their value rises and falls, then what makes them safe?

QUESTION 2: If bond funds are “safe” and their purpose is to provide a fixed cash flow, then how come the funds present their annual income in the form of “total returns” and not actual interest paid?

The reality is that bond fund values fluctuate as market interest rates change. When the market interest yields rise, fund values decline; when yields drop, values increase.

A fund’s published results gives a “total return” which is a combination of the actual interest paid plus or minus the change in value due to fluctuating interest rates. If the fund pays 3% interest and the value increase is 4%, then the total return is given as 7%. If interest rates increase, and the fund’s value drops 4%, the total return will be a negative 1%! In both situations, the investor neither receives nor pays the total return —they only receive the interest.

The truth is that there is never a time when you can get back what you invested in the fund – you can only get what the market value of the fund is when you are ready to cash out. And if that comes at a time when rates have increased, you can look forward to losses from your investment in that “safe” investment.

An alternative is investing in individual bonds with fixed maturity dates, at which time you will receive back your investment, or bank certificates of deposit that also have fixed maturity dates.

Buying individual bonds presents a risk of default. This has certainly been shown with the recent bank failures and huge drop in the values of previously considered “blue chip” companies. However, assuming no default, there will be no loss of principal when the bonds mature. Diversification is a reason people invest in bond funds, but these have not done any better than isolated portfolios of individual bonds – in many cases they have done worse because of management fees and the greater risk by some funds because of leverage and selling call options that were taken to maximize yields. One way to protect against default is to buy insured bonds, but that will reduce yields. Another way is to diversify your bond portfolio over sectors and maturities, to ladder your bonds over a time frame, or to stick to U.S. Treasury Bonds, but these now have record low yields.

Another thing to do is to buy insured bank certificates of deposit. In some cases the yields are lower, but not in every situation.

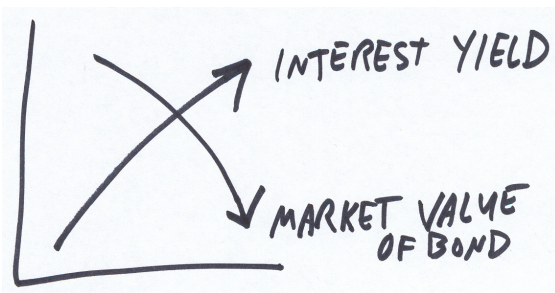
ED ON BOND FUNDS

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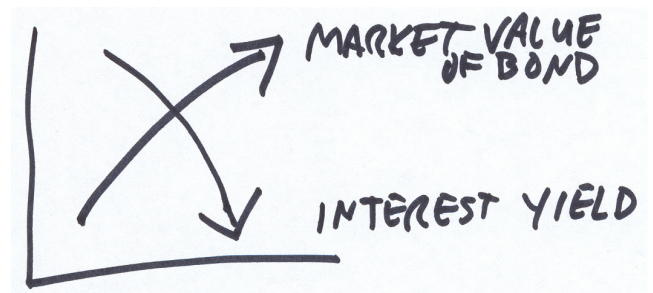
Whatever you do, you should understand how you make money and how and when you get your money back; what circumstances need to occur for you to lose money; and how the market value of a bond or bond fund fluctuates as interest yields change.

In the illustrations below, the intersection of the lines indicates when the bond was issued.

The market value of a bond drops as the market driven interest yield rises:



The market value of a bond increases as the market driven interest yield decreases:



WS+B PARTNERS' NETWORK ORDER FORM

NAME

FIRM

ADDRESS

CITY STATE ZIP

TELEPHONE EMAIL

Please contact us about WS+B doing your peer review.

WS+B'S PARTNERS' NETWORK CPE RESERVATION & MEMBERSHIP

I am a Partners' Network member. Register me at no charge.
Reminder: Partners' Network members can bring an additional guest from the same firm.

Attend WS+B Partners' Network, Pre-Tax Season CPE Program @ \$125.00

I want to join the Partners' Network @ 145.00

PLEASE CHECK FOR KOSHER MEAL REQUEST

TOTAL \$

PAYMENT INFORMATION

CHARGE MY (CIRCLE ONE) MASTERCARD VISA AMEX

ACCOUNT #

EXPIRATION DATE

SIGNATURE

I AM ENCLOSING A CHECK PAYABLE TO WITHUMSMITH+BROWN, PC

WITHUMSMITH+BROWN, PC
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THE PARTNERS' NETWORK

Why should my firm join The Partners' Network?

- To broaden your firm's services and expertise
- To help you build your business for growth and profitability
- To obtain answers to challenging audit and tax matters with a phone call
- To get ideas and tips on how to better manage your practice

What does The Partners' Network offer a firm like mine?

Again, many answers:

- Free Power Breakfasts covering timely topics, such as:
 - "Internet Marketing" ideas for using the Web to build business
 - "What Makes a Company Great?" attracting & retaining talented staff
 - "Making More Money" setting fees, effective billing
- Discounts on the annual CPE Conference in June
- Invitation to the Pre-Tax season CPE program.
- Answers to your questions on tax, accounting, auditing, or practice management at no charge. Just pick up the phone and call, or send one of us an e-mail.
- Contacts with peer CPA practitioners and opportunities for exchanging ideas, resources, and information with your colleagues.

How do I join?

Membership is \$145 per year (\$500 for firms of 100+). Phone or e-mail Heather with your credit card information, or put a check and business card in the mail. It's as easy as that. So give Heather a call today at 732.828.1614, or send an e-mail, hsuddoth@withum.com. We look forward to hearing from you soon.



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Certified Public Accountants and Consultants

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The **Partners' Network Newsletter** is published by WithumSmith+Brown, PC, Certified Public Accountants and Consultants. The information contained in this publication is for informational purposes and should not be acted upon without professional advice.

Partners' Network
PRE TAX SEASON CPE PROGRAM

No charge for Partners' Network members
DETAILS INSIDE



**BEST WISHES FOR A HAPPY,
HEALTHY AND PEACEFUL
NEW YEAR**

We are registered with the Public Company Accounting Oversight Board (PCAOB) and are available to perform your peer review.

Call us for more information.

Frank Boutillette, CPA/ABV, Partner
732.828.1614

PEER AND QUALITY REVIEWS



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