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## Are You Really Done With Your 10-K?

### A Short Guide to the Comment Letter Process

With 10-K filing season recently behind us, don't be surprised if you receive a comment letter from the SEC. As required by the Sarbanes-Oxley Act of 2002, the Division of Corporation Finance undertakes some level of review of each reporting company at least once every three years and reviews a significant number of companies more frequently.

#### The Review Process

Based on certain criteria, which are not made public, Corporation Finance evaluates each company's disclosure in what it calls a preliminary review. If your company is selected for further review, the level of that review may be:

- A full cover-to-cover review of the 10-K
- A financial statement review, in which the financials and related disclosures are examined for compliance with applicable accounting standards and disclosure requirements, or
- A targeted issue review, in which one or more specific item of disclosure is examined for compliance with accounting standards and/or disclosure requirements

#### Common Comment Areas

In presentations given by members of the staff of Corporation Finance, some of the following were identified as areas of comment related to areas potentially impacted by the financial crisis:

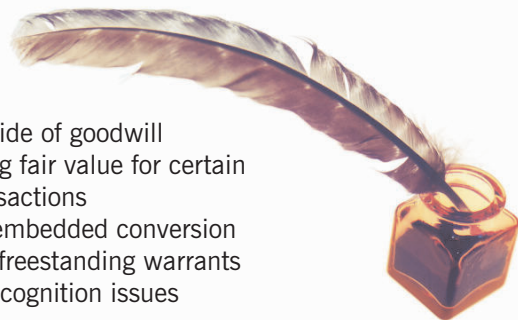
- Goodwill and other indefinite lived intangible assets
- Accounts Receivable: Consideration of current events when evaluating an appropriate allowance
- Inventory: Lower of cost or market valuations considering the impact of price reductions or reduced sales
- Income tax valuation allowances and recoverability: Based on current conditions

Additional comments focus on traditional items such as:

- Business combinations issues: Identifying the acquirer, determining purchase price allocation, identifying

intangible  
assets outside of goodwill

- Determining fair value for certain equity transactions
- Analyzing embedded conversion options & freestanding warrants
- Revenue recognition issues
- And others



#### Suggestions for Response

The Corporation Finance staff encourages all registrants to take the time to prepare a thorough response. If more time is required than given in the comment letter, contact the examiner and request additional time to formulate your response. Taking the time to be thorough in your initial response may lessen the likelihood of future comments.

Focus on the specific questions asked by the staff, yet include enough information for the staff to fully understand the accounting and/or disclosure at question.

It is also helpful (if applicable to the questions being asked) to refer to the accounting literature in GAAP that you relied on for your conclusions.

If revisions are necessary to your filing, supply the staff with marked pages that reflect all relevant changes.

#### Final Words of Advice

Don't be alarmed if you receive a comment letter. Don't hesitate to start a dialogue with the reviewer to make sure you are clear on all the comments received. Take the time to give a well thought out response and don't hesitate to get your professionals, both legal and accounting, involved to assist you. **h**

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