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Financial Intelligence simplifies complexity

By William-Arthur Haynes – none
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As chief financial officer for a handful of public and early stage companies, Jerry Behar found himself consistently challenged by a lack of skilled, high-level accounting consultancies to help with bet-the-company transactions.

While CFO at erstwhile Engineering Animation Inc., a Nasdaq-traded services and software outfit that was acquired by Unigraphics Solutions in 1999, Behar valued and negotiated eight merger-and-acquisition transactions over a two-year period.

“Often we had two significant transactions going on at the same time, and it just really stretched us,” Behar said.

But more than just the challenges to bandwidth and resources was a critical need for expertise in every component of complex deals.

“I had no expectation of being able to find the caliber of people I needed to do traditional outsourced financial services on an interim basis,” he said.

Having identified the scarcity of support services that were becoming increasingly in demand, Behar exchanged his CFO hat for that of a CEO.

Behar founded Financial Intelligence LLC in 2002. The Mountain View-based consultancy provides accounting advisory and valuation services primarily to midmarket and smaller public companies as well as those looking to go public. Between 2005 and 2007, the years covered by the Business Journal’s Fast 50 list, Behar and company have grown annual revenue from $702,000 to more than $8 million, a 1,055 percent jump. Because of the sensitivity surrounding the nature of its business, Behar was reluctant to divulge the name of any clients.

The accounting advisory group provides leadership on restatements, investigations and complex accounting and financial reporting issues that can easily overwhelm a company's internal resources or quickly sink companies into deep regulatory trouble.

To the extent clients are looking for accounting assistance in these matters, it's invariably a situation where time and expertise are of the utmost importance, said Jay Pomerantz, a securities litigator at Fenwick & West who has worked with Financial Intelligence on a number of stock options accounting and restatement matters.

"These things always tend to be on a short fuse," Pomerantz said. "Often these issues are complicated and need expertise. They've got the resources to come in and work alongside company counsel and get things done as promptly as can be under the circumstances."

Behar said the company is defined by a business model and focus that's fundamentally different than other financial and accounting consultancies.

Core to its business is representing a company's management in resolving technical accounting and reporting issues, unlike the audit departments at public accounting firms. Using forensic-oriented independent auditors in such cases isn't as constructive — not to mention as monetarily feasible for some midmarket companies — because an auditor's independence precludes him or her from giving advice on accounting positions.

Auditors scrutinize a company's numbers once that company has provided its financials. Financial Intelligence works with the companies beforehand to get the accounting right and respond to any subsequent issues the auditor might come up with.

In 2005, Financial Intelligence launched its valuation services group.

"[Internal Revenue Code Section 409A] exposed employees receiving stock options to substantial income tax and penalties if the options were granted at below the fair market value of the common stock," Behar said.

Today, best practice is for private companies issuing stock options to have a valuation performed by an independent valuation expert. As the financial auditors review the valuation for financial reporting purposes, the market is demanding high quality valuations that withstand a thorough audit review but still, at a reasonable price.

"That matches up perfectly with our capabilities and positioning," Behar said.

The business model and services have proven a welcome player on the financial services front.

The dozen-plus-employee company has built a team comprising people with high-level management experience, analysts and former auditors from the Big Four accounting firms.

The Big Four — made up of Deloitte Touche Tohmatsu, PricewaterhouseCoopers, KPMG and Ernst & Young — all mandate retirement at age 60, “which is right when these guys are at the peak of their capabilities and they’re not ready to just hang it up and play golf yet.”

Behar attributes the firm’s exponential growth to referrals which come from those independent auditors and attorneys who handle investigations, restatements and disclosure issues, as well as recent events in the marketplace that made their services even more in demand.

The evaluation services business is growing substantially. With more frequency, auditors are requiring companies issuing stock options to get evaluations, and companies are looking for a fair price to conduct that work.

“That bodes well for us,” Behar said.

Financial Intelligence handled 10 stock option restatement projects last year, Behar said, generally in the project leadership role.

This year the company is repositioning itself more toward that area, Behar said.

Behar said the company is starting to see revenue level out as the amount of stock options restatement investigations decline.

At-a-glance
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