

Business Valuation Monitor

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FASB Statement No. 141R, *Business Combinations*



The new M&A landscape: a spotlight on change

The following article examines the guidance surrounding FASB Statement No. 141R and its impact on and implications for future business combinations.

By **Mark Edwards**, Partner, Economic Advisory Services — Valuation Services group

Acquisition Date vs. Measurement Date

Concept

Statement 141R, issued in December 2007 and effective for the calendar years beginning after December 15, 2008, requires the use of the acquisition date as the date of measurement and recognition of a business combination. The acquisition date is defined as the date on which the acquirer obtains control of the acquired business.

Superseded guidance and reasoning

EITF No. 99-12, “Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination,” required that the value of the acquirer’s marketable equity securities issued to effect a business combination be determined based on the market price of the securities over a reasonable period of time before and after the terms of the acquisition were agreed to and announced. In deliberations regarding SFAS 141R, the FASB considered the arguments for the guidance developed by the EITF. These arguments included:

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- The announcement of a transaction and related agreements normally binds the parties to the transaction such that the acquirer is obligated at that point to issue the equity securities at the closing date, and thus the arrangement has characteristics of an equity forward contract.
- If the parties are bound to the transaction at the announcement date, the value of the underlying securities on that date best reflects the value of the bargained exchange.



However, the FASB did not find these arguments compelling; rather, the FASB observed that making a recommended transaction binding generally requires shareholders' authorization or another binding event, which then gives rise to the change in control of the acquiree. Therefore, the FASB decided to use the acquisition date.

In addition, the FASB noted that the EITF's guidance resulted in a mixed measurement basis because it required the measurement of equity securities on the announcement date although all other forms of consideration transferred were measured at the acquisition date. The FASB decided that all forms of consideration transferred should be valued on the same date — the date on which the assets acquired and liabilities assumed are valued.

Impact and implications

The value of equity securities issued as part of the purchase price will be measured on the closing date of the transaction rather than on the announcement date. Fluctuations in the acquirer's stock after the announcement date and before the closing date will therefore affect the amount of the purchase price for accounting and reporting purposes. Companies may feel pressure to compress the period between the announcement date and the closing date to limit the risk of major variation in the stock price. In addition, most deal structures include price protections in the event of wide swings in stock price, and management may want to consider including negotiation features in the acquisition agreement to narrow the range of stock price variability that would trigger the protection provisions.

With the change of the measurement date from the announcement date to the acquisition date, the value of the marketable equities tendered in the transaction will potentially be affected by both the reaction of the market to the dissemination of information regarding the transaction and movements in the broad market that are unrelated to the transaction announcement.

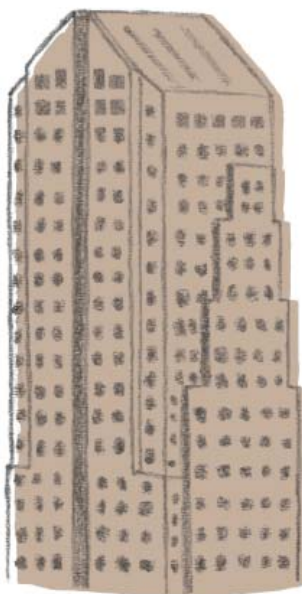
This pronouncement eliminates the use of the announcement date, or a date between the announcement date and the closing date, as the measurement date of the purchase price in the business combination and of the assets acquired and liabilities assumed. In addition, an acquirer will not be able to designate a date of convenience, such as the end of an accounting period, to conduct the measurement and recognition of assets acquired and liabilities assumed.

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FASB Statement No. 141R, *Business Combinations* (continued)

SFAS 141R will allow the acquirer a measurement period of up to one year to finalize fair values of assets acquired and liabilities assumed as of the acquisition date. However, adjustments to initially reported provisional amounts will be reflected in restated comparative statements as if the revised amounts had been known at the acquisition date.

The change in measurement date applies both to business combinations involving the acquisition of 100 percent of the target business and to step acquisitions. •



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Valuation Services group contact information

Neil Beaton National partner-in-charge Seattle	206.398.2487
Steven Krug Atlanta	404.475.0041
Chuck Williams Cincinnati	513.345.4542
Mark Edwards Charlotte	704.632.6926
Massimo Messina Chicago	312.602.8247
Todd Patrick Dallas	214.283.8195
Phil Gaglio Detroit	248.213.4219
Bryan Benoit Houston	832.476.3620
Venkat Komarlingam McLean	703.847.7656
Dean Polenz Milwaukee	414.277.1512
Mark Gehrig Minneapolis	612.677.5139
John Ferro New York	212.542.9574
Rich Hause Philadelphia	215.814.4024
Andrew Ross San Francisco	415.365.5405
Robert Duffy Seattle	206.398.2479

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About the author

Mark Edwards, Partner, Grant Thornton LLP
Economic Advisory Services — Valuation Services group

Mark Edwards is a partner in the Economic Advisory Services practice of Grant Thornton LLP in Charlotte, North Carolina and leader of the Southeast Region Valuation practice.

Mark has been working in the valuation profession for more than 19 years and has worked with numerous public and private clients on financial reporting, litigation, transaction advisory services and strategic planning. In addition, Mark has been qualified as an expert witness and has provided testimony in matters where valuation is in dispute.

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