Things to Consider

Purchase Price Allocations

Purchase price allocations ("PPAs") are often inherently complex, requiring knowledge of the acquired business and its industry, as well as the applicable accounting requirements and appropriate fair value methodologies. Under both ASC 805 and IRC 1060, a purchase price is allocated to the assets acquired and liabilities assumed of an acquired company at their fair values, with limited exceptions[1].

At Tall Oaks Partners, we understand and appreciate the challenges of preparing PPA valuations for financial reporting and tax purposes. Here are six things to consider when preparing a PPA valuation:

- **Purchase Agreement** – Review the agreement in detail to identify and understand the nature of any purchase price adjustments (e.g., working capital, contingent consideration) or assets and liabilities that have been excluded from the transaction.
- **Purchase Consideration** – Analyze the composition of the purchase consideration that will be used to allocate value among the acquired assets to identify any equity consideration or contingent or assumed liabilities (e.g., rollover equity, earn-out liabilities, assumed debt) that may require fair value procedures.
- **Other Assets and Liabilities** – Review and discuss the acquired company's balance sheet to identify any assets and/or liabilities that need to be adjusted in the purchase accounting (e.g., off-balance-sheet items, leases, excess working capital, deferred taxes, deferred financing costs).
- **Forecast** – Evaluate the acquirer's cash-flow forecast (or "deal model") for non-recurring or non-market participant assumptions specific to the acquirer (e.g., synergies, overhead allocations, integration costs). It can be critical to identify such items in a deal forecast and to adjust for assumptions that won't be part of future forecasts used to value the business (e.g., ASC 350 and ASC 360).
- **Tax Considerations** – Identify the tax considerations related to a stock acquisition, which could include historical net operating losses ("NOLs"), deferred tax assets or liabilities, and carry-over basis in tangible and/or intangible assets. For a deal structured as an asset acquisition, the analysis could include a tax amortization benefit estimate.
- **Documentation** – Detail the approaches/methods and steps considered and selected in estimating the value of the acquired company's assets and liabilities. The valuation report should include documentation of supporting facts, key data and assumptions, and other considerations utilized in the analysis.

Accounting for the acquisition of a business can be a complex process even for experienced valuation professionals. At Tall Oaks Partners, we bring together our team's technical experience with PPAs with a flexible and accommodating approach. Our process is centered around collaboration with our clients, frequent and responsive communication, and our team's experience delivering quality valuation services. Have a question? Contact us at info@talloakspartners.com to get time scheduled with one of our Managing Partners.

1. Certain intangible assets may not be recognized for tax purposes and private companies may choose to adopt accounting alternatives for simplified reporting of business combinations and subsequent accounting for intangible assets.