

Business Combinations and Noncontrolling Interests

Q1 - Q3 2009 Financial Statement
Disclosure Analysis

Summary Results and Observations



Welcome to PricewaterhouseCoopers' (PwC) Business Combinations and Noncontrolling Interests Financial Statement Disclosure Analysis. This document summarizes observations from an analysis of public company transactions that closed during the first three quarters of 2009. The primary objective is to provide data, analysis and insights on how certain of the financial statement disclosure requirements related to business combinations and noncontrolling interests have been applied in practice.

Overview and Methodology

The information presented in this document is summarized from an analysis of 130 public company transactions that closed during the first three quarters of calendar year 2009. All disclosures that were analyzed are from companies whose basis of accounting is U.S. Generally Accepted Accounting Principles (U.S. GAAP).¹

The companies that were part of the analysis were selected judgmentally, with the primary criterion for selection being those transactions with the highest values. There was no intentional bias toward any particular industry. Not all of the transactions reviewed were material to a specific acquirer and, accordingly, some disclosures were omitted from the financial statements.

Readers should be aware that the results from the reporting periods surveyed may not be indicative of longer-term trends given several prevailing factors, such as the relatively short length of time that the new standards have been in effect, the weaker macro-economic conditions in the U.S. compared to historical norms, and a decrease in acquisition activity in 2009 compared to recent years.

For additional data and example disclosures, please refer to the full quarterly disclosure analysis prepared for each of Q1, Q2 and Q3 2009 from which the data in this summary is derived. Those quarterly analyses are available on PwC's CFOdirect website (www.cfodirect.pwc.com). PwC clients who have questions on these publications should contact their engagement partner. Prospective clients and friends should contact the managing partner of the PwC office nearest you, which can be found at www.pwc.com.

The disclosure information presented in this analysis is provided solely to increase your awareness and understanding of the types of disclosures that individual companies have made in particular situations. Because disclosures are specific to the facts and circumstances of the individual company to which they relate, there is no suggestion implied in this information that the disclosures analyzed represent compliance with requirements under U.S. GAAP or are consistent with PwC's views in all circumstances. Accordingly, we make no comments as to the appropriateness, completeness, or accuracy of these disclosures. Further, the findings that are included in this analysis are not intended to represent best practices.

¹ The U.S. GAAP accounting standards applicable to business combinations are ASC 805, *Business Combinations*, and ASC 810, *Consolidation* (the "new standards").

Disclosure Principles

The U.S. GAAP disclosure requirements² are intended to enable users of financial statements to evaluate the nature and financial effects of:

- A business combination that occurs either during the current reporting period or after the reporting period, but before the financial statements are issued
- Adjustments recognized in the current reporting period that relate to business combinations that occurred in current and previous reporting periods
- The nature of the relationship between the parent and a subsidiary or investee when the parent does not have 100 percent ownership or control

All U.S. GAAP disclosures must be reported for each material business combination. All disclosures should be made in the period in which the business combination occurs. Under U.S. GAAP, companies should include the disclosures in subsequent financial statements if an acquisition occurred in a previous reporting period and that period is presented in the financial statements.

Companies are also required to disclose information about acquisitions made after the balance sheet date, but before the financial statements are issued. If the initial accounting for the business combination is incomplete, the company should describe which disclosures could not be made and the reasons they could not be made.

Companies are also required to disclose gains or losses arising from the deconsolidation of a business when the company loses control of that business.

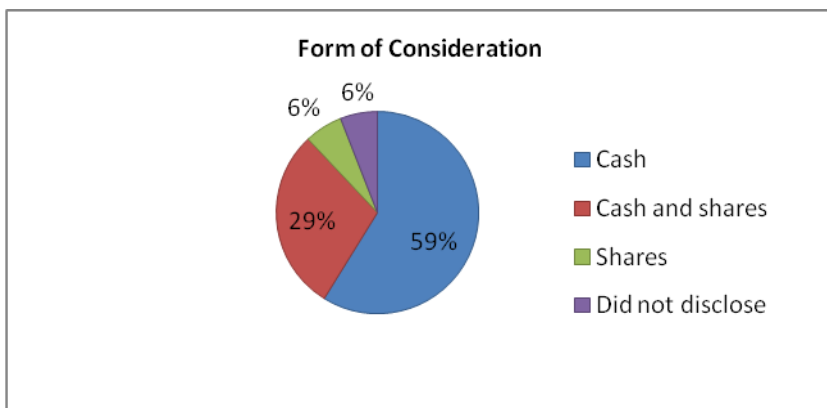
Findings

Presented on the following pages is commentary on certain of the more significant findings noted in our analysis. The full set of summarized data is presented afterward. The percentages presented in the findings section should be viewed in connection with the underlying summarized data, as there may be certain limitations in the use of percentages due to the small sample involved in our analysis.

² The disclosures that are required for all material business combinations that occur during the reporting period can be found in ASC 805-10-50-2. Additionally, ASC 805-10-50-2(e)-(h), ASC 805-20-50-1(a)-(e), and ASC 805-30-50-1(a)-(f) provide disclosure requirements for individually immaterial acquisitions that are collectively material, in the period in which the business combinations occur. The disclosures that are required for noncontrolling interests can be found in ASC 810-10-50.

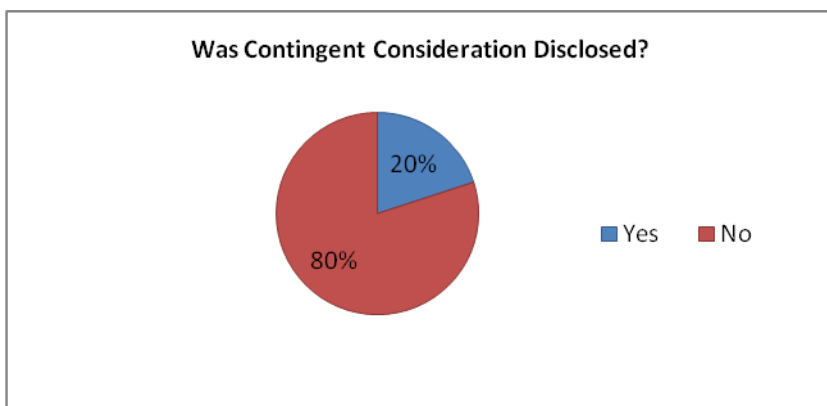
Form of Consideration

We noted that the form of the acquisition consideration was heavily weighted toward either cash or some mixture of consideration including cash. The new standards require that the value of equity consideration be measured as of the date that control is actually obtained versus the deal announcement date (which was the measurement date for equity consideration under the previous standard). This finding may indicate that equity is a less attractive acquisition currency because of generally lower stock prices compared to prices in recent history and/or companies are seeking to avoid the inherent volatility in pricing that could occur when shares are the form of consideration.



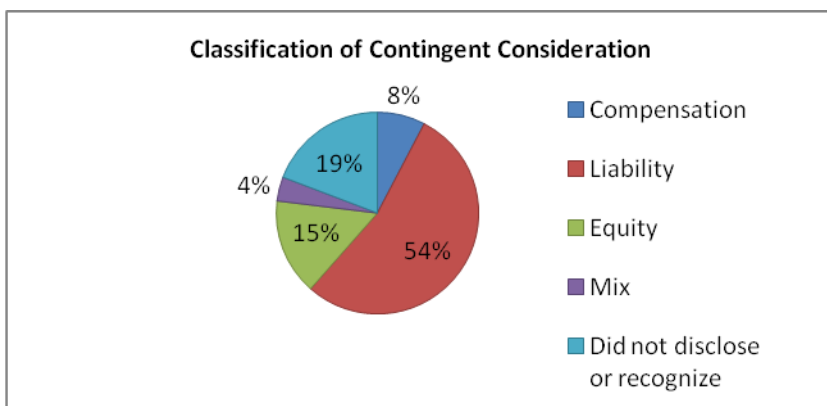
Contingent Consideration

We noted that contingent consideration was not disclosed in the majority of the acquisition consideration arrangements. This finding may indicate that one of the factors companies considered in structuring their deals was to avoid the use of contingent consideration due to a concern over post-acquisition earnings volatility.



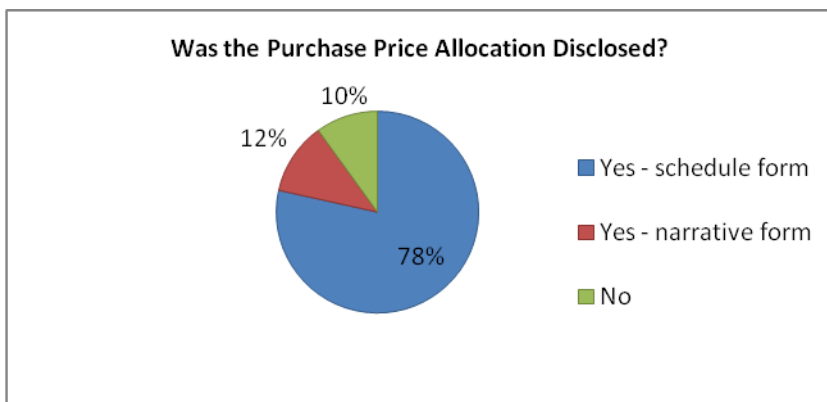
Classification of Contingent Consideration

For the transactions that contained contingent consideration, the majority of acquirers classified the contingent consideration arrangement in liabilities on the balance sheet. This classification requires a company to remeasure the liability to fair value at each reporting period and record any adjustment in earnings. While many companies may desire to avoid the resulting income statement volatility, equity classification (which does not require subsequent remeasurement) is generally more difficult to achieve under the new standards. However, the results of the analysis show a greater percentage of equity-classified contingent consideration than perhaps many had expected. Additionally, two of the companies that disclosed the presence of a contingent payment arrangement disclosed that some portion of the arrangement would be accounted for as compensation expense in the post-combination earnings of the acquirer.



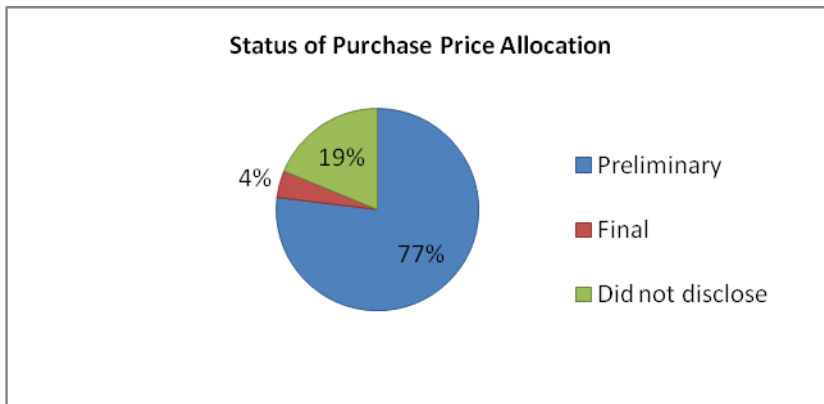
Disclosure of Purchase Price Allocation

One of the requirements of both the previous and new standards is the disclosure of the amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed (commonly called the "purchase price allocation"). The overwhelming majority of the transactions included in our sample did disclose this allocation, either in schedule form or narratively.



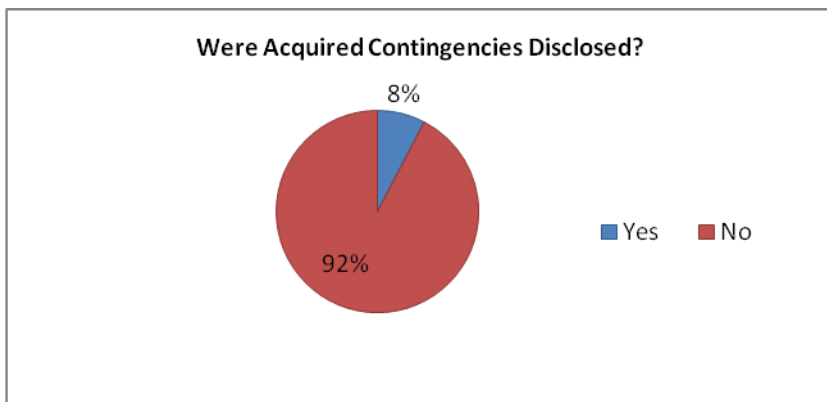
Status of Purchase Price Allocation

Historically, it was common for companies to disclose as preliminary the purchase price allocation presented in the reporting period in which the acquisition was completed. Previously, adjustments to the initial accounting within the measurement period were prospectively recorded. Now, material adjustments to the initial accounting must be retroactively reflected in the comparative financial statements. Some believed that this change would cause companies to make greater efforts to finalize allocations in the acquisition period to reduce the possibility of a need to recast previous period results. However, the results of our analysis indicate that the majority of companies continue to describe allocations as preliminary. However, we did observe that the few allocations disclosed as being final all related to deals closed in the first month of the quarter. Further, our analysis indicated that the majority of these companies did not specify which particular asset or liability balances are still subject to possible future adjustment. Of the companies that did specify, the most common open items noted were intangible assets, income tax liabilities, accrued liabilities, and pre-acquisition contingent liabilities.



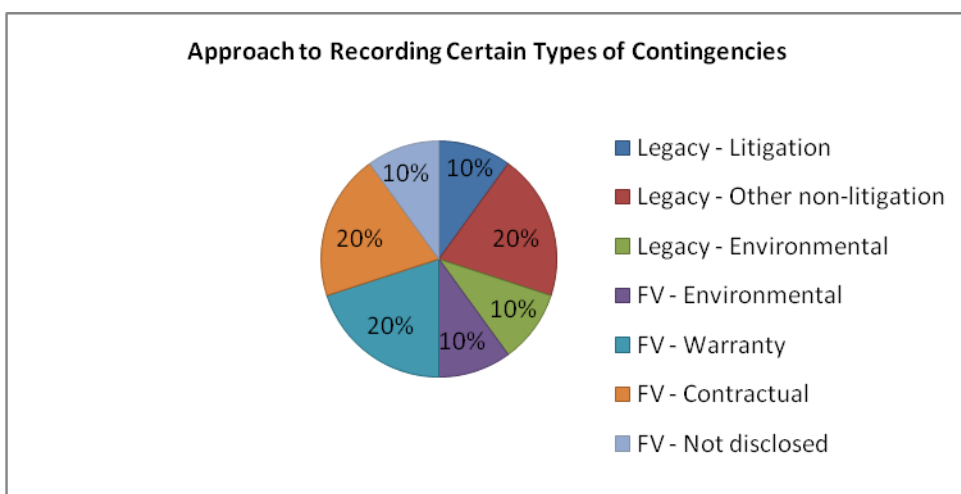
Acquired Contingencies

The topic of how best to measure contingent liabilities that are acquired in a business combination was the subject of much debate upon the issuance of the related business combinations guidance. Concerns were expressed in the marketplace over measurement complexity, attorney-client privilege and other legal issues and uncertainties involving scope. Our analysis shows that acquired contingent liabilities were disclosed only for a small portion of the transactions in the sample.



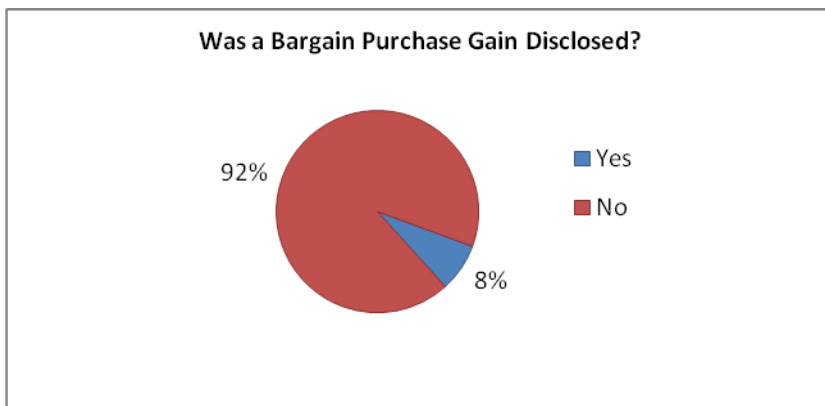
Measurement of Acquired Contingencies

Of those acquired contingencies that were disclosed, some were initially measured and recorded at fair value, while others were initially measured and recorded if determined to be probable and reasonably estimable (the "legacy" approach). The new standards allow for such a legacy approach only when fair value cannot be determined during the measurement period. There was an expectation that most companies would use the legacy approach for measuring some of the more common types of contingent liabilities, such as litigation and environmental liabilities, given the many factors and inherent uncertainties in determining fair value for such items. Another expected outcome was that the fair value of warranty liabilities generally would be determinable. Our analysis supports both of these notions. Litigation was measured using a legacy approach, as were environmental liabilities with one exception where the amount involved was de minimis. Additionally, we observed that warranty liabilities and certain other contractual contingencies were measured at fair value.



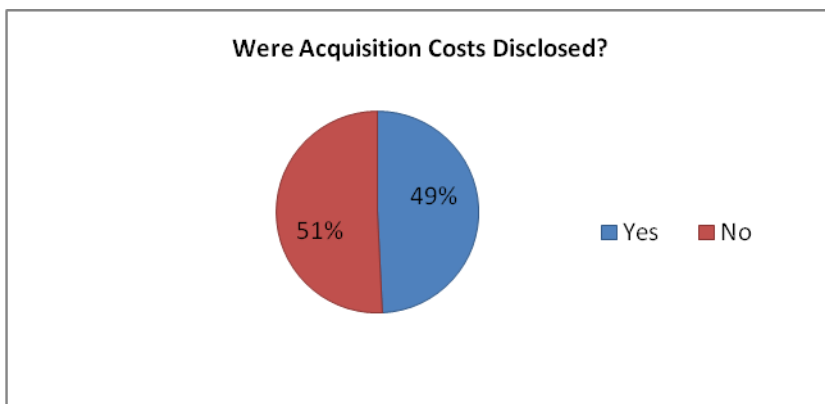
Bargain Purchase

The new standards now require a company to record a "bargain purchase gain" in earnings at the time of acquisition if the fair value of the net assets acquired exceeds the acquisition consideration. While the new standards indicate that such instances are expected to be infrequent, the results of our analysis show that bargain purchase gains were disclosed with somewhat greater frequency than perhaps expected. This is likely attributable to the economic downturn in the U.S. that continued throughout 2009 and the consolidation of weaker competitors observed in certain industry sectors during that time. These conditions may change as the economy strengthens. Thus, the results of this analysis may not be indicative of longer-term trends that may develop.



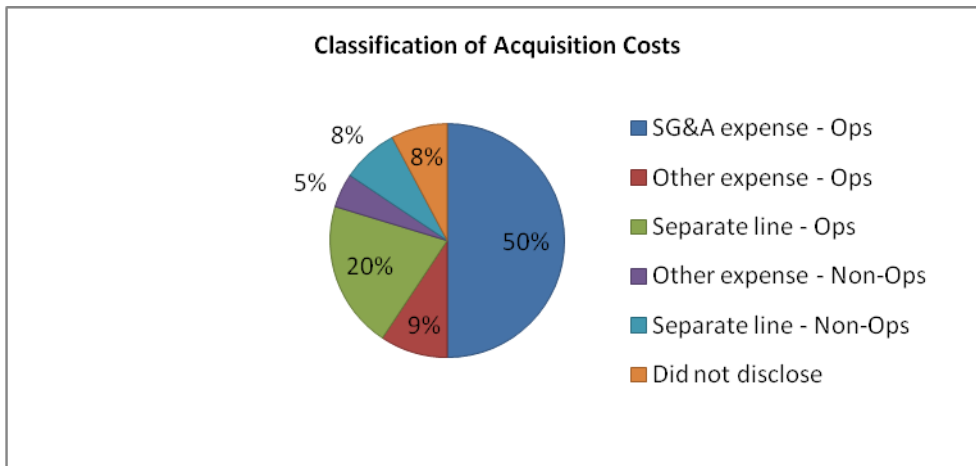
Acquisition Costs

The new standards require companies to expense acquisition costs such as legal, advisory and consulting fees as incurred, which is a change from previous standards under which these costs were capitalized. Companies must also disclose material transaction costs recorded in earnings. This requirement creates some inherent sensitivity for companies who may be incurring material due diligence costs for possible acquisitions which they would rather not disclose until a later period. Our analysis suggests that only approximately half of those in the survey disclosed transactions costs.



Classification of Acquisition Costs

Regarding the classification of acquisition costs in the income statement, the majority of companies (79%) classified these costs as a component of income from operations (Ops). The new standards require disclosure of the line item in the income statement where the costs are recorded.

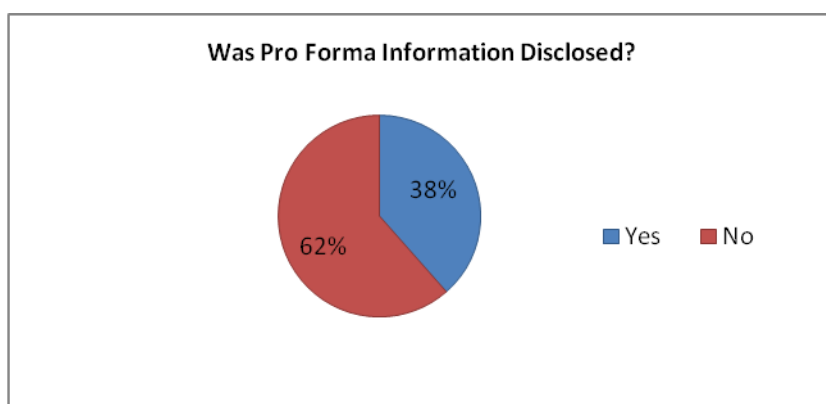
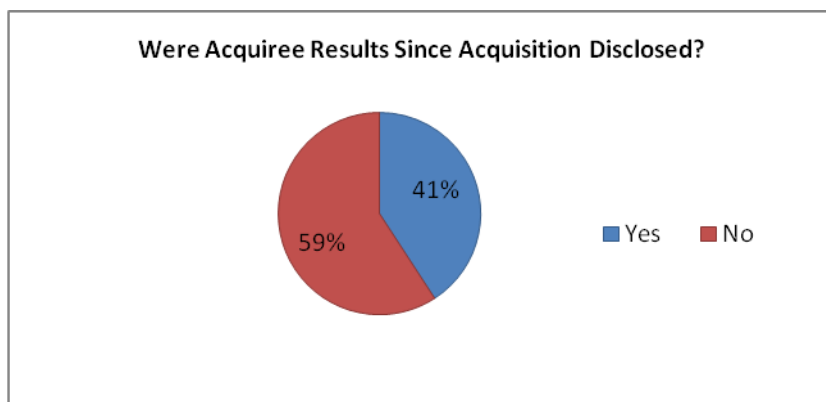


Public Company Disclosures

If an acquirer is a public company, there is a requirement to disclose the amount of revenue and earnings of the acquiree since the acquisition date included in the acquirer's consolidated income statement. There is also a requirement to disclose the pro-forma revenue and earnings of the combined entity for two reporting periods as though the acquisition date for the business combination had been as of the beginning date of the immediately-preceding annual reporting period. If these disclosures are deemed impracticable, the acquirer must disclose that fact and explain why it is impracticable. Of the companies that disclosed pro-forma information, the most common items affecting the pro-forma results included:

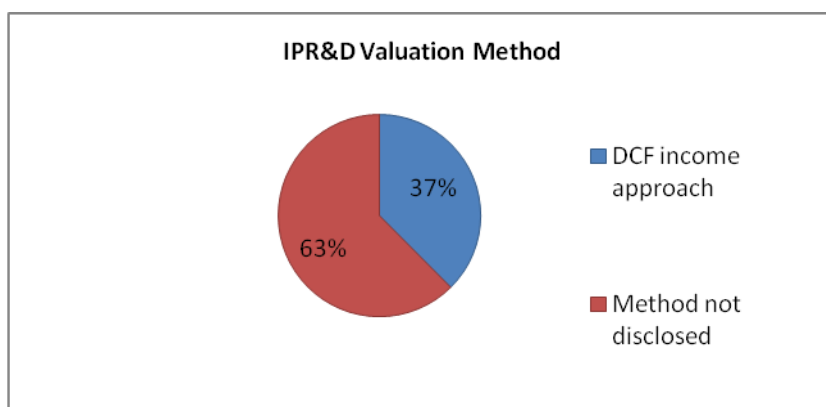
- Additional depreciation expense on fixed assets
- Additional amortization expense on intangible assets
- Additional interest expense on the financing of the acquisition
- Additional employee benefits expense
- Exclusion of acquisition costs
- Exclusion of integration costs

Many companies specifically disclosed that the acquiree results since acquisition and the pro-forma information were not disclosed because the acquisition was not considered material. No companies adjusted the pro-forma results for expected post-acquisition synergies. Several companies specifically disclosed that no adjustments to the pro-forma results had been made for the conforming of acquirer and acquiree accounting policies.



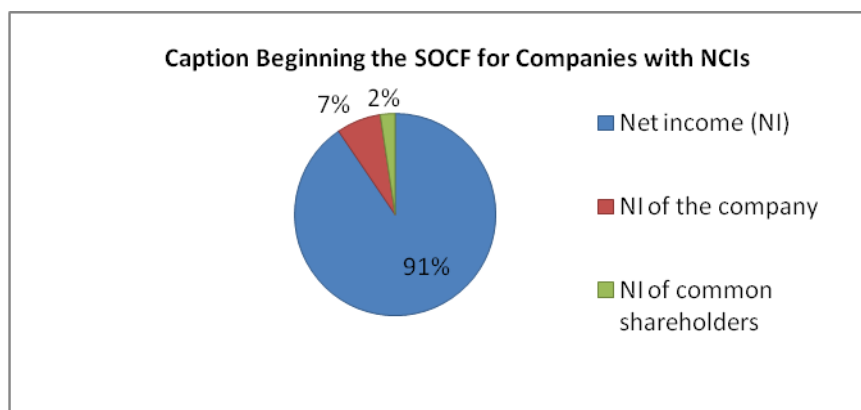
In-Process Research and Development (IPR&D) Costs

The new standards require that IPR&D be initially measured at fair value and classified as an indefinite-lived intangible asset on the date of acquisition. For those companies that disclosed IPR&D and also disclosed the methodology used to initially value the IPR&D, the method used in all cases was a discounted cash flow (DCF) income approach.



Noncontrolling Interests

When noncontrolling interests (NCIs) were disclosed (situations in which the acquirer held less than 100% of the equity interest in the acquiree), the most common valuation technique used to measure the fair value of the noncontrolling interest was the closing market price of the acquired company's shares on the acquisition date. In addition, for those acquisitions with an NCI, the vast majority of acquirers began the consolidated statement of cash flows (SOCF) with the caption "net income," while two variations ("net income attributable to the company" and "net income attributable to common shareholders") were observed.



Other Findings

In addition to those findings previously presented, we noted the following:

- None of the companies in the analysis specifically disclosed the presence of "defensive" assets, which are defined as assets that an acquirer does not intend to actively use but does intend to hold (lock up) to prevent others from gaining access to the assets. These assets may present unique accounting and valuation challenges, such as determining an initial fair value from the perspective of a market participant and determining an appropriate period over which to amortize the asset.
- We observed that 44% of companies in the analysis closed their deals during the first month of the quarter. 18% of companies in the analysis closed deals during the first 10 days of the quarter. These percentages may indicate that companies are timing deals to allow for the most amount of time possible before having to report financial information that includes the initial acquisition accounting.
- Less than 3% of the companies in the analysis disclosed subsequent measurement period adjustments to the amounts originally recorded when the acquisition was made. This may be the result of the limited length of time that has passed since the acquisition dates in the analysis. This may also be indicative of companies performing more robust due diligence procedures in advance of closing deals and more timely valuations after closing deals.

- None of the companies in the analysis specifically disclosed adjustments to tax account balances that had been recorded in prior years related to old deals. The new standards now require any such adjustments to be recorded in earnings rather than as an adjustment to goodwill on the balance sheet.
- None of the companies in the analysis specifically disclosed the presence of a reacquired right, which is defined as a right that the acquirer had previously granted to the acquiree to use one or more of the acquirer's recognized or unrecognized assets. Similar to defensive assets, reacquired rights may present unique valuation challenges, such as determining their initial fair value.

Summary Data from Quarterly Analyses						
Data Point		Q1	Q2	Q3	Cumulative	Percentage
Consideration transferred	<i>Sample Size</i>	20	55	55	130	100%
<i>What was the form of the consideration the acquirer transferred in exchange for control of the acquiree?</i>	Cash	14	30	33	77	59%
	Cash and shares	3	14	21	38	29%
	Shares	3	5	0	8	6%
	Did not disclose	0	6	1	7	6%
Contingent Consideration	<i>Sample Size</i>	20	55	55	130	100%
<i>Was any portion of the acquisition consideration contingent in nature?</i>	Yes	5	12	9	26	20%
	No	15	43	46	104	80%
Classification of Contingent Consideration	<i>Sample Size</i>	5	12	9	26	100%
<i>If present, how was the contingent consideration classified in the statement of financial position?</i>	Compensation	1	1	0	2	8%
	Liability	1	8	5	14	54%
	Equity	1	3	0	4	15%
	Mix	0	0	1	1	4%
	Did not disclose or recognize	2	0	3	5	19%
Acquired Contingencies	<i>Sample Size</i>	20	55	55	130	100%
<i>Did the acquirer disclose any contingent liabilities at the acquisition date?</i>	Yes	3	3	4	10	8%
	No	17	52	51	120	92%
Measurement of Acquired Contingencies	<i>Sample Size</i>	3	3	4	10	100%
<i>If disclosed, which basis was used to measure certain types of liabilities?</i>	Legacy - Litigation	1	0	0	1	10%
	Legacy - Other non-litigation	1	1	0	2	20%
	Legacy - Environmental	0	1	0	1	10%
	FV - Environmental	0	0	1	1	10%
	FV - Warranty	0	0	2	2	20%
	FV - Contractual	1	0	1	2	20%
	FV - Not disclosed	0	1	0	1	10%
Bargain Purchase Gain	<i>Sample Size</i>	20	55	55	130	100%
<i>Was there a bargain purchase gain disclosed as a result of the acquisition?</i>	Yes	5	2	3	10	8%
	No	15	53	52	120	92%
Disclosure of Purchase Price Allocation	<i>Sample Size</i>	20	55	55	130	100%
<i>Did the acquirer disclose the allocation of consideration to the net assets acquired?</i>	Yes - schedule form	14	40	48	102	78%
	Yes - narrative form	3	6	6	15	12%
	No	3	9	1	13	10%

Summary Data from Quarterly Analyses (continued)						
Data Point		Q1	Q2	Q3	Cumulative	Percentage
Status of Purchase Price Allocation	<i>Sample Size</i>	17	46	54	117	100%
<i>If the purchase price allocation was disclosed, were the amounts presented as being final or preliminary?</i>	Preliminary	10	35	45	90	77%
	Final	4	0	1	5	4%
	Did not disclose	3	11	8	22	19%
Disclosure of Acquisition Related Costs	<i>Sample Size</i>	20	55	55	130	100%
<i>Did the acquirer disclose the amount of acquisition costs incurred in the period?</i>	Yes	9	25	30	64	49%
	No	11	30	25	66	51%
Classification of Acquisition Related Costs	<i>Sample Size</i>	9	25	30	64	100%
<i>In which section of the statement of operations were acquisition related costs reported?</i>	Operating	9	18	24	51	80%
	Non-operating	0	7	1	8	12%
	Did not disclose	0	0	5	5	8%
Classification of Acquisition Related Costs	<i>Sample Size</i>	9	25	30	64	100%
<i>In which line item of the statement of operations were acquisition related costs reported?</i>	SG&A expense - Ops	4	13	15	32	50%
	Other expense - Ops	0	0	6	6	9%
	Separate line - Ops	5	5	3	13	20%
	Other expense - Non-Ops	0	3	0	3	5%
	Separate line - Non-Ops	0	4	1	5	8%
	Did not disclose	0	0	5	5	8%
Acquiree Results	<i>Sample Size</i>	20	55	55	130	100%
<i>Did the acquirer disclose the amount of acquiree results included in the acquirer results since the acquisition date?</i>	Yes	9	27	17	53	41%
	No	11	28	38	77	59%
Pro Forma Information	<i>Sample Size</i>	20	55	55	130	100%
<i>Did the acquirer disclose the required pro forma financial information?</i>	Yes	10	14	26	50	38%
	No	10	41	29	80	62%
In-Process Research & Development	<i>Sample Size</i>	5	8	11	24	100%
<i>If the acquirer disclosed the presence of IPR&D, how was it valued?</i>	DCF income approach	0	3	6	9	37%
	Method not disclosed	5	5	5	15	63%
Noncontrolling Interest	<i>Sample Size</i>	2	20	20	42	100%
<i>If the acquirer disclosed a noncontrolling interest in the acquiree, what line item was the starting point for the statement of cash flows?</i>	Net income (NI)	1	19	18	38	91%
	NI of the company	0	1	2	3	7%
	NI of common shareholders	1	0	0	1	2%

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