

# FINANCIAL STATEMENTS OF ACQUIRED BUSINESSES: A Snapshot

This guide provides a high-level summary of the SEC's financial statement requirements for significant business acquisitions and is based on the SEC's latest rule [amendments](#) that become effective on January 1, 2021, but may be voluntarily applied earlier.

## WHERE TO START

When evaluating the financial reporting ramifications for an acquisition, companies should begin by answering the two following questions:

- ▶ Is the company acquiring a "business," as defined by Regulation S-X?
- ▶ What is the significance of the acquired business to the registrant?

The answers to these questions will ultimately drive the financial statements to be filed in Form 8-K and any subsequently filed registration statements.

## IS THE ACQUISITION A "BUSINESS"

### Regulation S-X Rule 11-01(d)

There is a presumption that a legal entity, subsidiary, or a division is a business, though a lesser component of an entity may also constitute a business and will generally depend on whether the nature of the revenue-producing activity is the same before and after the acquisition (among other factors).

## IS THE ACQUIRED BUSINESS "SIGNIFICANT"

### Regulation S-X Rules 3-05 and 1-02(w)

The significance of an acquired business ("target") to the registrant ("acquirer") is based on three tests, and the highest percentage of the three tests is used to determine the financial reporting requirements.

## CONTENTS

Where to Start	1
Is the Acquisition a "Business"	1
Is the Acquired Business "Significant"	1
When to Report a Significant Acquired Business	2
Financial Statements of an Acquired Business in Form 8-K	3
Financial Statements of an Acquired Business in a Registration Statement	3
Pro Forma Financial Information	4
Contacts	4

<b>Asset Test</b>	Target's total assets compared to acquiror's total assets as of the end of the most recently completed fiscal year
<b>Investment Test</b>	Fair value of the acquiror's investment in the target (i.e., GAAP purchase price) compared to acquiror's average aggregate worldwide market value
<b>Income Test</b>	<p><b>Lower of:</b></p> <p>Target's pre-tax income from continuing operations attributable to controlling interests compared to acquiror's pre-tax income from continuing operations attributable to controlling interests for most recently completed fiscal year</p> <p><b>Or</b></p> <p>Target's total revenue compared to acquiror's revenue for most recently completed fiscal year</p>

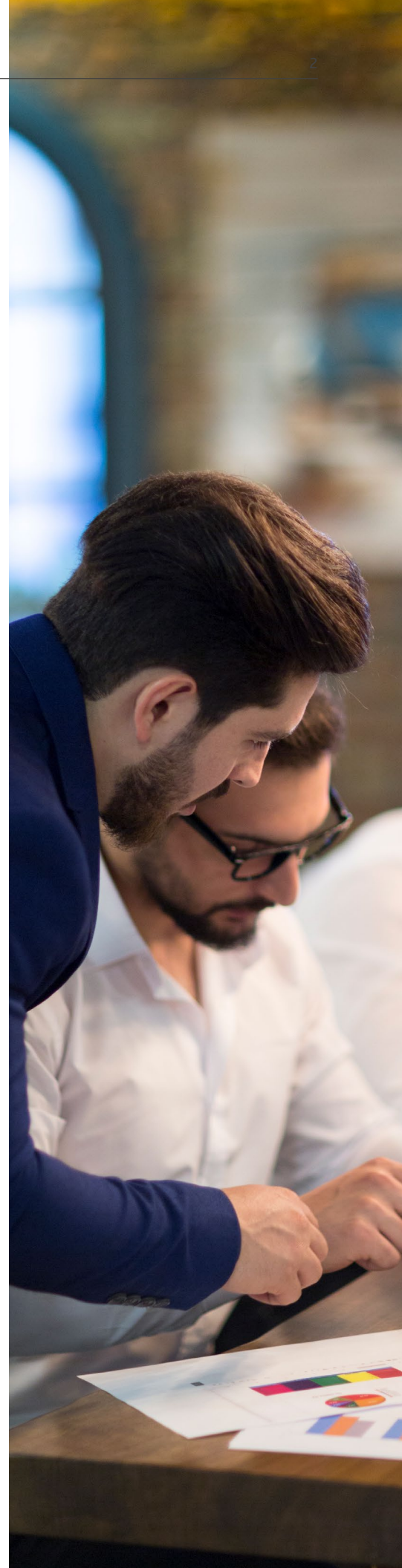
Additionally, a registrant is permitted to use pro forma financial information to measure significance for acquisitions completed after the latest fiscal year end if the registrant has filed:

- ▶ The required target financial statements, and
- ▶ The required Article 11 pro forma financial information for any such acquired business.

## WHEN TO REPORT A SIGNIFICANT ACQUIRED BUSINESS

	STEP 1	STEP 2	STEP 3
<b>Action</b>	Sign the Purchase Agreement	Close the Acquisition	File the Required Financial Statements
<b>When and What to File</b>	Within 4 business days, File Item 1.01 Form 8-K	Within 4 business days, file Item 2.01 Form 8-K	Within 71 calendar days after Step 2, file Item 9.01 Form 8-K

If the acquired business financial statements are required in connection with a registration statement (as summarized below), they may be included in the registration statement or incorporated by reference from a Form 8-K filing.



## FINANCIAL STATEMENTS OF AN ACQUIRED BUSINESS IN FORM 8-K

The historical financial statement requirements for the target to be filed in Form 8-K are based on bright-line significance thresholds set forth in S-X Rule 3-05 as follows:

SIGNIFICANCE	REQUIRED TARGET FINANCIAL STATEMENTS
Less than 20%	No financial statements
20% but less than 40%	One year of audited financial statements and unaudited interim financial statements for the current year (no prior year interims required)
Greater than 40%	Two years of audited financial statements and comparative current and prior year unaudited interim financial statements

The age of the target's financial statements depends on whether the target is private or public (and if public, the filing status of the target). For example, the age of a privately held target's financial statements to be included in Form 8-K is based on the following:

<b>Age is determined by reference to:</b>	The due date of Step 2 Form 8-K
<b>Annual financial statements</b>	Required when Step 2 Form 8-K is due 90 days or more after target's fiscal year end
<b>Interim financial statements</b>	Latest balance sheet must be within 135 days of the Step 2 Form 8-K due date, except that the 3rd quarter is considered timely through the 90th day after the target's fiscal year end

## FINANCIAL STATEMENTS OF AN ACQUIRED BUSINESS IN A REGISTRATION STATEMENT

SIGNIFICANCE	REQUIRED TARGET FINANCIAL STATEMENTS
Less than 20%	No financial statements
20% but less than 40% <sup>1</sup>	If the target has been included in the audited financial statements of the registrant for a period of 9 months, no financial statements are needed. Otherwise, continue to present one year of historical audited financial statements and unaudited interim financial statements for the current year (no prior year interims required).
Greater than 40% <sup>1</sup>	If the target has been included in the audited financial statements of the registrant for a complete fiscal year (i.e., twelve months), no financial statements are needed. Otherwise, continue to present two years of historical audited financial statements and comparative current and prior year unaudited interim financial statements.

<sup>1</sup> When the effective date of the registration statement is no more than 74 days after completion of the acquisition, financial statements may not be required if significance is at least 20%, but less than 50%. However, financial statements for 50% significant completed and probable acquisitions must be included.



Registrants also need to consider the aggregate effect of all business acquisitions that have been completed or are probable since the date of the most recent audited balance sheet filed for the registrant. If the aggregate effect of such acquisitions exceeds 50% significance for the asset, investment or income tests, registrants are required to file:

- ▶ Pre-acquisition historical audited financial statements for any target whose individual significance exceeds 20%; and
- ▶ Pro forma financial information depicting the aggregate effects of all such "individually insignificant businesses" in all material respects.

The ages of the annual and interim financial statements for a privately-held target in a registration statement are as follows:

<b>Age is determined by reference to:</b>	The effective date of the registration statement
<b>Annual financial statements</b>	Required when filing is effective after 89th day after target's fiscal year end  <b>Or</b> May be required if filing is effective after 45 days but not more than 89 days after target's fiscal year end depending on the registrant's eligibility for relief under S-X Rule 3-01(c)
<b>Interim financial statements</b>	Latest balance sheet must be within 135 days of the effective date

## PRO FORMA FINANCIAL INFORMATION

### Regulation S-X Article 11

When a target's historical financial statements are required to be presented, pro forma financial information must also be presented that includes:

- ▶ A pro forma condensed balance sheet as of the end of the most recent period for which a balance sheet is required;
- ▶ Pro forma condensed statements of income from continuing operations for the last completed fiscal year and year-to-date interim period; and
- ▶ Accompanying explanatory notes.

Pro forma adjustments are required to give effect to the accounting for the acquisition. Additional management adjustments to reflect synergies and dis-synergies of the acquisition are optional and may be presented in the explanatory notes.

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