

# UTILICORP UNITED INC.

## BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

FILED<sup>2</sup>

OCT 19 1999

Missouri Public  
Service Commission

In the matter of the Joint Application of )  
UtiliCorp United Inc. and St. Joseph Light )  
& Power Company for authority to merge )  
St. Joseph Light & Power Company with )  
and into UtiliCorp United Inc. and, in )  
connection therewith, certain other related )  
transactions )

Case No. EM-2000-292

**UtiliCorp United Inc. and St. Joseph Light & Power Company Merger**

**Direct Testimony**

October 19, 1999

Exhibit No.:  
Issue: Accounting  
Witness: Dan J. Streek  
Type of Exhibit: Direct Testimony  
Sponsoring Party: UtiliCorp United Inc.  
Case No.:

Before the Public Service Commission  
of the State of Missouri

Direct Testimony

of

Dan J. Streek

October 19, 1999

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI  
DIRECT TESTIMONY OF DAN J. STREEK  
ON BEHALF OF UTILICORP UNITED INC.**

**CASE NO.**

1 Q. Please state your name and business address.

2 A. My name is Dan Streek and my business address is 20 West 9th Street, Kansas City,  
3 Missouri 64105.

4 Q. By whom are you employed and in what capacity?

5 A. I am employed by UtiliCorp United Inc. ("UtiliCorp") as Vice President & Assistant  
6 Controller. My primary responsibilities include UtiliCorp's accounting, financial  
7 reporting, and financial planning and analysis.

8 Q. Please describe your educational background and experience.

9 A. I graduated from the University of Nevada, Las Vegas, in 1984 with a Bachelor of  
10 Science in Business Administration, concentration in Accounting. I was an audit manager  
11 with Arthur Andersen LLP in Las Vegas serving Southwest Gas Corporation, Edison  
12 International, and Las Vegas Valley Water District. In 1992, I accepted a position with  
13 West Virginia Power, a combination utility serving approximately 50,500 customers in  
14 West Virginia. West Virginia Power is a division of UCU. I served as the division's  
15 controller, which included responsibilities for general ledger, accounts payable,  
16 purchasing, and financial planning. In 1994, I accepted a position at UCU headquarters  
17 and was responsible for external reporting. In the years since, I obtained additional  
18 responsibilities, such as financial planning and consolidation.

1 Q. Do you hold a professional license?

2 A. Yes. I am a Certified Public Accountant (CPA) and licensed to practice in the state of  
3 Nevada, Certified in Financial Management (CFM), and Certified Management  
4 Accountant (CMA).

5 Q. On whose behalf are you testifying?

6 A. I am testifying on behalf of the Joint applicants in this proceeding, UtiliCorp and St.  
7 Joseph Light & Power Company ("SJLP").

8 Q. What is the purpose of your direct testimony in this proceeding?

9 A. I will discuss the required accounting treatment for the proposed merger of the Joint  
10 Applicants. I will also discuss certain pro forma financial statements reflecting the  
11 regulated entities of UCU and SJLP as they will exist subsequent to the proposed merger.

12 Q. What are the relevant accounting regulations and standards governing a merger or  
13 business combination?

14 A. Under Generally Accepted Accounting Principles ("GAAP"), the accounting rules for a  
15 business combination are prescribed in Accounting Principles Board ("APB") Opinion  
16 No. 16, Business Combinations. The accounting treatment required for a business  
17 combination is either the pooling-of-interests ("pooling") method or the purchase method,  
18 depending on the facts and circumstances of the transaction. The method used is a  
19 function of the terms of the transaction, and is not elective. In determining how to  
20 account for a business combination, the transaction must be analyzed to see if it meets the  
21 criteria for pooling. If all of the criteria for a pooling are not met, then the combination  
22 must be accounted for by using the purchase method. Schedule DJS-1 is a copy of APB  
23 Opinion No. 16.

1 Q. Briefly, what is the difference between the pooling and the purchase methods?

2 A. The main difference between pooling and purchase accounting is that a pooling combines  
3 the financial position and results of operation of the companies as if they always had been  
4 combined, while a transaction qualifying as a purchase requires the acquiring entity  
5 (UtiliCorp in this transaction) to record the acquired entity's assets and liabilities at fair  
6 value. The financial results of the acquired entity are included in the acquiring entity's  
7 financial statements from closing.

8 Q. Under GAAP, what accounting method is required for the proposed merger of the joint  
9 applicants?

10 A. This transaction must be accounted for as a purchase.

11 Q. What is the basis for this opinion?

12 A. I reviewed the 12 pooling criteria as outlined in APB 16 and concluded that UtiliCorp did  
13 not meet all of the criteria, thus, mandating that this transaction be accounted for as a  
14 purchase. In order for a transaction to be accounted for as a pooling, all 12 criteria must  
15 be satisfied. A matrix summarizing my review of the 12 pooling requirements and my  
16 assessment as to UtiliCorp's compliance is attached as Exhibit DJS-2.

17 Q. Why was the SJLP merger announced as a pooling-of-interest transaction and now is a  
18 purchase transaction?

19 A. On March 5, 1999, this merger was announced as a pooling of interests. This initial  
20 assessment was preliminary before a complete analysis was made from an accounting  
21 standpoint. After further review, it was determined that the issuance of employee options  
22 in November 1998 was an alteration of equity under APB 16, paragraph 47, and

1 disqualified this transaction to be accounted for under pooling of interests. As a result,  
2 the purchase method was required to be used.

3 Q. Specifically, how will the purchase method be applied to the proposed merger of UCU  
4 and SJLP?

5 A. The assets and liabilities of SJLP will be stated at Fair Value. As a result of the  
6 preliminary purchase price allocation, an intangible asset is established to reflect the  
7 value associated with serving SJL&P's service territory, as reflected in Exhibit DJS-3.  
8 This intangible asset was calculated as follows:

In millions, except per share amounts	December 31, 1998
Number of SJLP shares	8.2
Price per share	\$23.00
Consideration paid	\$188.6
SJLP book value	95.8
Intangible asset	\$92.8

9  
10 The number of shares of 8.2 million represents the common shares outstanding at  
11 December 31, 1998, as reflected in SJLP's 1998 annual report, plus converted stock  
12 options that are expected to vest. The price per share is the agreed upon amount  
13 UtiliCorp will pay for each SJLP share. The intangible asset arising from this acquisition  
14 of \$92.8 million is amortized on a straight line basis over 40 years. The SJLP book value  
15 is the amount shown in SJLP's 1998 annual report.

16 Q. Will the accounting for this transaction be affected by the proposed business  
17 combinations exposure draft by the financial accounting standards board (FASB)?

18 A. No. The exposure draft will only affect transactions that are initiated after the final  
19 standard is issued, expected sometime in 2000.

1 Q. What accounting policies and procedures have been established for the merged entity?

2 A. No determination has been made as to the accounting procedures and policies to be  
3 followed by the merged company. However, no changes in accounting policies are  
4 anticipated that would have a significant effect on utility revenues, jurisdictional cost of  
5 service, or rate base components.

6 Q. Are you sponsoring any additional schedules?

7 A. Yes. I am sponsoring Schedule DJS-3, which shows the pro forma financial statements  
8 of the merged company, as if the merger had been accomplished for the period presented.

9 Q. Have the estimated savings resulting from the merger been reflected in the pro forma  
10 financial statements?

11 A. No. Pro forma adjustments do not reflect the estimated savings, the costs to achieve such  
12 savings, or transaction costs. The pro forma statements of income and retained earnings  
13 reflect only historical information, showing how the companies would have looked had  
14 they been combined in prior periods, and the impact of the intangible asset discussed  
15 above.

16 Q. Does this conclude your prepared direct testimony?

17 A. Yes, it does.

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**APB Opinion No. 16**  
**Business Combinations**

**STATUS**

Issued: August 1970

Effective Date: For business combinations initiated after October 31, 1970

Affects: Supersedes prospectively ARB 43, Chapter 5, paragraph 10

Supersedes ARB 48

Supersedes ARB 51, paragraphs 7 and 8

Supersedes APB 6, paragraphs 12(c) and 22

Supersedes APB 10, paragraph 5 and footnote 6

Amends APB 11, paragraph 49

Affected by: Paragraph 6 superseded by FAS 71

Paragraph 87 amended by FAS 96 and FAS 109

Paragraph 88 amended by FAS 38, FAS 87, FAS 96, FAS 106, and FAS 109

Paragraph 88(a) amended by FAS 135

Paragraph 88(d) superseded by FAS 121

Paragraph 89 superseded by FAS 96 and FAS 109

Paragraph 96 amended by FAS 79

Paragraph 99 amended by FAS 10

Footnote 13 superseded by FAS 87

Other Interpretive Pronouncements: AIN-APB 16 Interpretations No. 1 through 39

FIN 4

FIN 9

FIN 21

FIN 25 Superseded by FAS 96 and FAS 109)

FTB 81-2 Superseded by FAS 96 and FAS 109)

FTB 85-5

Issues Discussed by FASB Emerging Issues Task Force (EITF)

Affects: No EITF Issues

Interpreted by: Paragraph 43 interpreted by EITF Issue No. 90-5

Paragraph 46(b) interpreted by EITF Issue No. 95-12

Paragraph 47(b) interpreted by EITF Issues No. 85-14, 86-10, 87-15, 87-16, 87-27, 88-26, 96-8 and 97-2

Paragraph 47(c) interpreted by EITF Issues No. 87-15, 87-27 and 97-9

Paragraph 47(d) interpreted by EITF Issues No. 88-27 and Topic No. D-19

Paragraphs 67, 68, and 70, interpreted by EITF Issue No. 90-13

Paragraph 72 interpreted by EITF Issues No. 88-16 and 95-3

Paragraphs 73 and 76 interpreted by EITF Issue No. 88-16

Paragraph 74 interpreted by EITF Issues No. 88-16 and 95-19

Paragraphs 77 through 79 interpreted by EITF Issues No. 97-8 and 97-15

Paragraph 80 interpreted by EITF Issues No. 95-8 and 97-15

Paragraphs 81 through 83 interpreted by EITF Issue No. 97-15



Paragraph 86 interpreted by EITF Issue No. 95-8

Paragraph 87 interpreted by EITF Issues No. 85-41, 87-11, 90-6, 90-12, 95-3, and 98-1

Paragraph 88 interpreted by EITF Issues No. 85-41, 88-19, 90-12, 95-3, and 98-1

Paragraph 88(h) interpreted by EITF Issue No. 85-45

Paragraph 94 interpreted by EITF Issue No. 95-19

Related Issues: EITF Issues No. 84-22, 84-39, 85-11, 85-46, 86-9, 87-21, 90-10, 91-5, 92-9, 93-2, 94-2, 95-7, 95-14, 95-21, 96-5, 96-7, 96-17, 96-23, 98-3 and 98-4 and Topics No. D-40 D-54 and D-59

## SUMMARY

### PROBLEM

1. A business combination occurs when a corporation and one or more incorporated or unincorporated businesses are brought together into one accounting entity. The single entity carries on the activities of the previously separate, independent enterprises.

2. Two methods of accounting for business combinations -- "purchase" and "pooling of interests" -- have been accepted in practice and supported in pronouncements of the Board and its predecessor, the Committee on Accounting Procedure. The accounting treatment of a combination may affect significantly the reported financial position and net income of the combined corporation for prior, current, and future periods.

3. The Director of Accounting Research of the American Institute of Certified Public Accountants has published two studies on accounting for business combinations and the related goodwill: Accounting Research Study No. 5, "A Critical Study of Accounting for Business Combinations", by Arthur R. Wyatt and Accounting Research Study No. 10, "Accounting for Goodwill", by George R. Catlett and Norman O. Olson.<sup>1</sup> The two studies describe the origin and development of the purchase and pooling of interests methods of accounting for business combinations. The studies also cite the supporting authoritative pronouncements and their influences on accounting practices and evaluate the effects of practices on financial reporting.

<sup>1</sup>Accounting research studies are not pronouncements of the Board or of the Institute but are published for the purpose of stimulating discussion on important accounting matters.

### SCOPE AND EFFECT OF OPINION

4. The Board has considered the conclusions and recommendations of Accounting Research Studies Nos. 5 and 10, the discussions of the need for and appropriateness of the two accepted methods of accounting for business combinations, and proposals for alternative accounting methods. It has also observed the present treatments of combinations in various forms and under differing conditions. The Board expresses in this Opinion its conclusions on accounting for business combinations.

5. This Opinion covers the combination of a corporation and one or more incorporated or unincorporated businesses; both incorporated and unincorporated enterprises are referred to in this Opinion as companies. The conclusions of this Opinion apply equally to business

combinations in which one or more companies become subsidiary corporations, one company transfers its net assets to another, and each company transfers its net assets to a newly formed corporation. The acquisition of some or all of the stock held by minority stockholders of a subsidiary is not a business combination, but paragraph 43 of this Opinion specifies the applicable method of accounting. The term business combination in this Opinion excludes a transfer by a corporation of its net assets to a newly formed substitute corporate entity chartered by the existing corporation and a transfer of net assets or exchange of shares between companies under common control (control is described in paragraph 2 of ARB No. 51), such as between a parent corporation and its subsidiary or between two subsidiary corporations of the same parent. This Opinion does not specifically discuss the combination of a corporation and one or more unincorporated businesses or of two or more unincorporated businesses, but its provisions should be applied as a general guide.

~~6. This Opinion applies to regulated companies in accordance with the provisions of the Addendum to APB Opinion No. 2, "Accounting for the Investment Credit", 1962~~

7. The conclusions of this Opinion modify previous views of the Board and its predecessor committee. This Opinion therefore supersedes the following Accounting Research Bulletins (ARB) and Opinions of the Accounting Principles Board (APB):

ARB No. 43, Chapter 5, "Intangible Assets", paragraph 10

ARB No. 48, "Business Combinations"

ARB No. 51, "Consolidated Financial Statements", paragraphs 7 and 8.

APB Opinion No. 6, "Status of Accounting Research Bulletins", paragraphs 12c and 22

APB Opinion No. 10, "Omnibus Opinion -- 1966", paragraph 5

Since this Opinion supersedes those existing pronouncements, paragraph 87 of this Opinion should be substituted for the reference to ARB No. 51 in paragraph 49 of APB Opinion No. 11.

## CONCLUSIONS

8. The Board concludes that the purchase method and the pooling of interests method are both acceptable in accounting for business combinations, although not as alternatives in accounting for the same business combination. A business combination which meets specified conditions requires accounting by the pooling of interests method. A new basis of accounting is not permitted for a combination that meets the specified conditions, and the assets and liabilities of the combining companies are combined at their recorded amounts. All other business combinations should be accounted for as an acquisition of one or more companies by a corporation. The cost to an acquiring corporation of an entire acquired company should be determined by the principles of accounting for the acquisition of an asset. That cost should then be allocated to the identifiable individual assets acquired and liabilities assumed based on their fair values; the unallocated cost should be recorded as goodwill.

## BACKGROUND

### PRESENT ACCOUNTING AND ITS DEVELOPMENT

### DEVELOPMENT OF TWO METHODS

9. Most business combinations before World War II were classified either as a "merger," the acquisition of one company by another, or as a "consolidation," the formation of a new corporation. Accounting for both types of combinations generally followed traditional principles for the acquisition of assets or issuance of shares of stock. The accounting adopted by some new corporations was viewed as a precedent for the combining of retained earnings and of amounts of net assets recorded by predecessor corporations as retained earnings and net assets of a new entity.

10. Emphasis shifted after World War II from the legal form of the combination to distinctions between "a continuance of the former ownership or a new ownership" (ARB No. 40, paragraph 1). New ownership was accounted for as a purchase; continuing ownership was accounted for as a pooling of interests. Carrying forward the stockholders' equity, including retained earnings, of the constituents became an integral part of the pooling of interests method. Significant differences between the purchase and pooling of interests methods accepted today are in the amounts ascribed to assets and liabilities at the time of combination and income reported for the combined enterprise.

#### PURCHASE METHOD<sup>2</sup>

<sup>2</sup>This Opinion refers to the "purchase method of accounting" for a business combination because the term is widely used and generally understood. However, the more inclusive terms "acquire" (to come into possession of) and "acquisition" are generally used to describe transactions rather than the more narrow term "purchase" (to acquire by the payment of money or its equivalent). The broader terms clearly encompass obtaining assets by issuing stock as well as by disbursing cash and thus avoid the confusion that results from describing a stock transaction as a "purchase." This Opinion does not describe a business combination accounted for by the pooling of interests method as an "acquisition" because the meaning of the word is inconsistent with the method of accounting.

11. The purchase method accounts for a business combination as the acquisition of one company by another. The acquiring corporation records at its cost the acquired assets less liabilities assumed. A difference between the cost of an acquired company and the sum of the fair values of tangible and identifiable intangible assets less liabilities is recorded as goodwill. The reported income of an acquiring corporation includes the operations of the acquired company after acquisition, based on the cost to the acquiring corporation.

#### POOLING OF INTERESTS METHOD<sup>2</sup>

12. The pooling of interests method accounts for a business combination as the uniting of the ownership interests of two or more companies by exchange of equity securities. No acquisition is recognized because the combination is accomplished without disbursing resources of the constituents. Ownership interests continue and the former bases of accounting are retained. The recorded assets and liabilities of the constituents are carried forward to the combined corporation at their recorded amounts. Income of the combined corporation includes income of the constituents for the entire fiscal period in which the combination occurs. The reported income of the constituents for prior periods is combined and restated as income of the combined corporation.

13. The original concept of pooling of interests as a fusion of equity interests was modified in practice as use of the method expanded.<sup>3</sup> The method was first applied in accounting for combinations of affiliated corporations and then extended to some combinations of unrelated corporate ownership interests of comparable size. The method was later accepted for most business combinations in which common stock was issued. New and complex securities have been issued in recent business combinations and some combination agreements provide for additional securities to be issued later depending on specified events or circumstances. Most of the resulting combinations are accounted for as poolings of interests. Some combinations effected by both disbursing cash and issuing securities are now accounted for as a "part purchase, part pooling."

<sup>3</sup>The origin, development, and application of the pooling of interests method of accounting are traced in Accounting Research Study No. 5 and summarized in Accounting Research Study No. 10.

14. Some accountants believe that the pooling of interests method is the only acceptable method for a combination which meets the requirements for pooling. Others interpret the existing pronouncements on accounting for business combinations to mean that a combination which meets the criteria for a pooling of interests may alternatively be accounted for as a purchase.

#### APPRAISAL OF ACCEPTED METHODS OF ACCOUNTING

15. The pooling of interests method of accounting is applied only to business combinations effected by an exchange of stock and not to those involving primarily cash, other assets, or liabilities. Applying the purchase method of accounting to business combinations effected by paying cash, distributing other assets, or incurring liabilities is not challenged. Thus, those business combinations effected primarily by an exchange of equity securities present a question of choice between the two accounting methods.

16. The significantly different results of applying the purchase and pooling of interests methods of accounting to a combination effected by an exchange of stock stem from distinct views of the nature of the transaction itself. Those who endorse the pooling of interests method believe that an exchange of stock to effect a business combination is in substance a transaction between the combining stockholder groups and does not involve the corporate entities. The transaction therefore neither requires nor justifies establishing a new basis of accountability for the assets of the combined corporation. Those who endorse the purchase method believe that the transaction is an issue of stock by a corporation for consideration received from those who become stockholders by the transaction. The consideration received is established by bargaining between independent parties, and the acquiring corporation accounts for the additional assets at their bargained -- that is, current -- values.

#### PURCHASE METHOD

17. The more important arguments expressing the advantages and disadvantages of the purchase method and some of the practical difficulties experienced in implementing it are summarized in paragraphs 18 to 26.

18. **AN ACQUISITION.** Those who favor the purchase method of accounting believe that one corporation acquires another company in almost every business combination. The acquisition of one company by another and the identities of the acquiring and acquired companies are usually obvious. Generally, one company in a business combination is clearly the dominant and continuing entity and one or more other companies cease to control their own assets and operations because control passes to the acquiring corporation.

19. **A BARGAINED TRANSACTION.** Proponents of purchase accounting hold that a business combination is a significant economic event which results from bargaining between independent parties. Each party bargains on the basis of his assessment of the current status and future prospects of each constituent as a separate enterprise and as a contributor to the proposed combined enterprise. The agreed terms of combination recognize primarily the bargained values and only secondarily the costs of assets and liabilities carried by the constituents. In fact, the recorded costs are not always known by the other bargaining party.

20. Accounting by the purchase method is essentially the same whether the business combination is effected by distributing assets, incurring liabilities, or issuing stock because issuing stock is considered an economic event as significant as distributing assets or incurring liabilities. A corporation must ascertain that the consideration it receives for stock issued is fair, just as it must ascertain that fair value is received for cash disbursed. Recipients of the stock similarly appraise the fairness of the transaction. Thus, a business combination is a bargained transaction regardless of the nature of the consideration.

21. **REPORTING ECONOMIC SUBSTANCE.** The purchase method adheres to traditional principles of accounting for the acquisition of assets. Those who support the purchase method of accounting for business combinations effected by issuing stock believe that an acquiring corporation accounts for the economic substance of the transaction by applying those principles and by recording:

- a. All assets and liabilities which comprise the bargained cost of an acquired company, not merely those items previously shown in the financial statements of an acquired company.
- b. The bargained costs of assets acquired less liabilities assumed, not the costs to a previous owner.
- c. The fair value of the consideration received for stock issued, not the equity shown in the financial statements of an acquired company.
- d. Retained earnings from its operations, not a fusion of its retained earnings and previous earnings of an acquired company.
- e. Expenses and net income after an acquisition computed on the bargained cost of acquired assets less assumed liabilities, not on the costs to a previous owner.

22. **DEFECTS ATTRIBUTED TO PURCHASE METHOD.** Applying the purchase method to business combinations effected primarily by issuing stock may entail difficulties in measuring the cost of an acquired company if neither the fair value of the consideration given nor the fair value of the property acquired is clearly evident. Measuring fair values of assets acquired is

complicated by the presence of intangible assets or other assets which do not have discernible market prices. Goodwill and other unidentifiable intangible assets are difficult to value directly, and measuring assets acquired for stock is easier if the fair value of the stock issued is determinable. The excess of the value of stock issued over the sum of the fair values of the tangible and identifiable intangible assets acquired less liabilities assumed indicates the value of acquired unidentified intangible assets (usually called goodwill).

23. However, the fair value of stock issued is not always objectively determinable. A market price may not be available for a newly issued security or for securities of a closely held corporation. Even an available quoted market price may not always be a reliable indicator of fair value of consideration received because the number of shares issued is relatively large, the market for the security is thin, the stock price is volatile, or other uncertainties influence the quoted price. Further, the determinable value of one security may not necessarily indicate the fair value of another similar, but not identical, security because their differences affect the value -- for example, the absence of registration or an agreement which restricts a holder's ability to sell a security may significantly affect its value.

24. Those who oppose applying the purchase method to some or most business combinations effected by stock also challenge the theoretical merits of the method. They contend that the goodwill acquired is stated only by coincidence at the value which would be determined by direct valuation. The weakness is attributed not to measurement difficulties (direct valuation of goodwill is assumed) but to the basis underlying an exchange of shares of stock. Bargaining in that type of transaction is normally based on the market prices of the equity securities. Market prices of the securities exchanged are more likely to be influenced by anticipated earning capacities of the companies than by evaluations of individual assets. The number of shares of stock issued in a business combination is thus influenced by values attributed to goodwill of the acquirer as well as goodwill of the acquired company. Since the terms are based on the market prices of both stocks exchanged, measuring the cost of an acquired company by the market price of the stock issued may result in recording acquired goodwill at more or less than its value determined directly.

25. A related argument is that the purchase method is improper accounting for a business combination in which a relatively large number of shares of stock is issued because it records the goodwill and fair values of only the acquired company. Critics of purchase accounting say that each group of stockholders of two publicly held and actively traded companies evaluates the other stock, and the exchange ratio for stock issued is often predicated on relative market values. The stockholders and management of each company evaluate the goodwill and fair values of the other. Purchase accounting is thus viewed as illogical because it records goodwill and values of only one side of the transaction. Those who support this view prefer that assets and liabilities of both companies be combined at existing recorded amounts, but if one side is to be stated at fair values, they believe that both sides should be recorded at fair values.

26. Criticism of the purchase method is directed not only to the theoretical and practical problems of measuring goodwill in combinations effected primarily by stock but also to accounting after the combination for goodwill recorded by the purchase method. Present accounting for goodwill, which often has an indeterminate useful life, is cited as an example of lack of uniformity because selecting among alternative methods of accounting is discretionary.

## POOLING OF INTERESTS METHOD

27. The more important arguments expressing the advantages and disadvantages of the pooling of interests method and some of the practical difficulties experienced in implementing it are summarized in paragraphs 28 to 41.

28. **VALIDITY OF THE CONCEPT.** Those who support the pooling of interests method believe that a business combination effected by issuing common stock is different from a purchase in that no corporate assets are disbursed to stockholders and the net assets of the issuing corporation are enlarged by the net assets of the corporation whose stockholders accept common stock of the combined corporation. There is no newly invested capital nor have owners withdrawn assets from the group since the stock of a corporation is not one of its assets. Accordingly, the net assets of the constituents remain intact but combined; the stockholder groups remain intact but combined. Aggregate income is not changed since the total resources are not changed. Consequently, the historical costs and earnings of the separate corporations are appropriately combined. In a business combination effected by exchanging stock, groups of stockholders combine their resources, talents, and risks to form a new entity to carry on in combination the previous businesses and to continue their earnings streams. The sharing of risks by the constituent stockholder groups is an important element in a business combination effected by exchanging stock. By pooling equity interests, each group continues to maintain risk elements of its former investment and they mutually exchange risks and benefits.

29. A pooling of interests transaction is regarded as in substance an arrangement among stockholder groups. The fractional interests in the common enterprise are reallocated -- risks are rearranged among the stockholder groups outside the corporate entity. A fundamental concept of entity accounting is that a corporation is separate and distinct from its stockholders. Elected managements represent the stockholders in bargaining to effect a combination, but the groups of stockholders usually decide whether the proposed terms are acceptable by voting to approve or disapprove a combination. Stockholders sometimes disapprove a combination proposed by management, and tender offers sometimes succeed despite the opposition of management.

30. Each stockholder group in a pooling of interests gives up its interests in assets formerly held but receives an interest in a portion of the assets formerly held in addition to an interest in the assets of the other. The clearest example of this type of combination is one in which both groups surrender their stock and receive in exchange stock of a new corporation. The fact that one of the corporations usually issues its stock in exchange for that of the other does not alter the substance of the transaction.

31. **CONSISTENCY WITH OTHER CONCEPTS.** Proponents of pooling of interests accounting point out that the pooling concept was developed within the boundaries of the historical-cost system and is compatible with it. Accounting by the pooling of interests method for business combinations arranged through the issuance of common stock is based on existing accounting concepts and is not an occasion for revising historical costs. Both constituents usually have elements of appreciation and of goodwill which are recognized and offset, at least to some extent, in setting a ratio of exchange of stock. The bargaining which

occurs usually reflects the relative earning capacities (measured by historical-cost accounts) of the constituents and frequently recognizes the relative market values of the two stocks, which in turn reflect earning capacity, goodwill, or other values. Accounting recognizes the bargaining by means of the new number of shares outstanding distributed in accordance with the bargained ratio, which has a direct effect on earnings per share after the combination.

32. **USEFULNESS OF THE CONCEPT.** Those who favor the pooling of interests method of accounting believe that the economic substance of a combination is best reflected by reporting operations up to the date of the exchange of stock based on the same historical-cost information used to develop the separate operating results of each constituent. Also, informative comparison with periods prior to the business combination is facilitated by maintaining historical costs as the basis of reporting combined operations subsequent to the combination.

33. **APPLICATION OF THE CONCEPT.** It has been observed that criteria for distinguishing between a pooling and a purchase have eroded over the years and that present interpretations of criteria have led to abuse. However, most accountants who support the pooling concept believe that criteria can be redefined satisfactorily to eliminate abuses. It is their view that the pooling of interests method of accounting for business combinations is justifiable on conceptual grounds and is a useful technique and therefore should be retained.

34. Some proponents of pooling of interests accounting support a restriction on the difference in size of combining interests because a significant sharing of risk cannot occur if one combining interest is minor or because a meaningful mutual exchange does not occur if the combination involves a relatively small number of shares. Most, however, believe that there is no conceptual basis for a size restriction and that establishing a size restriction would seriously impair pooling of interests accounting.

35. **DEFECTS ATTRIBUTED TO POOLING OF INTERESTS METHOD.** Those who oppose the pooling of interests method of accounting doubt that the method is supported by a concept. In their view it has become essentially a method of accounting for an acquisition of a company without recognizing the current costs of the assets, including goodwill, underlying the transaction. The concept of a pooling of interests was described in general terms in the past -- for example, as a continuity of equity interests or as a combination of two or more interests of comparable size. The descriptions tend to be contradictory. For example, accountants do not agree on whether or not relative size is part of the pooling of interests concept. Attempts to define the concept in terms of broad criteria for applying the method have also been unsuccessful.

36. Indeed, many opponents of the pooling of interests method of accounting believe that effective criteria cannot be found. The concept of a uniting or fusing of stockholder groups on which pooling of interests accounting is based implies a broad application of the method because every combination effected by issuing stock rather than by disbursing cash or incurring debt is potentially a pooling of interests unless the combination significantly changes the relative equity interests. However, so broad an application without effective criteria results in applying the pooling of interests method to numerous business combinations which are clearly in economic substance the acquisition of one company by another.



37. Some critics point out that the method was first applied to combining interests of comparable size and that pronouncements on business combinations have never sanctioned applying pooling of interests accounting to all or almost all business combinations effected by exchanging stock. All pronouncements have indicated that a large disparity in the size of the combining interests is evidence that one corporation is acquiring another.

38. Other criteria restricting application of pooling of interests accounting, such as those prohibiting future disposals of stock received and providing for continuity of management, were added to the size restriction. Those criteria have, however, tended to strengthen the view that one corporation acquires another because they are unilateral, that is, they are applied only to the stockholders and management of the "acquired" company.

39. The most serious defect attributed to pooling of interests accounting by those who oppose it is that it does not accurately reflect the economic substance of the business combination transaction. They believe that the method ignores the bargaining which results in the combination by accounting only for the amounts previously shown in accounts of the combining companies. The acquiring corporation does not record assets and values which usually influence the final terms of the combination agreement with consequent effects on subsequent balance sheets and income statements. The combined earnings streams, which are said to continue after a pooling of interests, can continue unchanged only if the cost of the assets producing those earnings is identical for the acquiring corporation and the acquired company. That coincidence rarely occurs because the bargaining is based on current values and not past costs.

40. Pooling of interests accounting is also challenged because the amount of assets acquired less liabilities assumed is recorded without regard to the number of shares of stock issued. The result does not reflect the presumption that a corporation issues stock only for value received and, in general, the greater the number of shares issued, the larger the consideration to be recorded.

41. Traditional principles of accounting for acquisitions of assets encompass all business combinations because every combination is effected by distributing assets, incurring liabilities, issuing stock, or some blend of the three. Those who oppose the pooling of interests method believe that a departure from the traditional principles is justified only if evidence shows that financial statements prepared according to other principles better reflect the economic significance of a combination. In their opinion, the characteristics of a business combination do not justify departing from traditional principles of accounting to accommodate the pooling of interests method.

## OPINION

### APPLICABILITY OF ACCOUNTING METHODS

42. The Board finds merit in both the purchase and pooling of interests methods of accounting for business combinations and accepts neither method to the exclusion of the other. The arguments in favor of the purchase method of accounting are more persuasive if cash or other assets are distributed or liabilities are incurred to effect a combination, but arguments in

favor of the pooling of interests method of accounting are more persuasive if voting common stock is issued to effect a combination of common stock interests. Therefore, the Board concludes that some business combinations should be accounted for by the purchase method and other combinations should be accounted for by the pooling of interests method.

43. The Board also concludes that the two methods are not alternatives in accounting for the same business combination. A single method should be applied to an entire combination; the practice now known as part-purchase, part-pooling is not acceptable. The acquisition after the effective date of this Opinion of some or all of the stock held by minority stockholders of a subsidiary -- whether acquired by the parent, the subsidiary itself, or another affiliate -- should be accounted for by the purchase method rather than by the pooling of interests method.

44. The Board believes that accounting for business combinations will be improved significantly by specifying the circumstances in which each method should be applied and the procedures which should be followed in applying each method. The distinctive conditions which require pooling of interests accounting are described in paragraphs 45 to 48, and combinations involving all of those conditions should be accounted for as described in paragraphs 50 to 65. All other business combinations should be treated as the acquisition of one company by another and accounted for by the purchase method as described in paragraphs 66 to 96.

#### CONDITIONS FOR POOLING OF INTERESTS METHOD

45. The pooling of interests method of accounting is intended to present as a single interest two or more common stockholder interests which were previously independent and the combined rights and risks represented by those interests. That method shows that stockholder groups neither withdraw nor invest assets but in effect exchange voting common stock in a ratio that determines their respective interests in the combined corporation. Some business combinations have those features. A business combination which meets ALL of the conditions specified and explained in paragraphs 46 to 48 should be accounted for by the pooling of interests method. The conditions are classified by (1) attributes of the combining companies, (2) manner of combining interests, and (3) absence of planned transactions.

46. COMBINING COMPANIES. Certain attributes of combining companies indicate that independent ownership interests are combined in their entirety to continue previously separate operations. Combining virtually all of existing common stock interests avoids combining only selected assets, operations, or ownership interests, any of which is more akin to disposing of and acquiring interests than to sharing risks and rights. It also avoids combining interests that are already related by substantial intercorporate investments.

The two conditions in this paragraph define essential attributes of combining companies.

a. Each of the combining companies is autonomous and has not been a subsidiary or division of another corporation within two years before the plan of combination is initiated.

A plan of combination is initiated on the earlier of (1) the date that the major terms of a plan, including the ratio of exchange of stock, are announced publicly or otherwise formally made

known to the stockholders of any one of the combining companies or (2) the date that stockholders of a combining company are notified in writing of an exchange offer. Therefore, a plan of combination is often initiated even though consummation is subject to the approval of stockholders and others.

A new company incorporated within the preceding two years meets this condition unless the company is successor to a part of a company or to a company that is otherwise not autonomous for this condition. A wholly owned subsidiary company which distributes voting common stock of its parent corporation to effect the combination is also considered an autonomous company provided the parent corporation would have met all conditions in paragraphs 46 to 48 had the parent corporation issued its stock directly to effect the combination.

Divestiture of assets to comply with an order of a governmental authority or judicial body results in an exception to the terms of this condition. Either a subsidiary divested under an order or a new company which acquires assets disposed of under an order is therefore autonomous for this condition.

b. Each of the combining companies is independent of the other combining companies.

This condition means that at the dates the plan of combination is initiated and consummated the combining companies hold as intercorporate investments no more than 10 percent in total of the outstanding voting common stock of any combining company.<sup>4</sup> For the percentage computation, intercorporate investments exclude voting common stock that is acquired after the date the plan of combination is initiated in exchange for the voting common stock issued to effect the combination. Investments of 10 percent or less are explained in paragraph 47-b.

<sup>4</sup>An exception for common stock held on October 31, 1970 is explained in paragraph 99.

47. COMBINING OF INTERESTS. The combining of existing voting common stock interests by the exchange of stock is the essence of a business combination accounted for by the pooling of interests method. The separate stockholder interests lose their identities and all share mutually in the combined risks and rights. Exchanges of common stock that alter relative voting rights, that result in preferential claims to distributions of profits or assets for some common stockholder groups, or that leave significant minority interests in combining companies are incompatible with the idea of mutual sharing. Similarly, acquisitions of common stock for assets or debt, reacquisitions of outstanding stock for the purpose of exchanging it in a business combination, and other transactions that reduce the common stock interests are contrary to the idea of combining existing stockholder interests. The seven conditions in this paragraph relate to the exchange to effect the combination.

a. The combination is effected in a single transaction or is completed in accordance with a specific plan within one year after the plan is initiated.

Altering the terms of exchange of stock constitutes initiation of a new plan of combination unless earlier exchanges of stock are adjusted to the new terms.<sup>5</sup>

<sup>5</sup>However, an adjustment after the effective date of this Opinion in the terms of exchange in a plan of combination initiated before and consummated after the effective date always constitutes initiation of a new plan. The one year specified in this condition is measured,

therefore, from the date of adjustment of terms and all other conditions are evaluated for the new plan. (Paragraph 97 describes the application of this Opinion to a plan of combination initiated before the effective date of this Opinion and consummated later in accordance with the terms of exchange prevailing on the effective date.)

A business combination completed in more than one year from the date the plan is initiated meets this condition if the delay is beyond the control of the combining companies because proceedings of a governmental authority or litigation prevents completing the combination.

b. A corporation offers and issues only common stock with rights identical to those of the majority of its outstanding voting common stock<sup>6</sup> in exchange for substantially all of the voting common stock interest of another company at the date the plan of combination is consummated.

<sup>6</sup>A class of stock that has voting control of a corporation is the majority class.

The plan to issue voting common stock in exchange for voting common stock may include, within limits, provisions to distribute cash or other consideration for fractional shares, for shares held by dissenting stockholders, and the like but may not include a pro rata distribution of cash or other consideration.

Substantially all of the voting common stock means 90 percent or more for this condition. That is, after the date the plan of combination is initiated, one of the combining companies (issuing corporation) issues voting common stock in exchange for at least 90 percent of the voting common stock of another combining company that is outstanding at the date the combination is consummated. The number of shares exchanged therefore excludes those shares of the combining company (1) acquired before and held by the issuing corporation and its subsidiaries at the date the plan of combination is initiated, regardless of the form of consideration,<sup>7</sup> (2) acquired by the issuing corporation and its subsidiaries after the date the plan of combination is initiated other than by issuing its own voting common stock, and (3) outstanding after the date the combination is consummated.

<sup>7</sup>An exception for common stock held on October 31, 1970 is explained in paragraph 99

AN INVESTMENT IN STOCK OF THE ISSUING CORPORATION held by a combining company may prevent a combination from meeting this condition even though the investment of the combining company is not more than 10 percent of the outstanding stock of the issuing corporation (paragraph 46-b). An investment in stock of the issuing corporation by another combining company is the same in a mutual exchange as an investment by the issuing corporation in stock of the other combining company -- the choice of issuing corporation is essentially a matter of convenience. An investment in stock of the issuing corporation must be expressed as an equivalent number of shares of the investor combining company because the measure of percent of shares exchanged is in terms of shares of stock of the investor company. An investment in 10 percent or less of the outstanding voting common stock of the issuing corporation affects the measure of percent of shares exchanged in the combination as follows:

The number of shares of voting common stock of the issuing corporation held by the investor combining company at the date the plan is initiated plus shares it acquired after that date are restated as an equivalent number of shares of voting common stock of the investor combining company based on the ratio of exchange of stock in the combination.

The equivalent number of shares is deducted from the number of shares of voting common stock of the investor combining company exchanged for voting common stock of the issuing corporation as part of the plan of combination.

The reduced number of shares is considered the number exchanged and is compared with 90 percent of the outstanding voting common stock of the investor combining company at the date the plan is consummated to determine whether the terms of condition 47-b are met.

Since the number of shares of voting common stock exchanged is reduced for an intercorporate investment in voting common stock of the issuing corporation, the terms of condition 47-b may not be met even though 90 percent or more of the outstanding common stock of a combining company is exchanged to effect a combination.

A COMBINATION OF MORE THAN TWO COMPANIES is evaluated essentially the same as a combination of two companies. The percent of voting common stock exchanged is measured separately for each combining company, and condition 47-b is met if 90 percent or more of the voting common stock of each of the several combining companies is exchanged for voting common stock of the issuing corporation. The number of shares exchanged for stock of the issuing corporation includes only shares exchanged by stockholders other than the several combining companies themselves. Thus, intercorporate investments in combining companies are included in the number of shares of stock outstanding but are excluded from the number of shares of stock exchanged to effect the combination.

A NEW CORPORATION FORMED TO ISSUE ITS STOCK to effect the combination of two or more companies meets condition 47-b if (1) the number of shares of each company exchanged to effect the combination is not less than 90 percent of its voting common stock outstanding at the date the combination is consummated and (2) condition 47-b would have been met had any one of the combining companies issued its stock to effect the combination on essentially the same basis.

CONDITION 47-B RELATES TO ISSUING COMMON STOCK FOR THE COMMON STOCK INTERESTS IN ANOTHER COMPANY. Hence, a corporation issuing stock to effect the combination may assume the debt securities of the other company or may exchange substantially identical securities or voting common stock for other outstanding equity and debt securities of the other combining company. An issuing corporation may also distribute cash to holders of debt and equity securities that either are callable or redeemable and may retire those securities. However, the issuing corporation may exchange only voting common stock for outstanding equity and debt securities of the other combining company that have been issued in exchange for voting common stock of that company during a period beginning two years preceding the date the combination is initiated.

A TRANSFER OF THE NET ASSETS OF A COMBINING COMPANY to effect a business combination satisfies condition 47-b provided all net assets of the company at the date the plan is consummated are transferred in exchange for stock of the issuing corporation. However, the combining company may retain temporarily cash, receivables, or marketable securities to settle liabilities, contingencies, or items in dispute if the plan provides that the assets remaining after settlement are to be transferred to the corporation issuing the stock to effect the combination. Only voting common stock may be issued to effect the combination

unless both voting common stock and other stock of the other combining company are outstanding at the date the plan is consummated. The combination may then be effected by issuing all voting common stock or by issuing voting common and other stock in the same proportions as the outstanding voting common and other stock of the other combining company. An investment in 10 percent or less of the outstanding voting common stock of a combining company held by another combining company requires special computations to evaluate condition 47-b. The computations and comparisons are in terms of the voting common stock of the issuing corporation and involve:

**STOCK ISSUED FOR COMMON STOCK INTEREST.** The total number of shares of voting common stock issued for all of the assets<sup>8</sup> is divided between those applicable to outstanding voting common stock and those applicable to other outstanding stock, if any, of the combining company which transfers assets (transferor company).

<sup>8</sup>Including (for this computation) stock of the issuing corporation held by the transferor combining company.

**REDUCTION FOR INTERCORPORATE INVESTMENTS.** The number of issued shares of voting common stock applicable to the voting common stock interests of the transferor combining company is reduced by the sum of (1) the number of shares of voting common stock of the issuing corporation held by the transferor combining company at the date the plan of combination is initiated plus shares it acquired after that date and (2) the number of shares of voting common stock of the transferor combining company held by the issuing corporation at the date the plan of combination is initiated plus shares it acquired after that date. The shares of the transferor combining company are restated as the equivalent number of shares of voting common stock of the issuing corporation for this purpose. Restatement is based on the ratio of the number of shares of voting common stock of the transferor combining company which are outstanding at the date the plan is consummated to the number of issued shares of voting common stock applicable to the voting common stock interests.

**COMPARISON WITH 90 PERCENT.** The reduced number of shares of stock issued is compared with 90 percent of the issued number of shares of voting common stock applicable to voting common stock interests to determine if the transfer of assets meets the terms of condition 47-b.

c. None of the combining companies changes the equity interest of the voting common stock in contemplation of effecting the combination either within two years before the plan of combination is initiated or between the dates the combination is initiated and consummated; changes in contemplation of effecting the combination may include distributions to stockholders and additional issuances, exchanges, and retirements of securities.

Distributions to stockholders which are no greater than normal dividends are not changes for this condition. Normality of dividends is determined in relation to earnings during the period and to the previous dividend policy and record. Dividend distributions on stock of a combining company that are equivalent to normal dividends on the stock to be issued in exchange in the combination are considered normal for this condition.

d. Each of the combining companies reacquires shares of voting common stock only for purposes other than business combinations, and no company reacquires more than a normal number of shares between the dates the plan of combination is initiated and consummated.

Treasury stock acquired for purposes other than business combinations includes shares for stock option and compensation plans and other recurring distributions provided a systematic pattern of reacquisitions is established at least two years before the plan of combination is initiated. A systematic pattern of reacquisitions may be established for less than two years if it coincides with the adoption of a new stock option or compensation plan. The normal number of shares of voting common stock reacquired is determined by the pattern of reacquisitions of stock before the plan of combination is initiated.

Acquisitions by other combining companies of voting common stock of the issuing corporation after the date the plan of combination is initiated are essentially the same as if the issuing corporation reacquired its own common stock.

e. The ratio of the interest of an individual common stockholder to those of other common stockholders in a combining company remains the same as a result of the exchange of stock to effect the combination.

This condition means that each individual common stockholder who exchanges his stock receives a voting common stock interest exactly in proportion to his relative voting common stock interest before the combination is effected. Thus no common stockholder is denied or surrenders his potential share of a voting common stock interest in a combined corporation.

f. The voting rights to which the common stock ownership interests in the resulting combined corporation are entitled are exercisable by the stockholders; the stockholders are neither deprived of nor restricted in exercising those rights for a period.

This condition is not met, for example, if shares of common stock issued to effect the combination are transferred to a voting trust.

g. The combination is resolved at the date the plan is consummated and no provisions of the plan relating to the issue of securities or other consideration are pending.

This condition means that (1) the combined corporation does not agree to contingently issue additional shares of stock or distribute other consideration at a later date to the former stockholders of a combining company or (2) the combined corporation does not issue or distribute to an escrow agent common stock or other consideration which is to be either transferred to common stockholders or returned to the corporation at the time the contingency is resolved.

An agreement may provide, however, that the number of shares of common stock issued to effect the combination may be revised for the later settlement of a contingency at a different amount than that recorded by a combining company.

48. ABSENCE OF PLANNED TRANSACTIONS. Some transactions after a combination is consummated are inconsistent with the combining of entire existing interests of common stockholders. Including those transactions in the negotiations and terms of the combination, either explicitly or by intent, counteracts the effect of combining stockholder interests. The three conditions in this paragraph relate to certain future transactions.

- a. The combined corporation does not agree directly or indirectly to retire or reacquire all or part of the common stock issued to effect the combination.
- b. The combined corporation does not enter into other financial arrangements for the benefit of the former stockholders of a combining company, such as a guaranty of loans secured by stock issued in the combination, which in effect negates the exchange of equity securities.
- c. The combined corporation does not intend or plan to dispose of a significant part of the assets of the combining companies within two years after the combination other than disposals in the ordinary course of business of the formerly separate companies and to eliminate duplicate facilities or excess capacity.

#### SUBSIDIARY CORPORATION

49. Dissolution of a combining company is not a condition for applying the pooling of interests method of accounting for a business combination. One or more combining companies may be subsidiaries of the issuing corporation after the combination is consummated if the other conditions are met.

#### APPLICATION OF POOLING OF INTERESTS METHOD

50. A business combination which meets all of the conditions in paragraphs 45 to 48 should be accounted for by the pooling of interests method. Appropriate procedures are described in paragraphs 51 to 65.

#### ASSETS AND LIABILITIES COMBINED

51. The recorded assets and liabilities of the separate companies generally become the recorded assets and liabilities of the combined corporation. The combined corporation therefore recognizes those assets and liabilities recorded in conformity with generally accepted accounting principles by the separate companies at the date the combination is consummated.

52. The combined corporation records the historical cost based amounts of the assets and liabilities of the separate companies because the existing basis of accounting continues. However, the separate companies may have recorded assets and liabilities under differing methods of accounting and the amounts may be adjusted to the same basis of accounting if the change would otherwise have been appropriate for the separate company. A change in accounting method to conform the individual methods should be applied retroactively, and financial statements presented for prior periods should be restated.

#### STOCKHOLDERS' EQUITY COMBINED

53. The stockholders' equities of the separate companies are also combined as a part of the pooling of interests method of accounting. The combined corporation records as capital the capital stock and capital in excess of par or stated value of outstanding stock of the separate companies. Similarly, retained earnings or deficits of the separate companies are combined



and recognized as retained earnings of the combined corporation (paragraph 56). The amount of outstanding shares of stock of the combined corporation at par or stated value may exceed the total amount of capital stock of the separate combining companies; the excess should be deducted first from the combined other contributed capital and then from the combined retained earnings. The combined retained earnings could be misleading if shortly before or as a part of the combination transaction one or more of the combining companies adjusted the elements of stockholders' equity to eliminate a deficit; therefore, the elements of equity before the adjustment should be combined.

54. A corporation which effects a combination accounted for by the pooling of interests method by distributing stock previously acquired as treasury stock (paragraph 47-d) should first account for those shares of stock as though retired. The issuance of the shares for the common stock interests of the combining company is then accounted for the same as the issuance of previously unissued shares.

55. Accounting for common stock of one of the combining companies which is held by another combining company at the date a combination is consummated depends on whether the stock is the same as that which is issued to effect the combination or is the same as the stock which is exchanged in the combination. An investment of a combining company in the common stock of the issuing corporation is in effect returned to the resulting combined corporation in the combination. The combined corporation should account for the investment as treasury stock. In contrast, an investment in the common stock of other combining companies (not the one issuing stock in the combination) is an investment in stock that is exchanged in the combination for the common stock issued. The stock in that type of intercorporate investment is in effect eliminated in the combination. The combined corporation should account for that investment as stock retired as part of the combination.

## REPORTING COMBINED OPERATIONS

56. A corporation which applies the pooling of interests method of accounting to a combination should report results of operations for the period in which the combination occurs as though the companies had been combined as of the beginning of the period. Results of operations for that period thus comprise those of the separate companies combined from the beginning of the period to the date the combination is consummated and those of the combined operations from that date to the end of the period. Eliminating the effects of intercompany transactions from operations before the date of combination reports operations before and after the date of combination on substantially the same basis. The effects of intercompany transactions on current assets, current liabilities, revenue, and cost of sales for periods presented and on retained earnings at the beginning of the periods presented should be eliminated to the extent possible. The nature of and effects on earnings per share of nonrecurring intercompany transactions involving long-term assets and liabilities need not be eliminated but should be disclosed. A combined corporation should disclose in notes to financial statements the revenue, extraordinary items, and net income of each of the separate companies from the beginning of the period to the date the combination is consummated (paragraph 64-d). The information relating to the separate companies may be as of the end of the interim period nearest the date that the combination is consummated.

57. Similarly, balance sheets and other financial information of the separate companies as of the beginning of the period should be presented as though the companies had been combined at that date. Financial statements and financial information of the separate companies presented for prior years should also be restated on a combined basis to furnish comparative information. All restated financial statements and financial summaries should indicate clearly that financial data of the previously separate companies are combined.

#### EXPENSES RELATED TO COMBINATION

58. The pooling of interests method records neither the acquiring of assets nor the obtaining of capital. Therefore, costs incurred to effect a combination accounted for by that method and to integrate the continuing operations are expenses of the combined corporation rather than additions to assets or direct reductions of stockholders' equity. Accordingly, all expenses related to effecting a business combination accounted for by the pooling of interests method should be deducted in determining the net income of the resulting combined corporation for the period in which the expenses are incurred. Those expenses include, for example, registration fees, costs of furnishing information to stockholders, fees of finders and consultants, salaries and other expenses related to services of employees, and costs and losses of combining operations of the previously separate companies and instituting efficiencies.

#### DISPOSITION OF ASSETS AFTER COMBINATION

59. A combined corporation may dispose of those assets of the separate companies which are duplicate facilities or excess capacity in the combined operations. Losses or estimated losses on disposal of specifically identified duplicate or excess facilities should be deducted in determining the net income of the resulting combined corporation. However, a loss estimated and recorded while a facility remains in service should not include the portion of the cost that is properly allocable to anticipated future service of the facility.

60. Profit or loss on other dispositions of assets of the previously separate companies may require special disclosure unless the disposals are part of customary business activities of the combined corporation. Specific treatment of a profit or loss on those dispositions is warranted because the pooling of interests method of accounting would have been inappropriate (paragraph 48-c) if the combined corporation were committed or planned to dispose of a significant part of the assets of one of the combining companies. The Board concludes that a combined corporation should disclose separately a profit or loss resulting from the disposal of a significant part of the assets or a separable segment of the previously separate companies, provided

the profit or loss is material in relation to the net income of the combined corporation, and the disposition is within two years after the combination is consummated.

The disclosed profit or loss, less applicable income tax effect, should be classified as an extraordinary item.

#### DATE OF RECORDING COMBINATION

61. A business combination accounted for by the pooling of interests method should be recorded as of the date the combination is consummated. Therefore, even though a business

combination is consummated before one or more of the combining companies first issues its financial statements as of an earlier date, the financial statements issued should be those of the combining company and not those of the resulting combined corporation. A combining company should, however, disclose as supplemental information, in notes to financial statements or otherwise, the substance of a combination consummated before financial statements are issued and the effects of the combination on reported financial position and results of operations (paragraph 65). Comparative financial statements presented in reports of the resulting combined corporation after a combination is consummated should combine earlier financial statements of the separate companies.

62. A corporation may be reasonably assured that a business combination which has been initiated but not consummated as of the date of financial statements will meet the conditions requiring the pooling of interests method of accounting. The corporation should record as an investment common stock of the other combining company acquired before the statement date. Common stock acquired by disbursing cash or other assets or by incurring liabilities should be recorded at cost. Stock acquired in exchange for common stock of the issuing corporation should, however, be recorded at the proportionate share of underlying net assets at the date acquired as recorded by the other company. Until the pooling of interests method of accounting for the combination is known to be appropriate, the investment and net income of the investor corporation should include the proportionate share of earnings or losses of the other company after the date of acquisition of the stock. The investor corporation should also disclose results of operations for all prior periods presented as well as the entire current period as they will be reported if the combination is later accounted for by the pooling of interests method. After the combination is consummated and the applicable method of accounting is known, financial statements issued previously should be restated as necessary to include the other combining company.

#### DISCLOSURE OF A COMBINATION

63. A combined corporation should disclose in its financial statements that a combination which is accounted for by the pooling of interests method has occurred during the period. The basis of current presentation and restatements of prior periods may be disclosed in the financial statements by captions or by references to notes.

64. Notes to financial statements of a combined corporation should disclose the following for the period in which a business combination occurs and is accounted for by the pooling of interests method.

- a. Name and brief description of the companies combined, except a corporation whose name is carried forward to the combined corporation.
- b. Method of accounting for the combination -- that is, by the pooling of interests method.
- c. Description and number of shares of stock issued in the business combination.
- d. Details of the results of operations of the previously separate companies for the period before the combination is consummated that are included in the current combined net income (paragraph 56). The details should include revenue, extraordinary items, net income, other

changes in stockholders' equity, and amount of and manner of accounting for intercompany transactions.

e. Descriptions of the nature of adjustments of net assets of the combining companies to adopt the same accounting practices and of the effects of the changes on net income reported previously by the separate companies and now presented in comparative financial statements (paragraph 52).

f. Details of an increase or decrease in retained earnings from changing the fiscal year of a combining company. The details should include at least revenue, expenses, extraordinary items, net income, and other changes in stockholders' equity for the period excluded from the reported results of operations.

g. Reconciliations of amounts of revenue and earnings previously reported by the corporation that issues the stock to effect the combination with the combined amounts currently presented in financial statements and summaries. A new corporation formed to effect a combination may instead disclose the earnings of the separate companies which comprise combined earnings for prior periods.

The information disclosed in notes to financial statements should also be furnished on a pro forma basis in information on a proposed business combination which is given to stockholders of combining companies.

65. Notes to the financial statements should disclose details of the effects of a business combination consummated before the financial statements are issued but which is either incomplete as of the date of the financial statements or initiated after that date (paragraph 61). The details should include revenue, net income, earnings per share, and the effects of anticipated changes in accounting methods as if the combination had been consummated at the date of the financial statements (paragraph 52).

## APPLICATION OF PURCHASE METHOD

### PRINCIPLES OF HISTORICAL-COST ACCOUNTING

66. Accounting for a business combination by the purchase method follows principles normally applicable under historical-cost accounting to recording acquisitions of assets and issuances of stock and to accounting for assets and liabilities after acquisition.

67. ACQUIRING ASSETS. The general principles to apply the historical-cost basis of accounting to an acquisition of an asset depend on the nature of the transaction:

a. An asset acquired by exchanging cash or other assets is recorded at cost -- that is, at the amount of cash disbursed or the fair value of other assets distributed.

b. An asset acquired by incurring liabilities is recorded at cost -- that is, at the present value of the amounts to be paid.

c. An asset acquired by issuing shares of stock of the acquiring corporation is recorded at the fair value of the asset<sup>9</sup> -- that is, shares of stock issued are recorded at the fair value of the consideration received for the stock.

<sup>9</sup>An asset acquired may be an entire entity which may have intangible assets, including goodwill.

The general principles must be supplemented to apply them in certain transactions. For example, the fair value of an asset received for stock issued may not be reliably determinable, or the fair value of an asset acquired in an exchange may be more reliably determinable than the fair value of a noncash asset given up. Restraints on measurement have led to the practical rule that assets acquired for other than cash, including shares of stock issued, should be stated at "cost" when they are acquired and "cost" may be determined either by the fair value of the consideration given or by the fair value of the property acquired, whichever is the more clearly evident."<sup>10</sup> "Cost" in accounting often means the amount at which an entity records an asset at the date it is acquired whatever its manner of acquisition, and that "cost" forms the basis for historical-cost accounting.

<sup>10</sup>ARB No. 24; the substance was retained in slightly different words in Chapter 5 of ARB No. 43 and ARB No. 48.

68. **ALLOCATING COST.** Acquiring assets in groups requires not only ascertaining the cost of the assets as a group but also allocating the cost to the individual assets which comprise the group. The cost of a group is determined by the principles described in paragraph 67. A portion of the total cost is then assigned to each individual asset acquired on the basis of its fair value. A difference between the sum of the assigned costs of the tangible and identifiable intangible assets acquired less liabilities assumed and the cost of the group is evidence of unspecified intangible values.

69. **ACCOUNTING AFTER ACQUISITION.** The nature of an asset and not the manner of its acquisition determines an acquirer's subsequent accounting for the cost of that asset. The basis for measuring the cost of an asset -- whether amount of cash paid, fair value of an asset received or given up, amount of a liability incurred, or fair value of stock issued -- has no effect on the subsequent accounting for that cost, which is retained as an asset, depreciated, amortized, or otherwise matched with revenue.

## ACQUIRING CORPORATION

70. A corporation which distributes cash or other assets or incurs liabilities to obtain the assets or stock of another company is clearly the acquirer. The identities of the acquirer and the acquired company are usually evident in a business combination effected by the issue of stock. The acquiring corporation normally issues the stock and commonly is the larger company. The acquired company may, however, survive as the corporate entity, and the nature of the negotiations sometimes clearly indicates that a smaller corporation acquires a larger company. The Board concludes that presumptive evidence of the acquiring corporation in combinations effected by an exchange of stock is obtained by identifying the former common stockholder interests of a combining company which either retain or receive the larger portion of the voting rights in the combined corporation. That corporation should be treated as the acquirer unless other evidence clearly indicates that another corporation is the

acquirer. For example, a substantial investment of one company in common stock of another before the combination may be evidence that the investor is the acquiring corporation.

71. If a new corporation is formed to issue stock to effect a business combination to be accounted for by the purchase method, one of the existing combining companies should be considered the acquirer on the basis of the evidence available.

#### DETERMINING COST OF AN ACQUIRED COMPANY

72. The same accounting principles apply to determining the cost of assets acquired individually, those acquired in a group, and those acquired in a business combination. A cash payment by a corporation measures the cost of acquired assets less liabilities assumed. Similarly, the fair values of other assets distributed, such as marketable securities or properties, and the fair value of liabilities incurred by an acquiring corporation measure the cost of an acquired company. The present value of a debt security represents the fair value of the liability, and a premium or discount should be recorded for a debt security issued with an interest rate fixed materially above or below the effective rate or current yield for an otherwise comparable security.

73. The distinctive attributes of preferred stocks make some issues similar to a debt security while others possess common stock characteristics, with many gradations between the extremes. Determining cost of an acquired company may be affected by those characteristics. For example, the fair value of a nonvoting, nonconvertible preferred stock which lacks characteristics of common stock may be determined by comparing the specified dividend and redemption terms with comparable securities and by assessing market factors. Thus although the principle of recording the fair value of consideration received for stock issued applies to all equity securities, senior as well as common stock, the cost of a company acquired by issuing senior equity securities may be determined in practice on the same basis as for debt securities.

74. The fair value of securities traded in the market is normally more clearly evident than the fair value of an acquired company (paragraph 67). Thus, the quoted market price of an equity security issued to effect a business combination may usually be used to approximate the fair value of an acquired company after recognizing possible effects of price fluctuations, quantities traded, issue costs, and the like (paragraph 23). The market price for a reasonable period before and after the date the terms of the acquisition are agreed to and announced should be considered in determining the fair value of securities issued.

75. If the quoted market price is not the fair value of stock, either preferred or common, the consideration received should be estimated even though measuring directly the fair values of assets received is difficult. Both the consideration received, including goodwill, and the extent of the adjustment of the quoted market price of the stock issued should be weighed to determine the amount to be recorded. All aspects of the acquisition, including the negotiations, should be studied, and independent appraisals may be used as an aid in determining the fair value of securities issued. Consideration other than stock distributed to effect an acquisition may provide evidence of the total fair value received.

76. COSTS OF ACQUISITION. The cost of a company acquired in a business combination accounted for by the purchase method includes the direct costs of acquisition. Costs of registering and issuing equity securities are a reduction of the otherwise determinable fair value of the securities. However, indirect and general expenses related to acquisitions are deducted as incurred in determining net income.

#### CONTINGENT CONSIDERATION

77. A business combination agreement may provide for the issuance of additional shares of a security or the transfer of cash or other consideration contingent on specified events or transactions in the future. Some agreements provide that a portion of the consideration be placed in escrow to be distributed or to be returned to the transferor when specified events occur. Either debt or equity securities may be placed in escrow, and amounts equal to interest or dividends on the securities during the contingency period may be paid to the escrow agent or to the potential security holder.

78. The Board concludes that cash and other assets distributed and securities issued unconditionally and amounts of contingent consideration which are determinable at the date of acquisition should be included in determining the cost of an acquired company and recorded at that date. Consideration which is issued or issuable at the expiration of the contingency period or which is held in escrow pending the outcome of the contingency should be disclosed but not recorded as a liability or shown as outstanding securities unless the outcome of the contingency is determinable beyond reasonable doubt.

79. Contingent consideration should usually be recorded when the contingency is resolved and consideration is issued or becomes issuable. In general, the issue of additional securities or distribution of other consideration at resolution of contingencies based on earnings should result in an additional element of cost of an acquired company. In contrast, the issue of additional securities or distribution of other consideration at resolution of contingencies based on security prices should not change the recorded cost of an acquired company.

80. CONTINGENCY BASED ON EARNINGS. Additional consideration may be contingent on maintaining or achieving specified earnings levels in future periods. When the contingency is resolved and additional consideration is distributable, the acquiring corporation should record the current fair value of the consideration issued or issuable as additional cost of the acquired company. The additional costs of affected assets, usually goodwill, should be amortized over the remaining life of the asset.

81. CONTINGENCY BASED ON SECURITY PRICES. Additional consideration may be contingent on the market price of a specified security issued to effect a business combination. Unless the price of the security at least equals the specified amount on a specified date or dates, the acquiring corporation is required to issue additional equity or debt securities or transfer cash or other assets sufficient to make the current value of the total consideration equal to the specified amount. The securities issued unconditionally at the date the combination is consummated should be recorded at that date at the specified amount.

82. The cost of an acquired company recorded at the date of acquisition represents the entire payment, including contingent consideration. Therefore, the issuance of additional securities

or distribution of other consideration does not affect the cost of the acquired company, regardless of whether the amount specified is a security price to be maintained or a higher security price to be achieved. On a later date when the contingency is resolved and additional consideration is distributable, the acquiring corporation should record the current fair value of the additional consideration issued or issuable. However, the amount previously recorded for securities issued at the date of acquisition should simultaneously be reduced to the lower current value of those securities. Reducing the value of debt securities previously issued to their later fair value results in recording a discount on debt securities. The discount should be amortized from the date the additional securities are issued.

83. Accounting for contingent consideration based on conditions other than those described should be inferred from the procedures outlined. For example, if the consideration contingently issuable depends on both future earnings and future security prices, additional cost of the acquired company should be recorded for the additional consideration contingent on earnings, and previously recorded consideration should be reduced to current value of the consideration contingent on security prices. Similarly, if the consideration contingently issuable depends on later settlement of a contingency, an increase in the cost of acquired assets, if any, should be amortized over the remaining life of the assets.

84. INTEREST OR DIVIDENDS DURING CONTINGENCY PERIOD. Amounts paid to an escrow agent representing interest and dividends on securities held in escrow should be accounted for according to the accounting for the securities. That is, until the disposition of the securities in escrow is resolved, payments to the escrow agent should not be recorded as interest expense or dividend distributions. An amount equal to interest and dividends later distributed by the escrow agent to the former stockholders should be added to the cost of the acquired assets at the date distributed and amortized over the remaining life of the assets.

85. TAX EFFECT OF IMPUTED INTEREST. A tax reduction resulting from imputed interest on contingently issuable stock reduces the fair value recorded for contingent consideration based on earnings and increases additional capital recorded for contingent consideration based on security prices.

86. COMPENSATION IN CONTINGENT AGREEMENTS. The substance of some agreements for contingent consideration is to provide compensation for services or use of property or profit sharing, and the additional consideration given should be accounted for as expenses of the appropriate periods.

#### RECORDING ASSETS ACQUIRED AND LIABILITIES ASSUMED

87. An acquiring corporation should allocate the cost of an acquired company to the assets acquired and liabilities assumed. Allocation should follow the principles described in paragraph 68.

First, all identifiable assets acquired, either individually or by type, and liabilities assumed in a business combination, whether or not shown in the financial statements of the acquired company, should be assigned a portion of the cost of the acquired company, normally equal to their fair values at date of acquisition.

Second, the excess of the cost of the acquired company over the sum of the amounts assigned to identifiable assets acquired less liabilities assumed should be recorded as



goodwill. The sum of the market or appraisal values of identifiable assets acquired less liabilities assumed may sometimes exceed the cost of the acquired company. If so, the values otherwise assignable to noncurrent assets acquired (except long-term investments in marketable securities) should be reduced by a proportionate part of the excess to determine the assigned values. A deferred credit for an excess of assigned value of identifiable assets over cost of an acquired company (sometimes called "negative goodwill") should not be recorded unless those assets are reduced to zero value.

Independent appraisals may be used as an aid in determining the fair values of some assets and liabilities. Subsequent sales of assets may also provide evidence of values. ~~The effect of taxes may be a factor in assigning amounts to identifiable assets and liabilities (paragraph 89. [This paragraph has been amended, deleted, or superseded in part, or in its entirety, as indicated in the Status section of this document.]~~

88. General guides for assigning amounts to the individual assets acquired and liabilities assumed, except goodwill, are:

- a. Marketable securities at current ~~net-realizable values.~~ [This paragraph has been amended, deleted, or superseded in part, or in its entirety, as indicated in the Status section of this document.]
- b. Receivables at present values of amounts to be received determined at appropriate current interest rates, less allowances for uncollectibility and collection costs, if necessary.

c. Inventories:

- (1) Finished goods and merchandise at estimated selling prices less the sum of (a) costs of disposal and (b) a reasonable profit allowance for the selling effort of the acquiring corporation.
- (2) Work in process at estimated selling prices of finished goods less the sum of (a) costs to complete, (b) costs of disposal, and (c) a reasonable profit allowance for the completing and selling effort of the acquiring corporation based on profit for similar finished goods.
- (3) Raw materials at current replacement costs.

~~d. Plant and equipment: (1) to be used, at current replacement costs for similar capacity<sup>11</sup> unless the expected future use of the assets indicates a lower value to the acquirer, (2) to be sold or held for later sale rather than used, at current net realizable value, and (3) to be used temporarily, at current net realizable value recognizing future depreciation for the expected period of use. [This paragraph has been amended, deleted, or superseded in part, or in its entirety, as indicated in the Status section of this document.]~~

<sup>11</sup>Replacement cost may be determined directly if a used asset market exists for the assets acquired. Otherwise, the replacement cost should be approximated from replacement cost new less estimated accumulated depreciation.

- e. Intangible assets which can be identified and named, including contracts, patents, franchises, customer and supplier lists, and favorable leases, at appraised values.<sup>12</sup>

<sup>12</sup> Fair values should be ascribed to specific assets; identifiable assets should not be included in goodwill.

f. Other assets, including land, natural resources, and nonmarketable securities, at appraised values.

g. Accounts and notes payable, long-term debt, and other claims payable at present values of amounts to be paid determined at appropriate current interest rates.

h. Liabilities and accruals -- for example, ~~accruals for pension cost,~~<sup>13</sup> warranties, vacation pay, deferred compensation -- at present values of amounts to be paid determined at appropriate current interest rates. **[This paragraph has been amended, deleted, or superseded in part, or in its entirety, as indicated in the Status section of this document.]**

~~<sup>13</sup> An accrual for pension cost should be the greater of (1) accrued pension cost computed in conformity with the accounting policies of the acquiring corporation for one or more of its pension plans or (2) the excess, if any, of the actuarially computed value of vested benefits over the amount of the pension fund. [This paragraph has been amended, deleted, or superseded in part, or in its entirety, as indicated in the Status section of this document.]~~

i. Other liabilities and commitments, including unfavorable leases, contracts, and commitments and plant closing expense incident to the acquisition, at present values of amounts to be paid determined at appropriate current interest rates.

An acquiring corporation should record periodically as a part of income the accrual of interest on assets and liabilities recorded at acquisition date at the discounted values of amounts to be received or paid. An acquiring corporation should not record as a separate asset the goodwill previously recorded by an acquired company and should not record deferred income taxes recorded by an acquired company before its acquisition. ~~An acquiring corporation should reduce the acquired goodwill retroactively for the realized tax benefits of loss carryforwards of an acquired company not previously recorded by the acquiring corporation. [This paragraph has been amended, deleted, or superseded in part, or in its entirety, as indicated in the Status section of this document.]~~

~~89. The market or appraisal values of specific assets and liabilities determined in paragraph 88 may differ from the income tax bases of those items. Estimated future tax effects of differences between the tax bases and amounts otherwise appropriate to assign to an asset or a liability are one of the variables in estimating fair value. Amounts assigned to identifiable assets and liabilities should, for example, recognize that the fair value of an asset to an acquirer is less than its market or appraisal value if all or a portion of the market or appraisal value is not deductible for income taxes. The impact of tax effects on amounts assigned to individual assets and liabilities depends on numerous factors, including imminence or delay of realization of the asset value and the possible timing of tax consequences. Since differences between amounts assigned and tax bases are not timing differences (APB Opinion No. 11, "Accounting for Income Taxes", paragraph 13), the acquiring corporation should not record deferred tax accounts at the date of acquisition. [This paragraph has been amended, deleted, or superseded in part, or in its entirety, as indicated in the Status section of this document.]~~

## AMORTIZATION OF GOODWILL

90. Goodwill recorded in a business combination accounted for by the purchase method should be amortized in accordance with the provisions in paragraphs 27 to 31 of APB Opinion No. 17, "Intangible Assets."

## EXCESS OF ACQUIRED NET ASSETS OVER COST

91. The value assigned to net assets acquired should not exceed the cost of an acquired company because the general presumption in historical-cost based accounting is that net assets acquired should be recorded at not more than cost. The total market or appraisal values of identifiable assets acquired less liabilities assumed in a few business combinations may exceed the cost of the acquired company. An excess over cost should be allocated to reduce proportionately the values assigned to noncurrent assets (except long-term investments in marketable securities) in determining their fair values (paragraph 87). If the allocation reduces the noncurrent assets to zero value, the remainder of the excess over cost should be classified as a deferred credit and should be amortized systematically to income over the period estimated to be benefited but not in excess of forty years. The method and period of amortization should be disclosed.

92. No part of the excess of acquired net assets over cost should be added directly to stockholders' equity at the date of acquisition.

## ACQUISITION DATE

93. The Board believes that the date of acquisition of a company should ordinarily be the date assets are received and other assets are given or securities are issued. However, the parties may for convenience designate as the effective date the end of an accounting period between the dates a business combination is initiated and consummated. The designated date should ordinarily be the date of acquisition for accounting purposes if a written agreement provides that effective control of the acquired company is transferred to the acquiring corporation on that date without restrictions except those required to protect the stockholders or other owners of the acquired company -- for example, restrictions on significant changes in the operations, permission to pay dividends equal to those regularly paid before the effective date, and the like. Designating an effective date other than the date assets or securities are transferred requires adjusting the cost of an acquired company and net income otherwise reported to compensate for recognizing income before consideration is transferred. The cost of an acquired company and net income should therefore be reduced by imputed interest at an appropriate current rate on assets given, liabilities incurred, or preferred stock distributed as of the transfer date to acquire the company.

94. The cost of an acquired company and the values assigned to assets acquired and liabilities assumed should be determined as of the date of acquisition. The statement of income of an acquiring corporation for the period in which a business combination occurs should include income of the acquired company after the date of acquisition by including the revenue and expenses of the acquired operations based on the cost to the acquiring corporation.

## DISCLOSURE IN FINANCIAL STATEMENTS

95. Notes to the financial statements of an acquiring corporation should disclose the following for the period in which a business combination occurs and is accounted for by the purchase method.

- a. Name and a brief description of the acquired company.
- b. Method of accounting for the combination -- that is, by the purchase method.
- c. Period for which results of operations of the acquired company are included in the income statement of the acquiring corporation.
- d. Cost of the acquired company and, if applicable, the number of shares of stock issued or issuable and the amount assigned to the issued and issuable shares.
- e. Description of the plan for amortization of acquired goodwill, the amortization method, and period (APB Opinion No. 17, paragraphs 27 to 31).
- f. Contingent payments, options, or commitments specified in the acquisition agreement and their proposed accounting treatment.

Information relating to several relatively minor acquisitions may be combined for disclosure.

96. Notes to the financial statements of the acquiring corporation for the period in which a business combination occurs and is accounted for by the purchase method should include as supplemental information the following results of operations on a pro forma basis:

- a. Results of operations for the current period as though the companies had combined at the beginning of the period, unless the acquisition was at or near the beginning of the period.
- b. Results of operations for the immediately preceding period as though the companies had combined at the beginning of that period if comparative financial statements are presented.

The supplemental pro forma information should as a minimum show revenue, income before extraordinary items, net income, and earnings per share. To present pro forma information, income taxes, interest expense, preferred stock dividends, depreciation and amortization of assets, including goodwill, should be adjusted to their accounting bases recognized in recording the combination. Pro forma presentation of results of operations of periods prior to the combination transaction should be limited to the immediately preceding period. **[This paragraph has been amended, deleted, or superseded in part, or in its entirety, as indicated in the Status section of this document.]**

## EFFECTIVE DATE

97. The provisions of this Opinion shall be effective to account for business combinations initiated<sup>14</sup> after October 31, 1970. Business combinations initiated before November 1, 1970 and consummated on or after that date under the terms prevailing on October 31, 1970

(paragraph 47-a) may be accounted for in accordance with this Opinion or the applicable previous pronouncements of the Board and its predecessor committee.

<sup>14</sup>Initiated is defined in paragraph 46-a whether the combination is accounted for by the pooling of interests method or by the purchase method.

98. The provisions of this Opinion should not be applied retroactively for business combinations consummated before November 1, 1970.

99. If a corporation holds as an investment on October 31, 1970, a minority interest in or exactly 50 percent of the common stock of another company and the corporation initiates after October 31, 1970, a plan of combination with that company, the resulting business combination may be accounted for by the pooling of interests method provided

~~the combination is completed within five years after October 31, 1970 and~~

the combination meets all conditions specified in paragraphs 45 to 48, except that

(i) the minority interest in the voting common stock of the combining company held on October 31, 1970 may exceed 10 percent of the outstanding voting common stock of the combining company (paragraph 46-b), and

(ii) the corporation which effects the combination issues voting common stock for at least 90 percent of the outstanding voting common stock interest, as described in paragraph 47-b, of the other combining company not already held on October 31, 1970 (rather than 90 percent of all of the common stock interest of the combining company).

The investment in common stock held on October 31, 1970 should not be accounted for as treasury stock or retired stock at the date of the combination. Instead, the excess of cost over the investor corporation's proportionate equity in the net assets of the combining company at or near the date the stock investment was acquired should be allocated to identifiable assets of the combining company at the date the combination is consummated on the basis of the fair values of those assets at the combination date. The unallocated portion of the excess should be assigned to an unidentified intangible asset (goodwill) and should be accounted for according to applicable previous pronouncements of the Board and its predecessor committee. The cost of goodwill should not be amortized retroactively but may be amortized prospectively under the provision of APB Opinion No. 17, paragraph 35. If the cost of the investment is less than the investor's equity in the net assets of the combining company, that difference should reduce proportionately the recorded amounts of noncurrent assets (except long-term investments in marketable securities) of the combining company.

THE OPINION ENTITLED "BUSINESS COMBINATIONS" WAS ADOPTED BY THE ASSENTING VOTES OF TWELVE MEMBERS OF THE BOARD. MESSRS. BROEKER, BURGER, DAVIDSON, HORNGREN, SEIDMAN, AND WESTON DISSENTED.

Messrs. Broeker, Burger, and Weston dissent to issuance of this Opinion because they believe that it is not a sound or logical solution of the problem of accounting for business combinations. They believe that, except for combinations of companies whose relative size is such as to indicate a significant sharing of ownership risks and benefits, business combinations represent the acquisition or purchase of one company of another and that accounting should reflect that fact. While they agree that the criteria specified in this Opinion for the pooling of interests method represent, in most cases, an improvement over

present criteria in practice, this action does not, in their opinion, represent a substantive response by the Accounting Principles Board to the overall problem.

Messrs. Davidson, Horngren, and Seidman dissent to the opinion because it seeks to patch up some of the abuses of pooling. The real abuse is pooling itself. On that, the only answer is to eliminate pooling. Paragraphs 35 to 41 set forth some of the defects of pooling. The fundamental one is that pooling ignores the asset values on which the parties have traded, and substitutes a wholly irrelevant figure -- the amount on the seller's books. Such nonaccounting for bargained acquisition values permits the reporting of profits upon subsequent disposition of such assets when there really may be less profit or perhaps a loss. Had the assets been acquired from the seller for cash, the buyer's cost would be the amount of the cash. Acquisition for stock should make no difference. The accounting essence is the amount of consideration, not its nature. Payment in cash or stock can be a matter of form, not substance. Suppose the seller wants cash. The buyer can first sell stock and turn over the proceeds to the seller, or the seller can take stock and promptly sell the stock for cash.

The following deal with some arguments made in the Opinion for pooling: (1) Pooling is described in paragraph 28 as a fusion resulting from "pooling equity interests," but it is the sort of fusion where a significant exchange transaction takes place. The seller parts with control over its assets and operations. In return the buyer issues stock representing an interest in its assets and operations. That interest has value and is a measure of the cost of the acquisition to the buyer. (2) Paragraph 29 declares that pooling is really a transaction among the stockholders. That just is not the fact. The buyer is always a company. (3) Paragraph 25 decries purchase accounting because it results in a write-up. There is only a recording of cost to the buyer. That cost is measured by the value of the assets acquired from the seller. (4) Pooling is said to avoid the difficulty of valuing assets or stock (paragraph 22). Difficulty of valuation should not be permitted to defeat fair presentation. Besides, the parties do determine values in their bargaining for the amount of stock to be issued.

Some say that to eliminate pooling will impede mergers. Mergers were prevalent before pooling, and will continue after. Accounting does not exist to aid or discourage mergers, but to account for them fairly. Elimination of pooling will remove the confusion that comes from the coexistence of pooling and purchase accounting. Above all, the elimination of pooling would remove an aberration in historical-cost accounting that permits an acquisition to be accounted for on the basis of the seller's cost rather than the buyer's cost of the assets obtained in a bargained exchange.

#### NOTES

OPINIONS OF THE ACCOUNTING PRINCIPLES BOARD PRESENT THE CONCLUSIONS OF AT LEAST TWO-THIRDS OF THE MEMBERS OF THE BOARD, WHICH IS THE SENIOR TECHNICAL BODY OF THE INSTITUTE AUTHORIZED TO ISSUE PRONOUNCEMENTS ON ACCOUNTING PRINCIPLES.

BOARD OPINIONS ARE CONSIDERED APPROPRIATE IN ALL CIRCUMSTANCES COVERED, BUT NEED NOT BE APPLIED TO IMMATERIAL ITEMS.

COVERING ALL POSSIBLE CONDITIONS AND CIRCUMSTANCES IN AN OPINION OF THE ACCOUNTING PRINCIPLES BOARD IS USUALLY IMPRACTICABLE. THE SUBSTANCE OF TRANSACTIONS AND THE PRINCIPLES, GUIDES, RULES, AND CRITERIA DESCRIBED IN OPINIONS SHOULD CONTROL THE ACCOUNTING FOR TRANSACTIONS NOT EXPRESSLY COVERED.

UNLESS OTHERWISE STATED, OPINIONS OF THE BOARD ARE NOT INTENDED TO BE RETROACTIVE.

COUNCIL OF THE INSTITUTE HAS RESOLVED THAT INSTITUTE MEMBERS SHOULD DISCLOSE DEPARTURES FROM BOARD OPINIONS IN THEIR REPORTS AS INDEPENDENT AUDITORS WHEN THE EFFECT OF THE DEPARTURES ON THE FINANCIAL STATEMENTS IS MATERIAL OR SEE TO IT THAT SUCH DEPARTURES ARE DISCLOSED IN NOTES TO THE FINANCIAL STATEMENTS AND WHERE PRACTICABLE, SHOULD DISCLOSE THEIR EFFECTS ON THE FINANCIAL STATEMENTS (SPECIAL BULLETIN, "DISCLOSURE OF DEPARTURES FROM OPINIONS OF THE ACCOUNTING PRINCIPLES BOARD", OCTOBER 1964). MEMBERS OF THE INSTITUTE MUST ASSUME THE BURDEN OF JUSTIFYING ANY SUCH DEPARTURES.

#### ACCOUNTING PRINCIPLES BOARD (1970)

LeRoy Layton, George R. Catlett, Charles B. Hellerson, CHAIRMAN, Joseph P. Cummings Charles T. Horngren, Kenneth S. Axelson Sidney Davidson Oral L. Luper, Donald J. Bevis Philip L. Defliese J. S. Seidman, Milton M. Broeker Newman T. Halvorson George C. Watt. Leo E. Burger Robert Hampton, III Frank T. Weston, Emmett S. Harrington

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# Analysis of APB 16 to Determine the Accounting for the Merger Between UTILICORP and SJLP

REQUIREMENTS	APB 16 REFERENCE	DISCUSSION & DISPOSITION	POOLING CRITERIA MET
<b>Autonomy of Combining Companies</b>			
1) Each of the combining enterprises is autonomous and has not been a subsidiary or division of another enterprise within two years before the plan of combination is initiated.	Paragraph 46	No, UtiliCorp is now and in the immediate past an independent company and not a subsidiary or division of another company.	Yes



## Analysis of APB 16 to Determine the Accounting for the Merger Between UTILICORP and SJLP

REQUIREMENTS	APB 16 REFERENCE	DISCUSSION & DISPOSITION	POOLING CRITERIA MET
<b>Independence of Combining Enterprise</b>			
2) Neither company may hold as an intercorporate investment more than 10% in total of the outstanding voting common stock of the other company.	Paragraph 47	UtiliCorp does not own SJLP common stock directly. UtiliCorp pension plan managers may from time to time hold the common stock of SJLP, which is not a violation of this rule.	Yes
<b>Single Transaction</b>			
3) The pooling must be completed within one year of the time that the acquisition was initiated. This may be done in a single transaction or in accordance with a specific plan. The only exception to this rule is when the delay is beyond the control of the combining enterprises (legal or regulator approval)	Paragraph 47a	This criterium would likely be met subject to regulatory approvals. Regulatory delays generally do not violate this rule.	Yes

# Analysis of APB 16 to Determine the Accounting for the Merger Between UTILICORP and SJLP

REQUIREMENTS	APB 16 REFERENCE	DISCUSSION & DISPOSITION	POOLING CRITERIA MET
<b>Common Stock for Common Stock</b>			
4) The company must issue its stock for at least 90% of the voting common stock of the company which is o/s on the date the pooling is consummated. With limitations, provisions to distribute cash or other considerations for fractional shares for shares held by dissenting shareholders and the like may occur. However, a prorata distribution of cash or consideration is prohibited. An investment in stock of the issuing enterprise held by a combining company may prevent a combination from meeting the pool conditions even though the investment is not more than 10%. A new enterprise formed to issue its stock to effect the combination of two or more enterprises meets the above conditions if 1) the number of shares of each company exchanges is not less than 90% of voting common stock and 2) the conditions above would have been met had one of the enterprises issued their own stock to affect the pooling.	Paragraph 47	<p>This transaction is anticipated to be stock for stock with minimal amounts cashed out. In addition, the UtiliCorp treasury stock balance is less than 1% of outstanding shares.</p> <p>However, in November 1998, UtiliCorp issued to all employees stock options that may be exercised before this transaction is closed that would be deemed an alteration of equity. In addition, these options were issued during the merger discussions, and the unexercised options would vest on closing.</p>	<p>Yes</p> <p>No</p>

# Analysis of APB 16 to Determine the Accounting for the Merger Between UTILICORP and SJLP

REQUIREMENTS	APB 16 REFERENCE	DISCUSSION & DISPOSITION	POOLING CRITERIA MET
Alteration of Equity Interests			
5) The equity interest of the voting common stock of the company must not have changed during the last two years. Examples of changes are distributions to stockholders which are greater than normal dividends and additional issues, exchanges and retirements of securities.	Paragraph 47c	The stock option issue mentioned above violates this rule.	No

# Analysis of APB 16 to Determine the Accounting for the Merger Between UTILICORP and SJLP

REQUIREMENTS	APB 16 REFERENCE	DISCUSSION & DISPOSITION	POOLING CRITERIA MET
<b>Treasury Stock Transactions</b>			
6) Treasury stock acquired for purposes other than business combinations includes shares for stock option and compensation plans and other recurring distributions provided a systematic pattern of reacquisitions is established at least two years before the plan of combination is initiated.	Paragraph 47d	Treasury stock is minimal. Any remaining shares could be reissued to various stock plans.	Yes
<b>Ratio of Exchange</b>			
7) Each individual common stockholder who exchanges his stock must receive a voting common stock interest exactly in proportion to his relative voting common stock interest before the combination.	Paragraph 47e	None known.	Yes

# Analysis of APB 16 to Determine the Accounting for the Merger Between UTILICORP and SJLP

REQUIREMENTS	APB 16 REFERENCE	DISCUSSION & DISPOSITION	POOLING CRITERIA MET
<b>Voting Restrictions</b>			
8) No formal stockholder of the company acquired can be prevented from exercising the voting rights of the shares they are to receive.	Paragraph 47f	None known at this time.	Yes
<b>Contingency Arrangements</b>			
9) No provisions of the plan of combination relating to either the issuance of securities or other consideration can be dependent on events subsequent to the date of consummation. Examples are provisions related to subsequent earnings or fluctuations in the market price of the stock.	Paragraph 47	No plans exist to issue shareholder stock in contemplation of the pooling.	

# **Analysis of APB 16 to Determine the Accounting for the Merger Between UTILICORP and SJLP**

REQUIREMENTS	APB 16 REFERENCE	DISCUSSION & DISPOSITION	POOLING CRITERIA MET
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## **Contingency Arrangements (continued)**

9) No provisions of the plan of combination relating to either the issuance of securities or other consideration can be dependent on events subsequent to the date of consummation. Examples are provisions related to subsequent earnings or fluctuations in the market price of the stock.	Paragraph 47	None known at this time.	Yes
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# Analysis of APB 16 to Determine the Accounting for the Merger Between UTILICORP and SJLP

REQUIREMENTS	APB 16 REFERENCE	DISCUSSION & DISPOSITION	POOLING CRITERIA MET
<b>Reacquisition of Shares Issued</b>			
10) The shareholders may sell their stock to a third party after the pooling has been completed. However, the consummation cannot be contingent upon the purchase of the shares by a third party. Neither company can be directly or indirectly involved in an agreement to reacquire shares issued in the pooling. In addition, under ASR 135, the shareholders may not sell their stock until the pooled results of operations for at least 30 days have been published.	Paragraph 48a .107a(Interp)	None known at this time.	Yes
<b>Financial Arrangements</b>			
11) Company cannot enter into other financial arrangements for the benefit of the former owners of the company, such as a guarantee of loans secured by stock issued in the pooling. However, prior to the pooling, loans can be made between the companies provided the terms and interest rate are reasonable in the circumstances>	Paragraph 48b .107b(Interp)	None known at this time.	Yes

# **Analysis of APB 16 to Determine the Accounting for the Merger Between UTILICORP and SJLP**

REQUIREMENTS	APB 16 REFERENCE	DISCUSSION & DISPOSITION	POOLING CRITERIA MET
<b>Post Combination Disposals</b>			
12) Significant assets cannot be disposed of within two years of the pooling other than disposals in the ordinary course of the business and to eliminate duplicate, facilities or excess capacity. The only exception is to comply with governmental or judicial terms.	Paragraph 48c .107c(Interp)	UCU has disposed of 2 assets and sold shares to the public through an investment in a foreign partnership all resulting in gains. Only the Lockport deal would be considered in contemplation, but does not exceed the 10% test.	Yes



UtiliCorp United Inc. and St. Joseph Light & Power Company  
PROFORMA BALANCE SHEET  
As of December 31, 1998

Line No.	Title of Account	UtiliCorp United	St. Joseph	Pro Forma Combined	
		As Reported to FERC	As Reported to FERC	Adjustments	(St. Joseph and UtiliCorp)
1	<b>UTILITY PLANT</b>				
2	Utility Plant (101-106, 114)	2,935,774,954	335,078,524	154,700,000	3,425,553,478
3	Construction Work in Progress (107)	50,838,286	3,668,931		54,507,217
4	TOTAL Utility Plant (Enter Total of lines 2 and 3)	2,986,613,240	338,747,455	154,700,000	3,480,060,895
5	(Less) Accum. Prov. for Depr. Amort. Depl (108, 111, 115)	1,170,553,599	164,862,965		1,335,416,564
6	Net Utility Plant (Enter Total of line 4 less 5)	1,816,059,641	173,884,490	154,700,000	2,144,644,131
7	Nuclear Fuel (120.1-120.4, 120.6)	0	0		0
8	(Less) Accum. Prov. for Amort. of Nucl. Fuel Assemblies (120.5)	0	0		0
9	Net Nuclear Fuel (Enter Total of line 7 less 8)	0	0	0	0
10	Net Utility Plant (Enter Total of line 6 less 9)	1,816,059,641	173,884,490	154,700,000	2,144,644,131
11	Utility Plant Adjustments (116)	0	0		0
12	Gas Stored Underground - Noncurrent (117)	0	0		0
13	<b>OTHER PROPERTY AND INVESTMENTS</b>				
14	Nonutility Property (121)	12,347,663	216,509		12,564,172
15	(Less) Accum. Prov. for Depr. and Amort. (122)	5,160,451	128,302		5,288,753
16	Investments in Associated Companies (123)	218,675	500,000		718,675
17	Investment in Subsidiary Companies (123.1)	489,006,445	5,220,052		494,226,497
18	(For Cost of Account 123.1, See Footnote Page 224, line 42)				0
19	Noncurrent Portion of Allowances	0	0		0
20	Other Investments (124)	45,228,106	2,307,643		47,535,749
21	Special Funds (125-128)	60,556	0		60,556
22	TOTAL Other Property and Investments (Total of lines 14-17, 19-21)	541,700,994	8,115,902	0	549,816,896
23	<b>CURRENT AND ACCRUED ASSETS</b>				
24	Cash (131)	-15,078,057	44,860		-15,033,197
25	Special Deposits (132-134)	9,159,879	0		9,159,879
26	Working Fund (135)	1,332,185	263,364		1,595,549
27	Temporary Cash Investments (136)	87,736,033	1,893		87,737,926
28	Notes Receivable (141)	1,758,113	0		1,758,113
29	Customer Accounts Receivable (142)	1,863,877	8,847,231		8,711,108
30	Other Accounts Receivable (143)	24,098,363	1,662,947		25,761,310
31	(Less) Accum. Prov. for Uncollectible Acct.-Credit	6,232,705	219,869		6,452,574
32	Notes Receivable from Associated Companies (145)	269,421,127	0		269,421,127
33	Accounts Receivable from Assoc. Companies (146)	0	23,498		23,498
34	Fuel Stock (151)	12,559,006	3,366,077		15,925,083
35	Fuel Stock Expenses Undistributed (152)	621,335	0		621,335
36	Residuals (Elec) and Extracted Products (153)	0	0		0
37	Plant Materials and Operating Supplies (154)	24,281,567	5,674,296		29,955,863
38	Merchandise (155)	119,017	0		119,017
39	Other Materials and Supplies (156)	1,982,402	0		1,982,402
40	Nuclear Materials Held for Sale (157)	0	0		0
41	Allowances (158.1 and 158.2)	0	174,150		174,150
42	(Less) Noncurrent Portion of Allowances	0	0		0
43	Stores Expense Undistributed (163)	2,599,822	0		2,599,822
44	Gas Stored Underground - Current (164.1)	48,859,586	1,109,103		49,968,689
45	Liquefied Natural Gas Stored and Held for Processing (164.2-164.3)	0	0		0
46	Prepayments (165)	40,224,899	436,382		40,661,281
47	Advances for Gas (166-167)	15,666	0		15,666
48	Interest and Dividends Receivable (171)	1,622,392	48,774		1,671,166
49	Rents Receivable (172)	-22,815	0		-22,815
50	Accrued Utility Revenues (173)	77,948,744	3,673,846		81,622,592
51	Miscellaneous Current and Accrued Assets (174)	757,564	0		757,564
52	TOTAL Current and Accrued Assets (Enter Total of lines 24 thru 51)	565,628,000	23,106,554	0	588,734,554
53	<b>DEFERRED DEBITS</b>				
54	Unamortized Debt Expenses (181)	11,395,643	474,449		11,870,092
55	Extraordinary Property Losses (182.1)	0	0		0
56	Unrecovered Plant and Regulatory Study Costs (182.2)	0	0		0
57	Other Regulatory Assets (182.3)	250,000	13,843,633		14,093,633
58	Prelim. Survey and Investigation Charges (Electric) (183)	25,888	14,037		39,925
59	Prelim. Sur. and Invest. Charges (Gas) (183.1, 183.2)	322,414	0		322,414
60	Clearing Accounts (184)	-1,328,046	49,804		-1,278,242
61	Temporary Facilities (185)	0	0		0
62	Miscellaneous Deferred Debits (186)	90,853,027	19,875,002		110,728,029
63	Def. Losses from Disposition of Utility Plt. (187)	0	0		0
64	Research, Devel. and Demonstration Expend. (188)	0	0		0
65	Unamortized Loss on Required Debt (189)	6,715,665	849,295		7,564,960
66	Accumulated Deferred Income Taxes (190)	29,972,097	2,997,178		32,969,275
67	Unrecovered Purchased Gas Costs (191)	16,780,717	-98,365		16,682,352
68	TOTAL Deferred Debits (Enter Total of lines 54 thru 67)	154,987,203	38,005,033	0	192,992,236
69	TOTAL Assets and Other Debits (Enter Total of lines 10, 11, 12, 22, 52, 68)	3,078,375,838	243,111,979	154,700,000	3,476,187,817

UtiliCorp United Inc. and St. Joseph Light & Power Company  
PROFORMA BALANCE SHEET  
As of December 31, 1998

	UtiliCorp United As Reported to FERC	St. Joseph As Reported to FERC	Adjustments	Pro Forma Combined (St. Joseph and UtiliCorp)
<b>PROPRIETARY CAPITAL</b>				
1 Common Stock Issued (201)	93,574,853	33,816,099	-25,716,099	101,674,853
3 Preferred Stock Issued (204)	0	0	0	0
4 Capital Stock Subscribed (202, 205)	0	0	0	0
5 Stock Liability for Conversion (203, 206)	0	0	0	0
6 Premium on Capital Stock (207)	1,268,933,056	0	180,505,326	1,449,438,382
7 Other Paid-In Capital (208-211)	-2,297	1,900,895	-1,900,895	-2,297
8 Installments Received on Capital Stock (212)	0	0	0	0
9 (Less) Discount on Capital Stock (213)	0	0	0	0
10 (Less) Capital Stock Expense (214)	15,548,855	0	0	15,548,855
11 Retained Earnings (215, 215.1, 216)	29,059,210	73,643,621	-73,643,621	29,059,210
12 Unappropriated Undistributed Subsidiary Earnings (216.1)	123,307,790	-217,449	217,449	123,307,790
13 (Less) Required Capital Stock (217)	53,065,416	13,337,840	-13,337,840	53,065,416
14 TOTAL Proprietary Capital (Enter Total of lines 2 thru 13)	1,446,258,341	95,805,326	92,800,000	1,634,863,667
<b>LONG-TERM DEBT</b>				
16 Bonds (221)	19,454,900	28,100,000		47,554,900
17 (Less) Required Bonds (222)	0	0		0
18 Advances from Associated Companies (223)	0	0		0
19 Other Long-Term Debt (224)	728,694,588	40,000,000		768,694,588
20 Unamortized Premium on Long-Term Debt (225)	0	0		0
21 (Less) Unamortized Discount on Long-Term Debt-Debit (226)	0	0		0
22 TOTAL Long-Term Debt (Enter Total of lines 16 thru 21)	748,149,488	68,100,000	0	816,249,488
<b>OTHER NONCURRENT LIABILITIES</b>				
24 Obligations Under Capital Leases - Noncurrent (227)	3,147,837	2,902,496		6,050,333
25 Accumulated Provision for Property Insurance (228.1)	368,737	0		368,737
26 Accumulated Provision for Injuries and Damages (228.2)	14,485,646	0		14,485,646
27 Accumulated Provision for Pensions and Benefits (228.3)	4,570,096	1,368,183		5,938,279
28 Accumulated Miscellaneous Operating Provisions (228.4)	258,454	0		258,454
29 Accumulated Provision for Rate Refunds (229)	8,798,119	0		8,798,119
30 TOTAL OTHER Noncurrent Liabilities (Enter Total of lines 24 thru 29)	31,628,889	4,270,679	0	35,899,568
<b>CURRENT AND ACCRUED LIABILITIES</b>				
32 Notes Payable (231)	19,639,747	7,290,000		26,929,747
33 Accounts Payable (232)	130,094,642	10,571,947		140,666,589
34 Notes Payable to Associated Companies (233)	0	0		0
35 Accounts Payable to Associated Companies (234)	157,268,666	0		157,268,666
36 Customer Deposits (235)	6,703,564	480,450		7,184,014
37 Taxes Accrued (236)	34,703,382	954,133		35,657,515
38 Interest Accrued (237)	21,728,251	1,922,853		23,651,104
39 Dividends Declared (238)	241,824	0		241,824
40 Matured Long-Term Debt (239)	0	0		0
41 Matured Interest (240)	0	0		0
42 Tax Collections Payable (241)	3,519,850	80,285		3,600,135
43 Miscellaneous Current and Accrued Liabilities (242)	190,796,891	1,250,138		192,047,029
44 Obligations Under Capital Leases-Current	768,339	0		768,339
45 TOTAL Current & Accrued Liabilities (Enter Total of lines 32 thru 44)	565,465,156	22,549,806	0	588,014,962
<b>DEFERRED CREDITS</b>				
47 Customer Advances for Construction (252)	14,663,873	236		14,664,109
48 Accumulated Deferred Investment Tax Credits (255)	16,477,118	3,689,152		20,166,270
49 Deferred Gains from Disposition of Utility Plant (256)	0	0		0
50 Other Deferred Credits (253)	74,042,545	5,437,156		79,479,701
51 Other Regulatory Liabilities (254)	2,144,203	8,440,159		10,584,362
52 Unamortized Gain on Required Debt (257)	0	0		0
53 Accumulated Deferred Income Taxes (261-283)	179,546,225	34,819,465	61,900,000	276,265,690
54 TOTAL Deferred Credits (Enter total of lines 47 thru 53)	286,873,964	52,386,168	61,900,000	401,160,132
55	0	0		0
56	0	0		0
57	0	0		0
58	0	0		0
59	0	0		0
60	0	0		0
61	0	0		0
62	0	0		0
63	0	0		0
64	0	0		0
65	0	0		0
66	0	0		0
67	0	0		0
68 TOTAL Liab and Other Credits (Enter Total of lines 14, 22, 30, 45)	3,078,375,838	243,111,979	154,700,000	3,476,187,817

UtiliCorp United Inc. and St. Joseph Light & Power Company  
 PROFORMA STATEMENT OF INCOME  
 For the Year Ended December 31, 1998

	UtiliCorp United As Reported to FERC	St. Joseph As Reported to FERC	Adjustments	Pro Forma Combined (St. Joseph and UtiliCorp)
<b>UTILITY OPERATING INCOME</b>				
1 Operating Revenues (400)	1,239,075,627	100,559,854		1,339,635,281
2 Operating Expenses				
3 Operation Expenses (401)	854,425,540	52,418,868		906,842,408
4 Maintenance Expenses (402)	44,215,348	8,483,322		52,678,670
5 Depreciation Expense (403)	96,463,262	11,335,213	3,900,000	111,698,475
6 Amort. & Depl. of Utility Plant (404-405)	1,299,073	16,048		1,315,121
7 Amort. of Utility Plant Acq. Adj. (406)	2,821,759	0		2,821,759
8 Amort. Property Losses, Unrecov Plant and Regulatory Study Costs (407)	0	0		0
9 Amort. of Conversion Expenses (407)	0	0		0
10 Regulatory Debits (407.3)	0	0		0
11 (Less) Regulatory Credits (407.4)	0	0		0
12 Taxes Other Than Income Taxes (408.1)	61,893,243	6,971,284		68,864,507
13 Income Taxes - Federal (409.1)	2,415,906	3,901,560	(1,600,000)	4,717,466
14 Other (409.1)	801,199	638,189		1,439,388
15 Provision for Deferred Income Taxes (410.1)	45,120,980	2,353,129		47,474,109
16 (Less) Provision for Deferred Income Taxes-Cr. (411.1)	25,641,289	1,104,944		26,746,233
17 Investment Tax Credit Adj. - Net (411.4)	-1,118,802	-406,730		-1,525,532
18 (Less) Gains from Disp. of Utility Plant (411.6)	0	0		0
19 Losses from Disp. of Utility Plant (411.7)	0	0		0
20 (Less) Gains from Disp. of Allowances (411.8)	0	5,687		5,687
21 Losses from Disp. of Allowances (411.9)	0	0		0
22 TOTAL Utility Operating Expenses (Enter Total of lines 4 thru 22)	1,082,496,219	84,578,232	2,300,000	1,169,374,451
23 Net Util Oper Inc (Enter Tot line 2 less 23) Carry fwd to P117, line 25	156,579,408	15,981,422	(2,300,000)	170,260,830
24 Net Util Oper Inc (Carried forward from page 114)	156,579,408	15,981,422	(2,300,000)	170,260,830
25 Other Income and Deductions				
26 Other Income				
27 Nonutility Operating Income				
28 Revenues From Merchandising, Jobbing and Contract Work (415)	2,917,374	0		2,917,374
29 (Less) Costs and Exp. of Merchandising, Job & Contract Work (416)	2,876,391	0		2,876,391
30 Revenues From Nonutility Operations (417)	463,239,308	0		463,239,308
31 (Less) Expenses of Nonutility Operations (417.1)	429,129,995	0		429,129,995
32 Nonoperating Rental Income (418)	0	0		0
33 Equity in Earnings of Subsidiary Companies (418.1)	59,298,644	8,030		59,306,674
34 Interest and Dividend Income (419)	8,737,727	475,592		9,213,319
35 Allowance for Other Funds Used During Construction (419.1)	367	248,741		249,108
36 Miscellaneous Nonoperating Income (421)	4,258,605	326,684		4,585,289
37 Gain on Disposition of Property (421.1)	1,501,238	0		1,501,238
38 TOTAL Other Income (Enter Total of lines 29 thru 38)	105,946,877	1,059,047		107,005,924
39 Other Income Deductions				
40 Loss on Disposition of Property (421.2)	27,659	0		27,659
41 Miscellaneous Amortization (425)	2,199,250	0		2,199,250
42 Miscellaneous Income Deductions (426.1-426.5)	4,944,983	214,389		5,159,372
43 TOTAL Other Income Deductions (Total of lines 41 thru 43)	7,171,892	214,389		7,386,281
44 Taxes Applicable to Other Income and Deductions				
45 Taxes Other Than Income Taxes (408.2)	267,968	0		267,968
46 Income Taxes-Federal (409.2)	29,712,892	350,060		30,062,952
47 Income Taxes-Other (409.2)	7,923,438	-67,855		7,855,583
48 Provision for Deferred Inc. Taxes (410.2)	0	0		0
49 (Less) Provision for Deferred Income Taxes-Cr. (411.2)	0	29,496		29,496
50 Investment Tax Credit Adj. - Net (411.5)	0	0		0
51 (Less) Investment Tax Credits (420)	0	0		0
52 TOTAL Taxes on Other Income and Deduct (Total of 45 thru 52)	37,904,318	252,709	-	38,157,027
53 Net Other Income and Deductions (Enter Total lines 39, 44, 53)	60,870,867	591,949		61,462,816
54 Interest Charges				
55 Interest on Long-Term Debt (427)	75,179,756	5,831,168		81,010,924
56 Amort. of Debt Disc. and Expense (428)	1,024,720	44,437		1,069,157
57 Amort. of Loss on Required Debt (428.1)	1,035,220	68,776		1,103,996
58 (Less) Amort. of Premium on Debt-Credit (429)	0	0		0
59 (Less) Amort. of Gain on Required Debt-Credit (429.1)	0	0		0
60 Interest on Debt to Assoc. Companies (430)	-1,743,775	0		-1,743,775
61 Other Interest Expense (431)	12,801,219	118,291		12,917,510
62 (Less) Allowance for Borrowed Funds Used During Construction-Cr. (432)	3,086,065	151,654		3,237,719
63 Net Interest Charges (Enter Total of lines 56 thru 63)	85,211,075	5,909,018	-	91,120,093
64 Income Before Extraordinary Items (Total of lines 25, 54, 64)	132,239,000	10,664,353	(2,300,000)	140,603,353
65 Extraordinary Items				
66 Extraordinary Income (434)	0	0		0
67 (Less) Extraordinary Deductions (435)	0	0		0
68 Net Extraordinary Items (Enter Total of line 67 less line 66)	0	0		0
69 Income Taxes-Federal and Other (490.3)	0	0		0
70 Extraordinary Items After Taxes (Enter Total of line 69 less line 70)	0	0		0
71 Net Income (Enter Total of lines 65 and 71)	132,239,000	10,664,353	(2,300,000)	140,603,353