

# Navigating Financial Reporting Challenges and Solutions for Life Sciences

## Teaser Video Transcript

### Accounting for acquired intangibles

All right, so now, now we should acknowledge the current environment, right? With changes in the federal policies, reducing reliance in federal funding, coupled with overall economic conditions, companies seek to really go after R&D collaborations and funding arrangements. And with the pending patent Cliff, companies are seeking diversification and ways to replenish the pipeline. The accounting for acquired intangible varies as we know and whether the transaction is acquired via business combination or an asset acquisition. Susan, how does the accounting defer and are there any SEC common letter trends that you're seeing? Got it. So maybe let's start with how the accounting differs and then we'll talk about how you know companies which path you should go down, what test you apply to figure out if you're in asset acquisition or business combination. And then we'll get to those SEC comment letters because yes, there are unfortunately some comment letters out there on this topic.

So the difference is now you all are very well versed because of our conversation earlier about what is the accounting for acquired in process R&D and that is it's just like every other business combination line. I am. You're going to fair value all of the in process R&D, it's going to be put on as a indefinite lives intangible asset and then you're going to be testing that thing for impairment at least annually. And then when triggering events happen, if they happen, asset acquisitions on the other hand, if you determine that it's just you're acquiring an asset, an IPRND asset, it's going to be expensed at the acquisition date if there's no alternative future use.

So what does that mean? Well, it means that if you're the cost of that intangible asset, if you're purchasing it for other and you determine it does have an alternative use, you're going to come up with a definite life of that intangible asset. That was kind of Steve's preferred view of coming up with a definite life and then you're going to amortize over that definite life to your R&D expense. But the guidance says and in practice coming up with and determining that you have an alternative future use, that's pretty rare. It doesn't happen all the time. So biz com, you are fair valuing indefinite live asset acquisition, you are expensing it. And then if you were to actually develop this stuff on your own and not acquire it, you would have been expensing it all along until essentially FDA approval. So very interesting that we have all of this different accounting and classification depending upon how you obtained the asset, the IPA R&D asset. So let's talk about Steve, we can talk about the process of how a company figures out which path you go down, because it's a very important path because you get obviously very different accounting answers depending upon the path that you take. And what the FASB did is insert a screen into the guidance.

So this screen task, we call it the screen task is applied to essentially weed out asset acquisitions so that asset acquisitions don't have to apply business combination accounting. And what that screen does is it says, OK, look at the set of things, technical term that you're acquiring and list out all of the single identifiable assets. Or if they're, you know, a group of single identifiable assets, if they have the same risk profile, you'll group them. OK, and this is a way for companies to line them up. And then you say, is there a concentration of the fair value of these items that I bought? And the in practice companies say if something one of those line items, a single asset or a group of similar assets has a fair value of around 90% or more, if it's concentrated, they'll go down the asset acquisition route. If not, you have to apply the other guidance in 805 and you might get to a business combination.