

## 2012 Technology Purchase Price Allocations

The overall pace of technology merger and acquisition activity during 2012 was relatively flat according to Thomson Reuters' annual 2012 review. The value of worldwide announced transactions during 2012 was up 1.7%, while those announced in the U.S. declined by 4.6%.<sup>1</sup> Despite the uneven level of transactions during the year, many technology companies remained active and made several acquisitions in 2012. For example, Google alone, in addition to acquiring Motorola, completed 52 other acquisitions during the year.

The purchase price allocation is an important component of the acquisition process for both tax and accounting purposes. The value of the tangible and intangible assets must be appraised and assigned a remaining economic life. In the case of Google's acquisitions, excluding the \$12.4 billion purchase of Motorola, the company paid \$1.171 billion for 52 other companies, an average price of \$22.5 million per company. Of the \$1.171 billion total, approximately \$733 million was allocated to goodwill, \$462 million to intangible assets, and \$24 million to net liabilities.<sup>2</sup> Within the intangible asset category, the average lives were 8.9 years for developed technology, 7.4 years for customer relationships, and 9.0 years for trade names and other.

Bond & Pecaro undertook an analysis of 21 media technology companies who have been active during 2012 to see what a typical purchase price allocation might look like within the segment. The largest component of value is allocated to goodwill. Although several of the large acquirers, including Google, Facebook, Amazon, and Microsoft, made large acquisitions and allocated the majority of value to goodwill, the average allocation to goodwill is still similar when these acquirers are excluded from the dataset. The allocation to developed technology and customer relationships appeared relatively consistent across the various acquisitions. Likewise, the remaining economic lives were very similar across all acquisitions.

The percentage of the purchase price allocated to the various acquired tangible and intangible assets, along with the average and median remaining economic lives of the intangible assets are shown below:

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<sup>1</sup> Thomson Reuters, *Mergers & Acquisitions Review, Financial Advisors, Full Year 2012*, p. 2.

<sup>2</sup> Google SEC filings.

| 2012 Purchase Price Allocation                     | % of Total | Average Life (Yrs) | Median Life (Yrs) |
|--|------------|--------------------|-------------------|
| Cash/Accounts Receivable                           | 1.0%       | --                 | --                |
| Tangible Assets                                    | 1.4%       | --                 | --                |
| Goodwill   | 74.2%      | Indefinite         | indefinite        |
| Acquired Technology/Patents & Developed Technology | 19.3%      | 4.7                | 4.3               |
| Customer Relationships                             | 8.2%       | 4.7                | 4.0               |
| Contract-Based Assets                              | 0.0%       | 3.5                | 3.5               |
| Customer Lists                                     | 0.0%       | 3.0                | 3.0               |
| Trade Names and Other                              | 5.4%       | 5.0                | 5.0               |
| Non-Competition Agreements                         | 0.0%       | 2.6                | 2.3               |
| Other Intangible Assets                            | 5.3%       | 4.2                | 4.0               |
| Net Assets Acquired (Liabilities Assumed)          | -7.3%      | --                 | --                |
| Deferred Tax Assets (Liabilities)                  | -7.3%      | --                 | --                |
| Total/Average/Median                               | 100.0%     | 4.0                | 4.0               |

*Source: SEC filings. In most cases, the amounts allocated to contract-based assets, customer lists, and non-competition agreements were minor.*

The valuation of technology intangible assets is often required for accounting, tax, litigation, acquisition, and estate planning purposes. Bond & Pecaro professionals have over 25 years of experience in intangible asset valuation and the expertise to value complex intellectual property such as developed technology and software, and intangible assets such as customer relationships, brands, websites, and domain names.

*For more information on the valuation of complex intangible assets, please feel free to contact any of the principals of Bond & Pecaro at 202-775-8870.*