**INTRODUCTION**

Taxing authorities sometimes attempt to rely on fair value measurement financial accounting data in developing the fair market value valuation of industrial and commercial property. Such fair value measurements typically relate to the financial accounting for the following types of transactions:

1. The subject taxpayer is acquired, and the taxpayer’s asset accounts are restated to fair value on the acquisition date.
2. The subject taxpayer acquires a target company, and the target company’s asset accounts are restated to fair value on the acquisition date.
3. An industry competitor to the subject taxpayer is acquired, and the acquired competitor’s asset accounts are restated to fair value on its acquisition date.

Such fair value measurements are performed in order for the acquirer company’s financial statements to comply with U.S. generally accepted accounting principles (“GAAP”).

Taxing authorities sometimes attempt to apply these fair value measurement financial accounting data as follows:

1. Accept the fair value measurement of the subject taxpayer’s assets as an indication of the fair market value valuation of the taxpayer’s assets.
2. Calculate a “fair value to accounting book value (of assets)” pricing multiple implied by industry merger and acquisition (“M&A”) transactions and apply such an industry-derived “fair value to accounting book value” pricing multiple to value the taxpayer’s assets.
3. Calculate a “fair value to accounting book value (of equity)” pricing multiple implied by industry M&A transactions and apply that fair value to accounting book value pricing multiples to value the taxpayer’s equity.

**Thought Leadership Discussion**

Standard of Value Differences between Fair Value and Fair Market Value

John C. Ramirez

There are important standard of value differences between the fair value standard and the fair market value standard. These differences may or may not cause the fair value of a property to be different from the fair market value of the same property. Taxpayers, taxing authorities, and valuation analysts should not assume that a property’s fair value measured for acquisition accounting purposes is equal to that property’s fair market value estimated for property tax purposes. This discussion summarizes the valuation differences between (1) the fair value measurement of industrial and commercial property for acquisition accounting purposes and (2) the fair market value valuation of industrial and commercial property for state and local property tax purposes.
4. Apply the “fair value to accounting book value (of equity)” industry-derived M&A transaction pricing multiple to conclude that there is no economic obsolescence applicable to the subject taxpayer’s property or to the subject taxpayer’s industry.

This discussion summarizes several of the valuation differences between (1) the fair value measurement standard of value as it relates to M&A transaction financial accounting requirements and (2) the fair market value standard of value as it relates to property tax valuations.

This discussion includes a simplified example of an M&A business combination transaction. This illustrative example illustrates some of the differences between fair market value valuation procedures and fair value measurement procedures.

For the reasons discussed herein, it is not appropriate to assume that a fair value measurement conducted for purchase accounting purposes would produce the same result as a fair market value valuation conducted for property tax purposes. In addition, it is not appropriate to assume that an M&A transaction purchase price necessarily represents the fair market value of that taxpayer business.

It is possible that the rules-based fair value of certain taxpayer property may equal the judgment-based fair market value of that taxpayer property. But that conclusion should be based on the analyst’s due diligence—and not on an unsupported assumption. Likewise, it is possible that an M&A transaction price may be equal to fair market value. But, that conclusion should be based on the analyst’s due diligence—and not on an unsupported assumption.

The word “asset” is an accounting term and the word “property” is a legal term. These two terms do not necessarily mean the same thing (i.e., all assets are not necessarily property and vice versa). However, for simplicity, these terms are used interchangeably in this discussion.

**Standard of Value Differences**

There are significant differences between (1) the fair value measurement standard of value as it is applied under GAAP acquisition accounting provisions and (2) the fair market value valuation standard of value as it relates to property taxation. Procedural differences in the application of these two standards of value may result in different value conclusions for the same bundle of property.

The standard of value required for GAAP acquisition accounting purposes is fair value, as described in the Financial Accounting Standards Board (“FASB”) Accounting Standard Codification (“ASC”) Topic 820, *Fair Value Measurement*. According to ASC Topic 820, “fair value” is defined as follows:

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The transaction . . . is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the asset or owes the liability. Therefore, the objective of a fair value measurement is to determine the price that would be received to sell the asset or paid to transfer the liability at the measurement date (an exit price).

Business combinations are accounted for by applying the “acquisition method of accounting,” as described in ASC Topic 805, *Business Combinations*. ASC 805 requires that the transaction purchase price be allocated to the target company acquired assets based on the fair value of the acquired assets.

A fair value measurement prepared for GAAP acquisition accounting purposes “measures” the fair value of the target company assets acquired (and the liabilities assumed) as part of a business combination transaction.

For property tax purposes, most states require that taxpayer property to be valued at fair market value or market value (or at some conceptually similar standard of value, such as actual fair cash value).

One typical definition of fair market value is presented as follows:

The price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm’s length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.

Fair market value valuations are typically judgment-based. The analyst has substantial discretion in the application of the generally accepted property valuation approaches, methods, and procedures. The objective of fair market value valuations is to represent the economics
of a hypothetical property transfer. Fair market value valuations consider certain hypothetical assumptions regarding both a willing buyer and a willing seller in the hypothetical transaction.

In contrast, fair value measurements are rule-based analyses. The analyst is constrained to apply the rules and procedures that are promulgated in GAAP and in the various GAAP implementation guidance.

While fair market value valuations are judgment-based, fair value measurements are rules-based. While fair market value valuations are intended to reflect hypothetical transaction economics, fair value measurements are intended to be transparent, replicable, and auditable.

In particular, fair value measurements are required to comply with specific rules-based guidance promulgated by the FASB, the Appraisal Foundation, and the American Institute of Certified Public Accountants.

The following list indicates some of the differences between (1) a fair value measurement prepared for GAAP compliance purposes and (2) a fair market value valuation prepared for property tax purposes:

1. Differences in the assumed buyer and the assumed seller
2. Differences in the assumed unit of account (i.e., the appraisal subject)
3. Differences in the assumed highest and best use of the unit of account
4. Differences in the valuation approaches and methods relied on
5. Differences in valuation procedures and valuation assumptions

Differences in the Assumed Buyer and the Assumed Seller

The assumed buyer and the assumed seller in a fair value measurement are different than the assumed buyer and the assumed seller in a fair market value valuation. One difference is that the buyer in a fair value measurement may include a strategic buyer. Another difference is that the fair value is intended to represent “an exit price”—that is the price that the current owner could obtain to sell the asset to a market participant buyer.

In a fair value measurement, the assumed buyer and the assumed seller are “market participants.” According to ASC 805, market participants are defined as “buyers and sellers in the principal (or most advantageous) market for the [target] asset or liability.”

Differences in the Assumed Unit of Account (i.e., the Appraisal Subject)

The unit of account can be the integrated assemblage of the taxpayer’s operating assets (i.e., the total unit of tangible assets and intangible assets). Or, the unit of account can be taxpayer’s individual real estate and personal property assets.

The unit of account is the lowest level at which (1) the valuation analysis is performed and (2) the value conclusion is reached.

Under the fair value measurement standard, the “unit of account” is defined as “the level at which an asset or a liability is aggregated or disaggregated . . . for recognition purposes.” In other words, the unit of account for fair value measurement purposes...
is each individual general ledger account of the acquirer entity.

This fair value concept of the unit of account as a general ledger account is analogous to the summation valuation principle. Under that principle, each individual asset category is valued separately—and then summed to estimate the value of the taxpayer’s total property. This summation valuation principle is different from the unit valuation principle.

Under the unit valuation principle, the unit of account is the entire taxpayer business entity, considered on a total unit basis (i.e., as an integrated business enterprise without functional or geographic division of the whole).6

This integrated business enterprise/total taxpayer unit collectively includes all of the tangible assets and all of the intangible assets of the overall taxpayer business enterprise.

The conceptual differences in the assumed unit of account—summation (for financial accounting purposes) versus unit (for property tax purposes)—is a primary difference between (1) fair value measurements for GAAP purposes and (2) fair market value valuations for property tax purposes.

**Differences in the Assumed Highest and Best Use of the Unit of Account**

The highest and best use (“HABU”) analysis and conclusion in a fair value measurement may be different than the HABU analysis and conclusion in fair market value valuations for property tax purposes.

Under the fair value measurement standard of value, “the highest and best use of a nonfinancial asset might provide maximum value to market participants through its use in combination with other assets as a group (as installed or otherwise configured for use) or in combination with other assets and liabilities (for example, a business).”7

For GAAP accounting purposes, the analyst is required to consider the HABU for each individual unit of account—that is, each general ledger asset account. This means that the various asset accounts (including the various property, plant, and equipment accounts) could each have a different HABU.

Under the fair market value standard, the HABU of the total unit is considered at the taxpayer total business entity level—and not at the individual asset category (or general ledger account) level.

The HABU of all of the taxpayer assets is typically the current use of the total assets within the taxpayer business entity (e.g., value in use)—and not the HABU of each individual asset general ledger account for possible alternative uses (e.g., value in exchange).

The fair value measurement HABU may be different than the fair market value valuation HABU. This is because the fair value measurement HABU conclusion may be developed at the individual asset category or general ledger account level—and not at the total taxpayer business entity (or unit) level.

These differences in the assumed HABU of the unit of account can lead to different value conclusions for the same taxpayer bundle of assets.

**Differences Between the Valuation Approaches and Methods Relied On**

Applying the fair value measurement standard, the market approach, income approach, and cost approach may be applied to value property, depending on the circumstances of the valuation.8

ASC 820, however, prioritizes the valuation approaches and methods that should be relied on to conclude a fair value measurement for ASC 805 acquisition accounting purposes.

As promulgated in ASC 820, “The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).”9

Applying this guidance, the analyst is directed to rely principally on the market approach in a fair value measurement performed for acquisition accounting purposes. Where there is no market for the subject property, the analyst may use other methods.

In a fair market value valuation for property tax purposes, the analyst is not bound by the GAAP hierarchy to prioritize one valuation approach over any other valuation approach. Therefore, applying the fair market value standard, the analyst has more judgmental discretion to select any appropriate valuation approach or method.

Of course, the extent to which these differences are significant depends on the methods and procedures applied in the fair value measurement compared to the methods and procedures applied in the fair market value valuation.
Differences in Valuation Procedures and Assumptions

There are numerous differences in the quantitative procedures that an analyst will perform in a fair value measurement compared to a fair market value valuation. There are also numerous differences in the quantitative assumptions that an analyst will make in a fair value measurement compared to a fair value valuation. These differences relate to the fact that fair value measurements are primarily rules-based and fair market value valuations are primarily judgment-based. In a fair value measurement, analysts are required to comply with certain procedures stated in ASC 820, ASC 805, other ASC provisions, and various GAAP implementation guidance.

A detailed discussion of all of these procedure and assumption differences is beyond the scope of this discussion. However, a few examples of such differences include the following:

1. The acquisition price may be different. GAAP provisions require the recognition of the fair value of acquisition-related financing instruments as part of the total transaction purchase price. This addition of the fair value of financing vehicles to the transaction purchase price may increase the residual amount assigned to the measurement of goodwill in the fair value measurement.

2. The present value discount rate may be different. A fair market value valuation would apply a market-derived (or industry average) present value discount rate to all income approach property valuations. A fair value measurement would apply the internal rate of return (“IRR”) implicit in the transaction price as the discount rate applied to all income approach property valuations.

   For example, let’s assume an industry average weighted average cost of capital (“WACC”) of 10 percent. Let’s assume that the deal IRR was 6 percent. A fair market value valuation would apply 10 percent as the present value discount rate. A fair value measurement would apply 6 percent as the present value discount rate.

3. The economic obsolescence conclusion would be different. Acquired tangible property and intangible property are often valued by applying the cost approach. This statement is true for both fair market value valuations and fair value valuations.

   Let’s continue with our assumption of an M&A transaction with a 10 percent WACC and a 6 percent IRR. The fair market value valuation of the acquired property would include a substantial value adjustment for economic obsolescence (i.e., 10 percent WACC compared to 6 percent IRR would imply about 40 percent economic obsolescence). In contrast, the fair value measurement of the same property would likely include no adjustment for economic obsolescence (i.e., the 6 percent IRR compared to the 6 percent IRR implies no economic obsolescence).

4. Certain intangible assets may have a different value. For fair market value valuation purposes, contract intangible assets are often valued as the present value of the income earned by performing the contract. In contrast, fair value measurements only recognize the present value of excess income (above the market level of income) in the contract intangible asset value.

   Let’s assume a power purchase agreement (“PPA”), where the power offtaker agrees to buy 100 MW of electricity per year from an electric generation plant at $10 per MW (the expected market price of electricity) for the next 10 years. The full absorption cost (including a fair return on the property owner’s investment in the plant) to produce electricity at the plant is $6 per MW. Therefore, the plant will earn $4 per MW times 100 MW or $40,000,000 per year for the next 10 years. Assuming a 10 percent present value discount rate, the present value of the $40,000,000 of annual contract income (after providing a full return on investment in plant assets) is approximately $246,000,000. That amount would be the fair market value of the contract intangible asset.

   In contrast, the fair value measurement of the same contract intangible asset would be $0. This is because the terms of the contract are considered to be “at market” terms. This fair value measurement would conclude no value for the PPA contract even though the contract results in hundreds of millions of dollars in profit for the plant owner over the next 10 years.

As mentioned above, there are many individual procedures or assumptions that may be different for fair market value valuation purposes than for fair value measurement purposes. This is because the GAAP guidance provides the rules the analyst has to apply or the assumptions the analyst has to make in the performance of the fair value measurement.
This discussion was intended to provide illustrative examples of the impact of a few typical differences between fair market value valuation procedures and fair value measurement procedures.

Illustrative Example—
Fair Market Value versus Fair Value Differences

A simplified example within the context of a business combination illustrates the quantifiable impact of some differences between fair market value valuation procedures and fair value measurement procedures. The following example is deliberately simplified for illustrative purposes.

Let’s assume the following hypothetical transaction variables:

1. Alpha Company develops a new widget business called the Beta business.
2. The Beta business just built a widget factory for $10,000,000; therefore, the replacement cost new (“RCN”) for the Beta special purpose industrial property is $10,000,000.
3. The Beta factory can produce 1,000,000 widgets per year.
4. The cost to manufacture a Beta widget is $4 per widget.
5. The current market selling price for widgets is $6 per widget.
6. The market selling price for widgets is expected to generally decrease during the next few years as follows:
   - Year 1 widget unit sale price – $6
   - Year 2 widget unit sale price – $6
   - Year 3 widget unit sale price – $5
   - Year 4 widget unit sale price – $4
   - Year 5 widget unit sale price – $4
7. The Beta factory starts producing widgets on the valuation date, January 1, 2019.
8. On January 1, 2019, Alpha Company sells all of the assets of the Beta widget business to Gamma Company for $12,500,000.
9. As part of the transaction, Gamma Company enters into a hedge price agreement (“the contract”) with Delta Company, a major consumer of widgets.
10. Under the terms of the contract, Delta Company agrees to pay for all of the Beta business widget production capacity (1,000,000 widgets per year) whether or not Delta Company takes delivery of the widgets. Under the terms of the fixed price contract, Delta Company agrees to pay $5 per widget for the next five years.
11. Under the contract, the Beta factory is assured of selling all of its capacity at a fixed price per unit for the next five years.
12. Under the contract, Delta Company is assured of a source of widget supply at a fixed price per unit for the next five years.
13. Let’s assume that the above-described contract terms are standard for the widget industry as of the transaction date. That is, the contract is considered to be an “at-market” contract.
14. The market-derived cost of capital for Gamma Company is 10 percent. That 10 percent is also the industry required return on investment.
15. In year one, Gamma Company will earn $5,000,000 in revenue ($5 unit sales price x 1,000,000 widgets). In year one, Gamma Company will incur $4,000,000 in costs ($4 unit cost x 1,000,000 widgets). Therefore, in year one, Gamma Company will earn $1,000,000 in income.
16. To simplify this example, let’s assume all revenue, cost, and income variables are measured on a net cash flow basis. And,
Let’s assume that all financial variables are recognized once a year—at year-end.

17. The Gamma Company return on the Beta business acquisition in year one will be 8 percent ($1,000,000 income ÷ $12,500,000 purchase price).

Now let’s consider the Beta business combination transaction illustrative valuation—based on the fair market value standard of value. In this simplified transaction, only three assets are acquired by Gamma Company: industrial property (the widget factory), the contract, and goodwill. This illustrative fair market value valuation is summarized below:

1. The analyst decides to apply the cost approach and the replacement cost new less depreciation (“RCNLD”) method to value the industrial property.

2. The RCN for the industrial property is $10,000,000. Since the factory is new, there is no physical depreciation. Since the factory is performing the function for which it was just designed, there is no functional obsolescence. At this point in the cost approach analysis, the factory RCNLD is $10,000,000. The market demands a 10 percent return on investment (“ROI”). However, the factory operations only produce an 8 percent ROI for the owner/operator. Therefore, there is economic obsolescence related to the acquired industrial property.

3. The analyst decides to apply the capitalization of income loss method (“CILM”) to measure the economic obsolescence. The analyst measures the required income ROI as 10 percent—the industry average cost of capital. The analyst measures the actual income ROI as 8 percent—the actual return based on the Beta business purchase price. The income loss is 10 percent required return – 8 percent actual return = 2 percent income loss; 2 percent income loss ÷ 10 percent required return = 20 percent economic obsolescence. Based on the CILM, the economic obsolescence is: $2,000,000 ($10,000,000 RCNLD × 20 percent).

4. Based on the complete application of the cost approach, the fair market value of the acquired industrial property follows:

   - Replacement cost new $10,000,000
   - Physical depreciation 0
   - Functional obsolescence 0
   - Economic obsolescence 2,000,000
   - Fair market value $8,000,000

5. The analyst decides to use the income approach and the discounted cash flow method (“DCF”) to value the contract intangible asset. The contract produces the following annual income: $5,000,000 revenue – $4,000,000 costs = $1,000,000 income (cash flow). The contract runs for five years. The present value of annuity factor for 10 percent for five years is 3.7908. The present value of an annuity of $1,000,000 per year for five years is: $1,000,000 × 3.7908 = $3,800,000 (rounded). Based on the DCF method, the fair market value of the contract intangible asset is $3,800,000.

6. The total purchase price is $12,500,000. Based on the residual method, the residual fair market value for the acquired goodwill follows:

   - Purchase price $12,500,000
   - Tangible industrial property 8,000,000
   - Contract intangible asset 3,800,000
   - Goodwill 700,000

7. The fair-market-value-based allocation of purchase price for the Beta widget business acquisition is summarized in Exhibit 1.

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**Exhibit 1**

**Beta Widget Business**

**Allocation of Transaction Purchase Price**

**Fair Market Value Valuation Standard of Value**

**As of January 1, 2019**

<table>
<thead>
<tr>
<th>Total transaction purchase price consideration to allocate:</th>
</tr>
</thead>
<tbody>
<tr>
<td>$12,500,000 cash paid</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Tangible Industrial Property</td>
</tr>
<tr>
<td>$8,000,000</td>
</tr>
<tr>
<td>Contract Intangible Asset</td>
</tr>
<tr>
<td>3,800,000</td>
</tr>
<tr>
<td>Goodwill</td>
</tr>
<tr>
<td>700,000</td>
</tr>
<tr>
<td>Total Transaction Purchase Price</td>
</tr>
<tr>
<td>$12,500,000</td>
</tr>
</tbody>
</table>
Now let's consider the GAAP acquisition accounting for the Beta business combination. This acquisition accounting will be based on the fair value measurement standard of value. FASB ASC Topic 805, *Business Combinations* (and the associated fair value measurement authoritative literature), provides the rules-based guidance for the fair value measurement of business combinations.

ASC 805 requires the application of the acquisition method of accounting with regard to business combinations.

1. First, the analyst has to calculate the fair value of the total transaction consideration. For GAAP acquisition accounting purposes, the total consideration has two components: (a) the cash paid and (b) the hedge-contract-related liability assumed. We recall that the contract allows Gamma Company to receive a $5,000,000 fixed payment each year over the five-year term of the contract. Those fixed payments are based on a hedge contract price that is different from the expected market prices for the widgets.

   The contract payments are lower than the expected market prices in the earlier years and are higher than the expected market prices in the later years. Due to the present value impact of these price differences, the price component of the hedge contract has a negative value—and would be recorded as a liability. The mathematics of option pricing are complicated and are not presented here.

   For purposes of this simplified example, let's assume the fair value of the contract liability is about $500,000 (a reasonable approximation). Therefore, the total transaction consideration is $13,000,000 ($12,500,000 cash paid plus $500,000 liability related to the price hedge portion of the contract).

2. The analyst decides to use the cost approach and the RCNLND method to value the industrial property.

3. The tangible industrial property RCN is $10,000,000. The tangible industrial property (i.e., the special purpose widget factory) is new. Therefore, there is no physical depreciation or functional obsolescence.

4. The analyst assumes that the transaction internal rate of return ("IRR") equals the transaction cost of capital ("WACC")—and also equals the transaction weighted average return on assets ("WARA").

   This valuation assumption (that IRR = WACC = WARA) is based on the following analysis: Gamma Company entered into the transaction knowing it would earn an 8 percent ROI. Gamma Company agreed to the purchase price knowing it would only earn an 8 percent ROI. Therefore, Gamma Company priced this deal based on an assumed 8 percent cost of capital (for this particular transaction). Accordingly, there is no economic obsolescence from the perspective of Gamma Company.

   The willing buyer/willing seller would demand a 10 percent ROI (based on the industry cost of capital), and that willing buyer and willing seller would negotiate a lower deal price (and a lower value for the industrial property).

   However, Gamma Company paid the deal price and Gamma Company accepts the below-market ROI. Therefore, the analyst may conclude that he or she "considered" economic obsolescence (to Gamma Company) in the valuation.

   Based on the consideration of the Gamma Company motivations and actions, there is no economic obsolescence in this transaction. This is a reasonable assumption in a fair-value-based property valuation prepared in accordance with the GAAP acquisition accounting rules.

5. We recall that the contract is considered to be an at-market contract. Under the ASC 805 rules-based guidance, an at-market contract is an intangible asset that has zero fair value. This zero fair value conclusion is consistent with the ASC 805 fair value measurement rules—even though the contract generates $1,000,000 per year in cash flow.

6. The total fair value purchase price is $13,000,000. The residual fair value measurement for the acquired goodwill follows:

   \[
   \text{Purchase price} \quad \$13,000,000 \\
   \text{– Tangible industrial property} \quad 10,000,000 \\
   \text{– Contract intangible asset} \quad 0 \\
   = \text{Goodwill} \quad \$3,000,000
   \]

7. The fair value measurement allocation of purchase price for the Beta widget business purchase is summarized in Exhibit 2 on the next page.
A comparison of Exhibit 1 and Exhibit 2 indicates that there may be material differences between fair market value valuations and fair value measurements. Fair market value valuations are judgment-based and are intended to reflect the economics of the subject transaction. Fair value measurements are rules-based and are intended to be transparent, replicable, and auditable.

In many business acquisitions, fair market value analyses and fair value measurements can be the same. However, based on the specifics of the individual transaction, the fair market value analysis and the fair value measurement can also be materially different. Fair value measurements are primarily based on the rules related to the acquisition method of accounting, as described in ASC Topic 805 (and in other GAAP implementation guidance).

Without analyzing the many differences that exist between the ASC Topic 820 fair value standard of value and the fair market value standard of value, it is not appropriate to rely on a fair value measurement for GAAP acquisition accounting purposes to estimate the fair market value of industrial or commercial property for property tax purposes.

**Summary and Conclusion**

There are significant differences between (1) the fair value measurement standard of value as it relates to GAAP financial accounting and (2) the fair market value valuation standard of value as it relates to property taxation.

Procedural differences in the application of these two standards of value may result in different quantitative value conclusion for the same bundle of taxpayer assets.

Some of these differences related to the following:

1. Differences in the assumed buyer and the assumed seller
2. Differences in the assumed unit of account (i.e., the appraisal subject)
3. Differences in the assumed highest and best use of the unit of account
4. Differences in the valuation approaches and methods relied on
5. Differences in the valuation procedures and valuation assumptions applied

Without due diligence analysis, it is not appropriate to assume that a fair value measurement conducted for GAAP compliance purposes would produce the same results as a fair market value valuation conducted for property tax purposes.

**Notes:**

2. ASC 805-10-05-4.
4. ASC 820-10-55-27.
7. ASC 820-10-35-10.

**Exhibit 2**

Beta Widget Business

GAAP Business Combination Purchase Accounting

Fair Value Measurement Standard of Value

As of January 1, 2019

<table>
<thead>
<tr>
<th>Total purchase price consideration to allocate: $12,500,000 cash paid plus $500,000 hedge contract liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tangible Industrial Property $10,000,000</td>
</tr>
<tr>
<td>Contract Intangible Asset 0</td>
</tr>
<tr>
<td>Goodwill 3,000,000</td>
</tr>
<tr>
<td>Total Transaction Purchase Price $13,000,000</td>
</tr>
</tbody>
</table>

John Ramirez is a managing director in our Portland, Oregon, practice office. John can be reached at (503) 243-7506 or at jramirez@willamette.com.