"So if I don't calculate bad debt properly then or if I overcompensate for bad debt, I'm overstating the quality of the receivables in the balance sheet."

K-NOTES

Stock Sale and Purchase Agreements

Contracting Adjustments in Purchase Price

James Raanan
Attorney

"And this particular purchase price mechanism focuses on an adjustment for working capital."

Determining Accurate Purchase Prices in Mergers & Acquisitions
In order to account for any differences, the purchase agreement includes multiple provisions to ensure detailed and accurate accounting. What follows is an analysis of the purchase price mechanisms in a 1997 Stock Purchase Agreement from Global Imaging Systems, a sales and service company for manual typewriters.

Key Takeaways

- **Preliminary Closing Balance Sheet**
  Depending on which write-off dates are used, the parties may disagree on how the receivables should be reflected on the balance sheet. And this confusion could lead to an overstatement in the working capital because working capital includes receivables minus current liabilities.
- **Working Capital Target**
  Using specific amounts is a foundational assumption. But it is quite common in these types of agreements because it provides an amount of certainty..
- **Funding Indebtedness**
  In this agreement, it appears that the buyer is trying to exclude longer-term debt. Typically, that is something you often see in agreements like this as an adjustment for cash and debt, which is then an adjustment to working capital.
- **Post-Closing Purchase Price Adjustment**
  For example, the seller has only ten days to dispute the figures. That is an extremely short time window for such a complicated transaction. And if the sellers do not object, then the money is paid out according to the final undisputed terms. In more modern contracts, typically, you would see 30 to 60 days as a more common dispute window.

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