

**Case 22-5c**  
**Reacquired Rights**

Company B (B), a privately held entity, owns and operates a professional baseball franchise. Company B has been operating under a television broadcasting agreement, entered into in 2015 (the “2015 Agreement”), under which Company F (F), a wholly owned subsidiary of Company D (D), was granted broadcasting rights to B’s baseball team.

The terms of the 2015 Agreement are as follows:

- *Parties* — Company B and F.
- *Broadcast rights* — Provides F with TV broadcasting rights to B’s baseball team.
- *Term* — Through 2025.
- *Compensation to B* —
  - Signing bonus of \$50 million.
  - Increasing annual fixed fee amounts.
- *Renegotiation rights* — Company F has right of first negotiation for periods beyond original term of the contract.
- *Reopening rights* —
  - Company B has “reopening rights” from January 2020 through May 2020, which effectively provide B with an option to terminate the agreement.
  - Company B may also exercise reopening rights if there is a change in control of F.
  - If B terminates the agreement, it must repay the portion of the signing bonus received from F. The amount of the repayable bonus decreases by \$5 million annually beginning in 2017.

In late 2018, B and D (parent of F) began negotiations of a possible amendment of the 2015 Agreement. With B holding a reopening right and D risking losing broadcasting rights entirely, B and D amended the 2015 Agreement and B effectively acquired a controlling interest in F’s business. The following transactions took place in January 2019:

Restructuring and acquisition of F’s business:

- Company B established Legal Entity R (R) and made a \$30 million investment in R in exchange for 75 percent ownership interest.
- Company D contributed the net assets of F’s business and approximately \$10 million in working capital to R in exchange for 25 percent ownership interest in R.

- Legal Entity R made payment to D of \$20 million.

The 2015 Agreement was amended (the amended 2015 agreement herein referred to as the “2019 Agreement”) as follows:

- *Parties* — Company B and R.
- *Extended term* — Through 2035 (10-year extension).
- *Signing bonus repayment* — Company B will repay \$20 million of the 2015 Agreement signing bonus to D. This is the same monetary consideration that was paid by R to D as outlined above for the acquisition of F’s business.
- *Annual fee* — Retains same increasing annual fixed amounts from 2015 Agreement, but increases annual fixed fee by 5 percent per year beginning in 2026.
- *Rights* — Company F’s (now R) right of first negotiation and B’s reopening right were removed.

Other relevant facts as of the of January 2019 transaction date are as follows:

- Company B, through its subsidiary R, obtained control of a business (F’s business); therefore, B should account for the business combination pursuant to ASC 805, *Business Combinations*. Company B is the accounting acquirer of F through its consolidated subsidiary, R.
- Immediately before the business combination, there was a contract liability of \$40 million remaining on B’s balance sheet related to the 2015 Agreement (related to the up-front \$50 million bonus).
- The 2015 Agreement was unfavorable to B by \$35 million in terms of current market terms as of the date of the business combination.
- Pursuant to the terms of the 2015 Agreement, \$40 million represents the stated settlement amount payable by B to F if it were to terminate the 2015 Agreement on the date of the business combination.

**Required:**

1. Does the 2015 Agreement represent a reacquired right?
2. In measuring the fair value of the 2015 Agreement, over what term should B calculate fair value? In addition, what impact does the unfavorable element of the agreement have on the valuation, if at all?
3. What amount should be recognized as a gain or loss on settlement as of the date of the combination?