

Case 21-1c

Slacker Settlement

Persistence Inc. (the “Company”), an SEC registrant, is a global provider of software as a service (SaaS) whose focus is facilitation of electronic payments. On April 8, 20X2, the Company completed an exchange offer to acquire MyState Co. (MyState), an independent third-party software developer. The acquisition closed on April 11, 20X2.

The Company concluded that it should account for the acquisition of MyState as a business combination under ASC 805, *Business Combinations*.

Before the acquisition, MyState was involved in litigation with one of its former executives, John Slacker. A judgment was rendered against MyState in 20X1 that awarded Mr. Slacker \$28 million. Because of the judgment, MyState recorded a liability (expense) in its financial statements and placed funds into an escrow account.

MyState had multiple directors’ and officers’ liability insurance policies in place that it believed covered losses associated with the lawsuit between MyState and Mr. Slacker. Before the Company’s acquisition of MyState, MyState had filed claims with its insurance carriers; however, all claims were denied. At the time the Company completed the acquisition, MyState had recorded no amount for expected insurance recoveries. On May 12, 20X2 (after the Company’s acquisition of MyState), a final settlement was reached between MyState and Mr. Slacker in the original judgment amount of \$28 million.

After its acquisition of MyState, the Company pursued a claim against MyState’s insurance carriers to recover the settlement paid to Mr. Slacker. The key activities and dates regarding the Company’s pursuit of the insurance recovery are as follows:

- On April 15, 20X2, the Company submitted claims against the insurance carriers.
- On May 19, 20X2, the insurance carriers denied the Company’s claim.
- On August 17, 20X2, mediation took place between the Company and the insurance carriers, but failed to resolve the matter.
- On September 15, 20X2, the Company filed suit against the insurance carriers who subsequently filed a request for dismissal.
- On November 8, 20X2, the court denied the request for dismissal, allowing the Company’s suit against the insurance carriers to continue.
- On December 25, 20X2, the Company and the insurance carriers settled the claim for \$16 million. The insurance carriers paid the claim before December 31, 20X2.