



BUSINESS VALUATION ADVISOR

*Commentary on the business of business valuation
for estate planning professionals and business owners*

This newsletter is for the information of attorneys, financial planners and business owners who deal with business valuation issues and are interested in the current thinking in business appraisal. It is not a "how to" publication, but more of an explanation of a complex professional service.



COMMENTARY

BOILERPLATE OR BS?

Boilerplate is any text that is reused in new contexts or applications without being changed much from the original. BS is . . . well you know it when you read it. There is a lot of verbiage that doesn't mean much to the casual reader - most



readers of appraisals flip to the valuation conclusion page, then maybe read a little bit about the methodology - income or market approach?

As appraisers we fill each report with about 15 pages of boilerplate - some folks get more than their fair share.

We are all used to reading legal documents and financial reports - why should business appraisers be any different? There's still a lot of language that doesn't matter much - so many different ways to say the same stuff.

We work under a set of Standards, which in some ways have a lot of boilerplate in them as well. Try reading the Uniform Standards of Appraisal Practice (USPAP) or the Statement on Standards for Business Valuation (AICPA). See *Cases in Brief* below. We have actually taken day long courses with these monographs. In using and complying with these standards one comes to understand that the role of an appraiser is as an independent, impartial and objective financial advisor who delivers a clear and unambiguous opinion of value. Wow! Now that you put it that way - it's no wonder we write such long winded paragraphs on things like the definition of fair market value (Revenue Ruling 59-60) or the state of the U.S. economy. At T&M there will be no BS and we will try very hard to limit the boilerplate. □

THE TUCKER & MELTZER DIFFERENCE

Tucker & Meltzer Valuation Advisors are independent business valuation advisors. We provide no other services (accounting, legal, financial planning or investment). Tucker & Meltzer represents an economical alternative to more expensive accounting and large valuation firms. We offer accurate, well documented, up to date, and market based value comparisons and promise an exceptional turn-around time. We have the experience and knowledge to handle the tough jobs and we look forward to having the opportunity to work with you.

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FAS 141 - VALUING INTANGIBLE ASSETS IN AN ACQUISITION

Purchase price allocation for financial accounting purposes has recently undergone significant and complex changes. Statement of Financial Accounting Standards 141 requires that all business combinations must be accounted for using the purchase method, based on the values of the assets exchanged.

This requires the valuation analyst to consider not only the value of the tangible assets that have been transferred, but the intangible assets as well. Intangible assets that may carry value upon the sale of a company include, but are not limited to, non-compete agreements, customer lists, trademarks and trade names, patents, in-process research and development, and an assembled and trained workforce. And finally, goodwill.



As with valuing an entire entity, the analyst looks to market evidence for the value of the intangible assets. In some instances the data is readily available. But more often than not, there is little to no evidence or data available.

Most often we use an income approach to valuing intangible assets. There are four primary methodologies that are used: (1) the residual cash flow method; (2) the differential cash flow method; (3) the relief from royalty method; and (4) the options method. In each of these methods, the value of the intangible assets is equal to the present value of the cash flow that the intangible asset generates, discounted for the risk associated with the actual generation of that cash flow. The most challenging issue is to isolate the cash flows that are unique to the intangible asset being valued.

As more companies are acquired or acquiring, the need for FAS 141 valuations to be incorporated within the client's financial statements grows. □

CASES IN BRIEF

HERBERT KOHLER, JR. ET AL. V. COMMISSIONER, T.C. MEMO 2006-152, JULY 25, 2006

This was an estate case in which the decedent's minority interest in Kohler Co. (plumbing fixtures) was disputed. The decedent listed \$47 million at fair market value and the service asserted \$145 million. In this case the Tax Court ruled entirely for the estate and gave the IRS appraiser's valuation report no weight. Combined discounts approached 50%. The case is extraordinary in that the Tax Court was troubled that the expert's report was not submitted in accordance with the Uniform Standards of Professional Appraisal Practice and the appraiser missed an

INTRODUCING . . .

ROBIN L. DUFFY, CPA

T&M is pleased to announce that Robin Duffy joined us as an associate in September.

She is currently specializing in FLP valuations and is working on ESOP valuations as well.

She will sit for the Certified Valuation

Analyst examination in early 2008. □



RECENT ASSIGNMENTS

Real Estate FLP (6) - Gifts

Real Estate FLP (2) - Estate

MKTS FLP - Gifts

Govt. Contractor - C Conversion

Govt. Contractor - Minority Buyout

Masonry Dist. - Sale

Govt. Contractor - ESOP

Web Hosting - Minority Buyout

Tech Mfr. - Stock Options

Benefits Company - Merger

Pre-Press - Intangible Assets

Fire Protection - Sale

Direct Mail - Sale

DID YOU KNOW . . . ?

T&M can refer you to many different appraisers including real estate, fine arts, personal property, machinery & equipment and gems and

jewelry. Have some of Thomas Jefferson's papers? 16th Century Chinese Vase? Cat 311C Hydraulic



Excavator? Just let us know and we would be happy to point you in the right direction. □

important valuation method. The IRS appraisal expert's conclusions were found "to be incredible." ❑



Tucker & Meltzer - Valuation Advisors is a business valuation firm focused on the needs of family limited partnerships and closely-held companies. The firm's founding partners have extensive experience and credentials in valuing closely-held and asset holding companies. We have performed over 300 valuations for companies in a large number of industries, reflecting our broad experience in accounting, finance, litigation services, valuation theory and capital transactions.

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ON THE SUBJECT OF DISCOUNTS ...

We recently had the opportunity to speak off the record with an attorney for the IRS.

Seems like combined discounts greater than 15% for FLPs holding cash and securities are receiving increased scrutiny.

Nevertheless, we feel that the discounts for minority interests should be considerably higher based on case law.

See *Cases in Brief*. ❑

PRIVACY STATEMENT

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