Index

Α contingent assets and liabilities, Absorption, real estate concept, 324 135-136 Accountants: controlling adjustments, 137-138 "Prohibited Activities," 40 for events subsequent to valuation American Institute of Certified Public date.(see Subsequent events) Accountants. See American Institute to financial statements assets, 135 of Certified Public Accountants generally, 139 (AICPA) industry adjustment, build-up model, audit and valuation services, 40, 161, management compensation, 152–153, fair value and GAAP, 13 outside accountant, 161 nonoperating and operating items, professional designations, 56 separating, 134–135 Accounting. See also Financial normalizing, 136-137 Accounting Standards Board periodic adjustments, 120–121 (FASB); Generally Accepted risk adjustment, company-specific, Accounting Principles (GAAP cash-basis to accrual-basis, summary, 133–134 adjustments, 136 transfer pricing valuations, 120-121 fair value, 2, 7, 12 Administrative regulations, tax law and, Accounting Standards Codification 60 - 61(ASC) 805, 16 Admissibility of evidence: Accredited by IBA (AUSA) 51 generally, 33-34 Accrual-basis accounting, adjusting limitations to, 35–36 cash-basis financial statements to, Ad valorem customs duties, 125 136 Advance Pricing Agreement (APA), 122 Acquiescence, 61 Advisory Tax Board (ATB), 8 Acquisition. See Guideline transaction Advocacy, expert witnesses, 29 (merger and acquisition) method Agreement on Implementation of Article Activity ratios (asset utilization ratios), VII of the General Agreement on 142-143 Tariffs and Trade ("Customs Adams v. Commissioner, 103 Valuation Agreement"), 125 Agreements, value definitions and, 6 Adjusted net asset value method, 243-244 AIBA. See Accredited by IBA (AIBA) Adjustments to financial statements: AICPA. See American Institute of Certified Public Accountants assets, excess/deficiencies, 135 cash-basis to accrual-basis, 136 (AICPA) categories of, 133-134, 139 AIMR. See Association for Investment collateral adjustments, 120 Management and Research (AIMR)

462

American Institute of Certified Public market approach (see Market Accountants (AICPA): approach) weighting of approaches (see accreditation criteria, 50 contact information, 56 Weighting of valuation approaches) fair value definition and, 423 Arm's length sale of property, 9, 212 training/education, 38 Arm's length standard, transfer pricing, American legal system, structure of, 115, 116, 126 59 ASC. See Accounting Standards Codification (ASC) 805 American Society of Appraisers: accreditation criteria, 50 Aschwald, Kathryn, 289 Business Valuation Standards, 213, Assemblage of assets, 17–18 405-407 Asset-based approach: contact information, 56 adjusted net asset value method, 243-244, 245 American Stock Exchange, 373 APA. See Advance Pricing Agreement excess earnings method (formula (APA) approach), 244, 246–248 Appeals: generally, 248 goodwill, 244, 247 audits and, 68 Court of Appeals (see Court of holding companies, 243, 343, Appeals) 347 Court of Federal Claims (see Court of hybrid method, 244 Federal Claims) questions to ask expert, 438 presumption of correctness, 68 reasonableness check, 246 Appellate conferee, 68 summary, 243 Appellate conference, 32 Assets: Appellate review, 64–66 assemblage of, 17 contingent, 135-136 Apportionment: assists and, 129 deficiencies, 135 intellectual property and, 118 excess, 135 Appraisal(s). See also Reports nonoperating and operating items, discussion of in report 416 separating, 134–135 effective date of, 413 Asset utilization ratios (activity ratios), hypothetical, 417 142-143 property identification, 413 Assists, customs valuation, 129 S corporations, 110 Association for Investment Management Appraiser(s): and Research (AIMR), 57 certification of, 416 Attorneys: as expert, 30–31 (see also Experts) buy-sell agreement and, 93 named in report, 416 (see also contingent assets and liabilities, 161 Experts) costs/fees, 85, 331 qualifications of, 417 expert witnesses, providing assistance qualified appraisers, 30–31 to, 29, 32, 40-43 in hypothetical dialogue, 45 significant involvement in appraisal process, 414 opinion letters and, 61 Approaches to valuation: written reports and, 34 asset-based (see Asset-based Audit(s): approach) appeals and, 68 income method (see Income approach) IRS audit process, 98

BINDEX

03/01/2011

Index

3:12:36

Page 463

industry adjustment, 174 presumption of correctness, 68 Sarbanes-Oxley Act and, 40 risk-free rate, 173 TAMs and, 350 size premium, 174 transfer pricing and, 122 Burden of persuasion, 67, 69, 70 Burden of production, 67, 69, 70 В Burden of proof: Bajaj, Mukesh, 292, 294 audits and appeals, 68 Balance sheets, common size statements, beyond a reasonable doubt, 70 147 burden of persuasion, 70 Band of investment theory, 177. See also burden of production, 70 Weighted Average Cost of Capital clear and convincing evidence, 72 (WACC) concept of, 69–70 Bankruptcy courts, 64 deficiency notice, 69, 72, 73 Basis, 105 exceptions for taxpayer's burden, Best Websites for Financial 71 - 75Professionals, Business Appraisers, generally, 67–68 presumption of correctness, 68–69 and Accountants 2nd ed., 150 Beta, 175, 182 shifting the burden, 72–75 Beyond a reasonable doubt, 70 taxpayer's burden, 71 Bias: Business appraisal reports. See Reports expert witnesses, 39 Business broker method, market selection bias, 292–293 approach, 206 Business description, 415 Bibliography: for discount for lack of marketability, Business entities. See Entity type 320 Business Reference Guide (West), 214 for industry/economic analysis, Business risk ratio, 146–147 Business Valuation Handbook 153-155 BIZCOMPS®, 199, 204, 451 (Desmond and Kelley), 385 Black-Scholes model: Business valuation professional Chaffee Study and, 308 designations, 56 for foreign currency option trades, Business valuation reports. See Reports Business Valuation Standards, 214-215, 432 "golden parachute" options, 423 405-407 Business Valuator Accredited for leeway within, 425-426 option as gift, 423 Litigation (BVAL), 52 prevalence of, 430 Buy-sell agreements: variation, 421 market approach, 215-216 Blockage, 276, 324–330 value definitions and, 6 Blocking control, 272 BVAL. See Business Valuator Accredited Block Study, 303-304 for Litigation (BVAL) Board of Tax Appeals, 8 BVMarketData, 199, 204, 220, 287, Breakup value, 264 292, 295, 300 Build-up model: **BVS-VIII Comprehensive Written** company-specific risk adjustment, Business Valuation Report(C), 174 405-407 comparison with CAPM, 175 elements of, 173 C CA-CBV, 55 equity risk premium, 173

464 INDEX

Canadian Institute of Chartered portfolio discount, 265–267 Business Valuators, The (CICBV), value definitions, 4–5 55, 57 Cash-basis accounting, adjusting to Capital Asset Pricing Model (CAPM): accrual-basis, 136 build-up model compared, 175 CBA. See Certified Business Appraiser capitalization rates, estimating, 176 (CBA) in case law, 179–185 C corporations: generally, 175–176 in comparison chart, 94 leverage ratios and, 145 generally, 86–87 Capital gains: minority valuation models and, 107 adjusted net asset value method and, and S corporations (see S 244 corporations) shareholders and, 89 taxation and, 89 step-up in basis and, 105 Certification: tax implications, 334 discussion of in report, 416 trapped-in capital gains discount (see generally, 28, 404–405 Trapped-in capital gains discount) professional organizations, 49–57 Standards Rule 10-3 and, 402, 403, Capitalization method: constant growth or decline assumption (Gordon Growth Certified Business Appraiser (CBA), 51 Model), 167–168 Certified Forensic Financial Analyst (see also Gordon Growth Model) (CFFA), 54 constant level assumptions, 167 Certified Valuation Analyst (CVA), 54 definitions, 166 CFA. See Chartered Financial Analyst generally, 166 (CFA) midyear convention, 177 CFA Institute, 57 CFFA. See Certified Forensic Financial Capitalization rates: income approach, 176, 436–437 Analyst (CFFA) Revenue Rulings (Rev. Rul.) 59-60, CFR. See Code of Federal Regulations (CFR) CAPM. See Capital Asset Pricing Model Change hands, meaning of, 10 Charitable contributions: (CAPM) Carryover basis, 105 date of report, 413 effective date of appraisal, 413 Case law: control premiums, 276–278 income tax deduction, 365 courts, 5 need for appraisal, 43 valuation date, 20 discount for contingent liabilities, 268-269 Chartered Financial Analyst (CFA), 49 CICBV. See Canadian Institute of discount for lack of control, 102, 276–278, 318 Chartered Business Valuators, The discount for lack of marketability, (CICBV) 309-319 Circuit courts, 59 fractional interests in property, Clear and convincing evidence, 70, 72 discount for, 331–332 Client, named in report, 414 income approach, 179–185 Closely-held businesses. See also S key person discount, 259–263 corporations landmark cases, goodwill, 335–338 Code of Federal Regulations (CFR), 59. minority discounts, 276–278 See also Treasury Regulations

Index 465

BINDEX

03/01/2011

3:12:36

Page 465

Code section. See Internal Revenue Conclusion of value: Code cohesiveness and, 418 Coefficient of variation, 146 discussion of in report, 416–417 Commissioner of Internal Revenue external conditions and, 436 Service as defendant in U.S. Tax financial statement analysis and, 147 Court, 62 generally, 416-417 Common size statements, 147 sources of information and, 415 Company-specific risk adjustment in the Conforming adjustments, 120 income approach, 174 Conglomerate companies: Comparable companies, market breakups of, 265 approach, 204 stocks of, 264–265 Comparable profits method, intellectual Constitutional law, 59 property valuation, 117-118 Contingent and limiting conditions, 417 Comparable sales method, 196. See also Contingent assets, 135–136 Market approach Contingent liabilities: Comparable uncontrolled transaction discount for (see Discount for method, intellectual property contingent liabilities) valuation, 116–117 financial statement adjustments, Comparable uncontrolled transactions 135-136 (CUT) method, 184 Contracts, value definitions and, 6 Comparative financial statement Contradictory prior testimony, 439 analysis: Controlled transactions and transfer activity ratios (asset utilization ratios), pricing. See Transfer pricing 142-143 Controlling interests: business risk ratio, 146 asset-based approach and, 243 common size statements, 147 case law, 103 degree of operating leverage, 146-147 controlling adjustments and, 137-138 financial risk ratio, 147 control premium and, 280 generally, 148 discounts for lack of control and, 106 leverage ratios, 144–145 discounts for lack of marketability liquidity ratios, 145–146 and, 106, 281-282, 300-305, performance ratios, 143-144 316-316 S corporations, 108–109, 110–111 return-on-investment ratios, 144 (see also S corporations) value conclusion and, 147 Compensation: valuation multiples and, 209 control adjustment for, 138 WACC and, 177 Controlling interest value, 243, 244 excess, 274 Control premiums: key person discount and, 258 management compensation case law, 276, 278 information, 152–153, 158 generally, 271–273 sources, 158 introduction to, 280-281 stock options as, 422, 423, 424, 425, measuring, 274–275 426, 427–430, 432–433 questions to ask expert, 439 Compulsion to buy or sell: Corporations, 86–87, 88–89. See also C fair market value and, 4, 7, 8, 9 corporations; S corporations meaning of, 11 Correlative adjustments, 120 Rev. Rul. 59-60 and, 99 Cost of equity, 164, 179, 180, 187 Computed value formula, 128 Cost sharing arrangement (CSA), 183

466 INDEX

Court-appointed experts, 46–47 **Customs Valuation Agreement** Court of Appeals, 63, 73, 85, 100, 244, (Agreement on Implementation of 251, 253, 254, 276, 277, 315 Article VII of the General Court of Federal Claims: Agreement on Tariffs and Trade), appeals from, 59 125 court-appointed experts, 46 CUT. See Comparable uncontrolled federal court system, 5 transactions (CUT) method generally, 63-64 CVA. See Certified Valuation Analyst tax litigation and, 62 (CVA) valuation date, 20 Court of International Trade, 59 Courts. See also Tax Court Dallas v. Commissioner, 103-104 bankruptcy, 64 Databases: for discount for lack of marketability, and case law, 5 (see also Case law) circuit courts, 59 297-300, 452 court-appointed experts, 46–47 for mergers and acquisitions, 451-452 Court of Appeals, 63 Mergerstat Review 274 district courts, 59, 63 restricted stock studies and, 286–288 generally, 58, 66 Date of valuation: legal system, structure of, 59 discussion of in report, 413–414 tax law (see Tax law) fair market value and, 8, 9, 19 tax litigation (see Tax litigation) forecasts and, 187, 217 U.S. Court of Federal Claims (see generally, 20-21 Court of Federal Claims) Gordon Growth Model and, 168, Credentials. See Professional 178 organizations and income not specified, 247 post-death factors and, 24-25 Credibility of expert witnesses, 29 39, 159, 413–414 relevance and, 26 Crimm, Nina, 30–31 subsequent events and, 19, 21, 25, 26, CSA. See Cost sharing arrangement (CSA) value of equity and, 191 Currency conversion, 130 Daubert factors, 36, 37 DCF. See Discounted cash flow method Customs valuation: assists, 129 (DCF) Deficiency notice, 69, 72, 73 computed value, 128 currency conversion, 130 Defining value, sources for: case law (see Case law) deductive value, 127–128 derived value, 128–129 contracts and agreements, 6 IRS and, 131 professional associations, 7 methods, generally, 125–126, 132 Revenue Rulings/pronouncements related-party pricing transactions, (see Revenue Procedures (Rev. 130 - 131Procs.); Revenue Rulings (Rev. resale price after importation, 125 Rul.)) royalties and license fees, 129 statutes, 3–4 summary, 124-125 treasury regulations (see Treasury transaction value, generally, 126–127 Regulations) transaction value, identical/similar De Franco, Gavious, Jin, and merchandise, 127 Richardson Study, 302–303

BINDEX

03/01/2011

3:12:36

Index

Page 467

Degree of operating leverage ratio, capitalization factors, 171 146-147 description of, 168-169 Department of Commerce, Sources of discount rate (see Discount rate) Income, 152 for equity (see Build-up model; Department of the Treasury. See U.S. Capital Asset Pricing Model Department of the Treasury (CAPM)) Derivatives. See Options example, 170 generally, 166 Derived value, customs valuation, Gordon Growth Model (see Gordon 128-129 Desmond, Glenn, 214, 385 Growth Model) Discounted cash flow method (DCF), terminal value in, 169-170 Discounting model, midyear convention Discount for contingent liabilities: in, 177–178 case law, 268-269 Discount rate: financial statement adjustments and, equity returns and, 173 135-136 questions to ask expert, 436–437 generally, 268 Discounts: blockage discount, 276, 324–330 quantifying, use of FAS No. 5, 268 Discount for lack of control (DLOC): for contingent liabilities (see Discount case law, 102, 276–278, 318 for contingent liabilities) generally, 106, 108 discussion of in report, 416 put premiums and, 306 entity-level (see Entity-level discounts) key person (see Key person discount) Discount for lack of marketability (DLOM): lack of control (see Discount for lack of control (DLOC)) benchmark for marketability, 281 - 282lack of marketability (see Discount for bibliography, 320 lack of marketability (DLOM)) case law, 309-319 minority (see Minority discounts) portfolio (see Portfolio cash in three days as benchmark, 281 - 282(nonhomogeneous assets) discount) for controlling interests, 300–305 private company discount (PCD), 301, databases, use of for quantifying 302, 303, 304, 305 discount, 297–300 shareholder level (see Shareholdergenerally, 106, 108, 319 level discounts) liquidity, importance to investors, trapped-in capital gains (see Trapped-282 - 283in capital gains discount) magnitude of discount, factors Discretionary earnings, 202 affecting, 294–297 Discretionary sanctions. See Sanctions marketability, defined, 281 District courts: marketability, degrees of, 283 federal court system, 63 option pricing as indicator of, generally, 59 305-309 Dividend Discount Model (DDM). See pre-IPO studies, 290-294 Gordon Growth Model Dividends, stock options as, questions to ask expert, 439 430-431 restricted stock studies, use of in quantifying discount, 283–290 Division Opinions, Tax Court, 62 Discounting method. See also Income DLOC. See Discount for lack of control approach (DLOC)

468

DLOM. See Discount for lack of portfolio (nonhomogeneous assets) marketability (DLOM) discount, 263–267 questions to ask expert, 438-439 Double taxation, 89 Duff & Phelps, Risk Premium Report, shareholder-level discounts and, 271, 174 278 summary, 249-250 Е trapped-in capital gains discount, EBIT. See Enterprise value to earnings 250-256 before interest and taxes (EBIT) Entity type: EBITDA. See Enterprise value to C corporations (see C corporations) earnings before interest, taxes, corporations, 88-89 depreciation, and amortization differences among entities, 94 (EBITDA) generally, 86-88, 97 Economic analysis: general partnerships, 89 bibliography, 153-155 jurisdiction, choice of, 95-96 generally, 153 limited liability company, 91 international, 150 limited partnerships, 89–91 management compensation sources, S corporations (see S corporations) 158 sole proprietorships, 87, 91 national, 150–151 tax classifications and, 91-92 objective of, 150 valuation considerations, 92-94 as part of report, 415 Equity returns: questions to ask expert, 436 build-up model, 173 regional and local, 151, 155 company-specific risk adjustment, 174 sources of information, 153-158 Economic Analysis of Law (Posner) equity risk premium, 173 generally, 172-173 Economic benefits, preferred measure industry adjustment, 174 of, 164 risk-free rate, 173 Effective date: size premium, 174 of appraisal, 413 ESOPs. See Employee stock ownership revenue procedure 390, 393 plans (ESOPs) Employee Retirement Income Security Estate and gift tax: buy-sell agreements and, 215-216 Act of 1974, 3 case law, 259-262 Employee stock ownership plans (ESOPs), 31, 283 effective date of appraisal, 413 Enterprise value to earnings before Estate Tax Regulations: interest, taxes, depreciation, and section 20.2031-1(b), fair market value, 266, 351, 396 amortization (EBITDA);, 146, 263, section 20.2031-2(e), blockage Enterprise value to earnings before discounts, 324 interest and taxes (EBIT), 304 **Evidence:** Entity-level discounts: admissibility of, 33-36 contingent liabilities, discount for, burden of proof (see Burden of proof) 267-269 expert witnesses (see Experts) entity type and, 94–95 hearsay, 35 generally, 94–95, 249–250, 269–270 relevance (see Relevance) key person discount, 256–263 spoliation of, 42

BINDEX

03/01/2011

Index

3:12:36

Page 469

Excess earnings method (formula subsequent events, effect of (see approach): Subsequent events) valuation approaches (see Asset-based applying, steps in, 244, 246 example of, 246 approach; Income approach; generally, 244 Market approach) goodwill, 244, 247 Fair value: as hybrid method, 163, 244 definitions, 2 problems with, 247–248 fair market value compared, 14 reasonableness check for, 246 GAAP, 2, 13–14 Excess returns, 175 recent developments in, 14–15 **Experts:** Revised Model Business Corporation admissibility, limitations to, 35-36 Act definition, 12 admissibility of evidence underlying state law, 12-13 opinions, 33–34 use of term, 12 appraisers, 30-31 Family limited partnerships (FLPs), 94assistance to court, 39 attorney's role, 40-43 Family-owned businesses: business valuation litigation, 32–33 non-publicly traded options and, 423 conditions, effective use of, 29 Rev. Rul. 93-12, 6, 349, 381–383 court-appointed, 46–47 Fannon, Nancy J., 109 credibility of, 29, 38-39, 159, FASA. See Fellow of American Society 413-414 of Appraisers (FASA) fair market value and, 99 FASS. See Financial Accounting generally, 28-29, 48 Standards Board (FASB) FASB ASC, 16 hearsay, 35 proving business value, 29–30 FCBV. See Fellow of the Canadian Institute of Chartered Business qualifications of, 29, 38, 43, Valuators (FCBV) questions to ask (see Questions to ask Federal Circuit: experts) adjustments to valuation, 24–25 reliability of, 36-38 no geographic boundaries, 59 roles of, 32 Federal courts. See Courts testimony (see Testimony, expert Federal law. See also Internal Revenue Code; Tax law witnesses) thresholds for, minimum, 38-39 regulations, generally, 59 types of, 31–32 and state law, 58 unbiased, 39 state law, conflict with, 59 statutes, generally, 59 U.S. Constitution, 59 Fair market value (FMV): Federal Rules of Civil Procedure (FRCP) date of valuation, 8, 9, 19 Rule 26(a)(2)(B), disclosure of definitions, 1–2, 7 experts, 40-42 determining, generally, 9–12 Federal Rules of Evidence (FRE): fair value compared, 14 historical background, 7–8 "expert" valuation status, 28 "readily ascertainable," 426–427 expert witnesses, 28–29 S corporation valuation, 110 (see also Rule 401, relevance, 23–24, 25–26 S corporations) Rule 702, expert testimony, 33–34

Federal Rules of Evidence (Continued)	common size statements, 147
Rule 703, expert testimony, bases	comparable ratio analysis, 142–147
of opinion, 34, 35	degree of operating leverage, 146–147
Rule 705, scope of expert testimony,	financial risk ratios, 147
35	generally, 140, 148
Rule 706, court-appointed experts,	growth prospect assessment, 141–142
46–47	leverage ratios, 144–145
Rule 801(c), hearsay, 35	liquidity ratios, 145–146
Fellow of American Society of	objective of, 140–141
Appraisers (FASA), 51	performance ratios, 143–144
Fellow of the Canadian Institute of	questions to ask expert, 435–436
Chartered Business Valuators	return-on- investment ratios, 144
(FCBV), 55	risk assessment, 141
FIFO. See First in, First out (FIFO)	value conclusion and, 147
inventory accounting methods	Financial statistics, comparative
Financial Accounting Standards Board	industry, 152
(FASB):	First in, First out (FIFO) inventory
fair value defined, 2	accounting methods, 136
FASB ASC, 16	FLPs. See Family limited partnerships
Generally Accepted Accounting	(FLPs)
Principles (see Generally Accepted	FMV. See Fair market value (FMV)
Accounting Principles (GAAP))	FMV Restricted Stock Study, 286,
inactive market and, 15	297–300
SFAS 141R "Business Combinations,"	Forced liquidation, 18
15–16	Form of entity. See Entity type
Statements of Financial Accounting	Fractional interests in property, discount
Standards (see Statements of	for. See Undivided fractional
Financial Accounting Standards	interests in property, discount for:
(SFAS))	Fraud:
Financial analysis, 415–416	generally, 83–84
Financial risk ratio, 147	with intent to evade tax, burden of
Financial statements enjustments to:	proof, 71–72
adjustments to assets, 135	penalties for, 76, 82
cash-basis to accrual-basis, 136	penatics 101, 70, 62
categories of, 133–134	G
contingent assets and liabilities,	GAAP. See Generally Accepted
135–136	Accounting Principles (GAAP)
controlling adjustments, 137–138	Generally Accepted Accounting
9 /	Principles (GAAP):
excess assets/asset deficiencies, 135 generally, 133–134, 139	
•	assists and, 129
nonoperating and operating items,	case law, 15
separating, 134–135	fair market value, fair value and, 14
normalizing adjustments, 136–137	fair value, 2, 12, 13–14
questions to ask expert, 435–436	as FASB's standards, 7
Financial statements, analysis of:	normalizing adjustments and, 136,
activity ratios (asset utilization ratios),	137 SEAS 141D and 15 16
142–143	SFAS 141R and, 15, 16
business risk ratios, 146	General partnerships. See Partnerships

BINDEX

03/01/2011

3:12:36

Index

Page 471

General penalties. See Penalties Handbook of Small Business Valuation General Utilities doctrine, 250-251 Formulas and Rules of Thumb (Desmond), 214 estate and gift tax, 215–216, 413 Hearsay. See Evidence of stock options, 432–433 Heck v. Commissioner, 102-103 Glossary of business and valuation Holding companies: terms, 441-446 asset approach, 243, 343, 347 Going concern, value as, 17, 216 LLCs and, 95 "Golden parachute" options, 423 minority discounts for, 275 Goodwill, asset-based approach and, REITs and, 265 244, 247 Hybrid method. See Excess earnings Goodwill, personal vs. enterprise: method (formula approach) definitions of goodwill, 334 Hypothetical appraisals, 417 generally, 244, 247, 333, 342 indications of goodwill type, I 334-335 Ibbotson Associates, 174, 180–181, landmark cases, 335–338 182, 184. See also Morningstar personal goodwill appraisal report, Illiquidity, 282–283 339-342 Imports. See Customs valuation tax implications, 334 Income approach: Gordon Growth Model: capitalization rate (see Income constant growth or decline approach, capitalization method) case law, 179-185 assumption, 167–168 discounted cash flow calculation, discounting method (see Income 170 approach, discounting method) formula, 168 discounting method and, 168-171 midyear convention and, 177–178 equity returns (see Equity returns) terminal value, estimating, 176 expected returns, projected, 172 Grabowski, Roger J., 99, 108, 109 generally, 162–164, 185 Grabowski model, 107 methods, generally, 164–165, 185 Gross v. Commissioner, 93–99, midyear convention, 177-178 100-101 net cash flow and, 164-165 Guideline companies: projections used in, 438 questions to ask expert, 436-437, guideline transaction method and, 197-202 438 market approach and, 225–235, sensitivity analysis, 172 236 Weighted Average Cost of Capital number of, 202-204 (WACC) and, 176–177 search for, documenting, 206 weighting of approaches, 343, 345, selection of, 204–205 346, 347 Guideline publicly traded company Income approach, capitalization method. See Guideline companies method: Guideline transaction (merger and constant growth or decline assumption, 167-168 (see also acquisition) method, 197-202 Gordon Growth Model) Η constant level assumptions, 167 Hall, Lance, 290 vs. discounting, 166 Hanan, Martin, 292 generally, 166

472 INDEX

Income approach, discounting method: Institute of Business Appraisers (IBA), vs. capitalizing, 166 51,57 Insurance contracts, value definitions example of, 170–171 and, 6 generally, 168–169 terminal value, 169-170 Intellectual property, international Income approach, illustration of: transfers of. See Transfer pricing balance sheets, adjusted, 188 Internal Revenue Bulletin, 61 balance sheets, forecast of, 190 Internal Revenue Code: penalties, 76-77, 82 company description, 186 section 409A, 427 cost of equity computation, 192 discounting net cash flow to invested section 482, transfer pricing, 113– capital, 190, 191, 192-193 116, 120 (see also Transfer pricing) discount rate, estimating, 187 section 6659, valuation penalties, 379-380 equity value and, 193-194 financial statements/forecasts, section 6662, valuation penalties, 379 186 - 187section 6662(c), negligence, 82–83 income statements, adjusted, 189 section 6663, fraud, 83-84 income statements, forecast of, 190 section 6673, discretionary sanctions, net cash flow to invested capital, 84-85 section 6701, aiding and abetting 191 opinion of value, 193, 194 understatement of tax, 84 stockholders' equity, forecast, 191 section 7491, burden of proof, 73–75 valuation assignment, 186 Internal Revenue Service (IRS), 6. See valuation methods applied, 187 also Revenue Procedures (Rev. valuation of company, 187 Procs.); Revenue Rulings (Rev. Weighted Average Cost of Capital Rul.); Tax Advice Memorandum (WACC) and, 192 (TAMs) Income statement, performance ratios, code section 1059A, customs values, 143-144 131 Industry adjustment, income approach positions, generally, 348–350 and, 174 report-writing standard, 408-412 Industry analysis, 415 Internal Revenue Service (Service) bibliography, 153-155 acquiescence and nonacquiescence comparative industry financial to court decisions statistics, 152 positions on valuation (see Revenue components of, 151–153 Procedures (Rev. Procs.); Revenue general industry conditions and Procedures (Rev. Rul.); Tax Advice outlook, 152 Memorandum (TAM)) generally, 149, 153 private letter rulings, 61 industry information, 155–158 Internal Revenue Service Business Valuation Guidelines management compensation information, 152–153, 158 International transactions: objective of, 150 customs valuation (see Customs as part of report, 415 valuation) transfer pricing (see Transfer pricing) questions to ask expert, 436 sources of information, 153–158 Interpretive regulations, 60 Initial public offering (IPO), 282, 291. Interviews: See also Pre-IPO studies generally, 159, 161

BINDEX 03/01/2011

3:12:36 Page 473

Index 473

with management, 160	state laws, 95–96
outsiders, 160–161	tax classifications and, 91
questions to ask expert, 436	Limited partnerships (LPs):
Intrinsic value, 2, 17	in comparison chart, 94
Inventory accounting methods, 136	family limited partnerships (FLPs),
Investments, portfolio discount. See	94–95
Portfolio (nonhomogenous assets)	features of, 90
discount	generally, 89–91
Investment value, 2, 16–17	Liquidations, 18
IPO. See Initial public offering (IPO)	Liquidity:
IRS. See Internal Revenue Service (IRS)	investors and, 282-283
IRS Valuation Training for Appeals	ratios, 145–146
Officers Coursebook, 257, 314	<i>LiquiStat</i> TM database, 286
Iterative process, WACC and, 176	Litigation witnesses. See also Trials
	expert testimony, 33
J	lay witnesses, 32–33
Jankowske, Wayne, 264	LLC. See Limited liability companies
Johnson Study, 296, 297	(LLCs)
Judge(s):	LPs. See Limited partnerships (LPs)
expert testimony and, 36	
in hypothetical dialogue, 45	M
Jurisdiction, choice of, 95–96	Management
	Compensation (see Compensation)
K	interviews with, 160
Kelley, Richard, 385	Management Planning Study, 297
Key person discount:	Mandelbaum factors, 310–311, 312,
case law, 259–263	313, 314
factors to consider, 258	Marketability:
generally, 256	definition of, 281
IRS position, 256–257	degrees of, or lack thereof, 283
quantifying magnitude of, 258–259	Marketability, lack of. See Discount for
Kumbo factors, 37	lack of marketability (DLOM)
· ·	Market approach:
L	business broker method, 206
Lack of marketability. See Discount for	buy/sell agreements, 215–216
lack of marketability (DLOM)	comparable companies, 204
Legal system, structure of, 59	comparable sales method, 196
Legislative regulations, 60	equity procedure, 200–202
"Levels of value," 273	example (see Market approach,
Leverage ratios, 144–145	illustration of)
Liabilities, contingent. See Contingent liabilities	generally, 196, 216
License fees:	guideline companies, documenting search for, 206
royalties and, 129	
transaction value and, 126	guideline companies, selection of, 204–205
Limited liability companies (LLCs):	guideline transaction (merger and
in comparison chart, 94	acquisition method), 197–202
generally, 87, 91	market valuation approach tables, 21
50110141119, 07, 71	market variation approach tables, 21.

Market approach: (Continued)	Mercer model, 107
market value of invested capital	Merger. See Guideline transaction
(MVIC), 144, 221, 236	(merger and acquisition) method
methods classified under, generally,	Mergerstat®BVR Control Premium
211	Study TM , 274
multiples (see Multiples, market	Mergerstat Review, 274
approach and)	Mergerstat®Shannon Pratt's Control
North American Industrial	Premium StudyTM, 220
Classification System (NAICS) codes, 204	Methodology, general questions about, 436
number of companies to select, 202-	Methods of valuation. See Valuation
204	approaches
offers to buy, 213	Midyear convention:
past acquisition by subject company,	in capitalization method, 177, 178
213	in discounting model, 177
past transactions, 212–213	Minority discounts. See also Discount
price, generally, 200	for lack of control (DLOC)
questions to ask expert, 438	case law, 276–278
Rev. Rul. 59-60, 196–197	generally, 271-273, 278
rules of thumb, 213–214	introduction to, 280-281
Standard Industry Classification (SIC)	"levels of value," 273
codes, 204	measuring, 274–275
Market approach, illustration of:	questions to ask expert, 439
company description, 217	Rev. Rul. 93-12, 6, 349, 381–383
financial statements analysis, 221	Minority interests:
financial statements/forecasts, 217–	questions to ask expert, 439
219	S corporations and, 104–106, 110
guideline companies and, 225-235	summary, theories and, 106-108
market data, gathering, 220-221	Minority valuation models, differences
merged/acquired companies, 237-242	in, 107
valuation assignment, 217	Model Business Corporation Act
valuation multiples, identification/	(MBCA), 13
application, 221, 231, 235	Moment-of-death concept, 259
valuation of company, 235-236, 241-	Morningstar, 174, 180
242	Multiples, market approach and:
Market value of invested capital	assigning weights to, 211
(MVIC), 144, 221, 236	numerators, prices to use in, 206–207
Martin Ice Cream v. Commissioner,	objective empirical evidence and,
335–336	206
Master Certified Business Appraiser	valuation multiple, level of, 207–209
(MCBA), 52	MVIC. See Market value of invested
MBCA. See Model Business	capital (MVIC)
Corporation Act (MBCA)	
MCBA. See Master Certified Business	N
Appraiser (MCBA)	NASDAQ, 198, 375
Memorandum Opinions, Tax Court, 63	National Association of Certified
Mercer, Z. Christopher, 99, 108, 282,	Valuation Analysts (NACVA), 57
318	Negligence, 82–83

Index 475

BINDEX

03/01/2011

3:12:36

Page 475

Net cash flow, income approach and, gifts of stock options, 432–433 164-165 introduction/background, 421-422 New York Stock Exchange, 373 non-publicly traded, 423 1918 Revenue Act, 8 open transactions doctrine, 426 Nonacquiescence, 61 option privilege, 425, 429, 430 Noncontrolling interest: publicly traded, 421, 422 portfolio discount effect and, 264 "readily ascertainable" fair market value, 426-427 questions to ask when valuing, 1908 residual goodwill and, 16 rules for valuing, 427–433 strike price, 421 Nonhomogeneous assets. See Portfolio (nonhomogeneous assets) discount valuation date, 424 valuation formula, 424-426 Nonoperating assets, 134–135 Nonrecurring items, normalizing when, how, what, and if issues, 424-427 adjustments and, 136 North American Industrial Orderly disposition, value as, 17 Classification System (NAICS) Organizations. See Professional codes, 204 organizations Ownership, "levels of value," 273 Norwalk v. Commissioner, 337–338 Notice of Deficiency, 62 P Paglia and Harjoto Study, 304–305 Offers to buy, market approach, 213 Partition: analysis, 331 Officer, Micah, 302 "One-man" business. See Key person right to, 330 discount Partnership Profiles, 439 Open transactions doctrine, 426 Partnerships: Operating assets, 134–135 in comparison chart, 94 Operating companies: family limited (FLPs), 94–95 cash/cash equivalents and, 164 general partnerships, 89 control premiums/minority discounts limited (see Limited partnerships) for, 274–275 Partnership Spectrum going-concern basis for, 216 Pass-through tax entities, 89. See also S nonoperating assets and, 134, 135 corporations weighting of approaches, 243, 343 Past acquisitions, market approach, Optimum Software. See Income approach, illustration of; Market Past transactions, market approach, approach, illustration of 212-213 Option privilege, 425, 429, 430 PCD. See Private company discount Options: (PCD) Black-Scholes model, 421, 423, 425, Penalties. See also Remedies, 426, 430, 432 underpayment of taxes calls and puts, 421 Code provisions, 76–77, 82 as compensation, 422, 423, 424, 425, discretionary sanctions, 84-85 426, 427–430 fraud, 83-84 generally, 76-81 as corporate distributions, 430–432 as derivatives, 421 general penalties, 82–84 fair market value, 421 negligence, 82–83 generally, 420–421, 422–424 overvaluations, 379–380

Penalties. See also Remedies	certification (see Certification)
(Continued)	contact information, 56–57
preparer and appraiser, 81–82	list of, 38
for underpayment, 77, 78	professional designations, 56, 435
understatement of tax, aiding and	standards of value and, 7
abetting, 84	Profit split method, intellectual property
valuation penalties, 78–81	valuation, 118–119
Pension Protection Act of 2006, 81	Projections for expected returns, 172
Performance ratios (income statement),	Proof. See Burden of proof; Evidence
143–144	Property, meaning of, 10
Petitions, Tax Court, 62, 69, 71, 72	Proposed regulations, 60
PLRs. See Private Letter Rulings (PLRs)	Public StatsTM, 220
	Public stack transaction data. See
Pluris DLOM database, 287–288	
Portfolio (nonhomogeneous assets)	Morningstar
discount:	Pure plays, 263
case law, 265–267	
evidence supporting, 264–265	Q
generally, 263–264	QMDM. See Quantitative Marketability
pure plays, 263	Discount Method (QMDM)
Portfolio effect, 264	Qualifications:
Posner, Richard A., 70	of approiser listed in report, 417
Post-death factors, 24–25	expert witnesses, 29, 38, 43
Pratt's Stats, 199, 204, 220, 302, 304	questions to ask expert, 434–435
Pre-incorporation agreements, 6	Quantitative Marketability Discount
Pre-IPO studies:	Method (QMDM), 318
criticisms of, 292–294	Questions to ask experts:
empirical databases, 319	asset-based approach, 438
Valuation Advisor's study, 291-292	contradictory prior testimony, 439
Premise of value, 17–18	control premiums applied, 439
Premiums:	discounts for lack of marketability,
control premiums (see Control	439
premiums)	economic and industry data, 436
discussion of in report, 416	entity-level discounts, 438-439
equity risk premium, 173	financial statement adjustments and
shareholder-level, introduction to,	analysis, 435–436
280–281	income approach, 436–437, 438
size, 174	market approach, 438
Prenuptual agreements, value definitions	methodology, generally, 436
and, 6	minority discounts/control premiums,
Preparer penalties, 81–82	439
Preponderance of evidence, 70, 73, 84	qualifications, 434–435
Price, market approach, 200	site visits and interviews, 436
Private company discount (PCD), 301,	voting and nonvoting stock discount,
302, 303, 304, 305	439
Private Letter Rulings (PLRs), 61, 350	
Private Raise database, 288	R
Professional designations, 56, 435	Ratio analysis. See Comparative
Professional organizations:	financial statement analysis
- 1012001011d1 015d1112d110110.	maniferar ocacomient anary on

BINDEX

03/01/2011

3:12:36

Index

Page 477

Real estate appraisals, market approach Report-writing standards: and, 196 American Society of Appraisers Real estate investment trusts (REITs), Business Valuation Standards, 405-407 Reasonable knowledge of relevant facts, IRS guidelines, 408–412 11 - 12Uniform Standards of Professional Relevance: Appraisal Practice (USPAP), adjustments to valuation, 23–24, 25 400-405 importance of, 25–26 Restricted management account (RMA), reasonable knowledge of relevant 393-398 facts, 11–12 Restricted Securities Trading Network subsequent events, 26 (RSTN), 286 types of, 26 Restricted stock: defined, 283 valuation multiples, 209–210 Reliability, expert witnesses, 36–38 discounts, SEC rules and, 285 Remedies, underpayment of taxes, 78– Restricted stock studies: 79. See also Penalties empirical databases, 319 post 1997, 286, 287, 288 Reports: appraisal process, description of, 416 private-company DLOMs and, 289appraiser, name of, 416 290 certification of appraiser, 417 public markets, liquidity and, 289 client, name of, 416 Rev. Rul. 77-287, 284, 349, 370-375 conclusion of value, 416-417 SEC Institutional Investor Study and, contingent and limiting conditions, 284, 285–286, 287 417 SEC rule changes, 285 date of report, 413–414 Restrictive agreements, Rev. Rul. 59-60, description of business, 415 357-358 discounts/premiums applied, 416 Retained net income, 108 economic and industry analysis, 415 Return on book value, market approach, effective date of appraisal, 413 208 elements of, 412-413 Return-on-investment ratios, 144 financial analysis, 415-416 Return on sales, market approach, 208 generally, 400, 418 Returns, projected amounts of expected, hypothetical appraisals, 417 172 identification of property appraised, Revenue Procedures (Rev. Procs.): 413 2003-51, valuation of inventory, intended use of, 414 386-390 organization of, 418 2007-41, valuation safe harbor, 349, 390-393 qualification of appraiser(s), 417 qualities of good report, 418–419 66-49, donated property, 349, sources of information relied on, 415 363-366 standard of value, 414 77-12, allocating value among assets, 349, 368-370 standards (see American Society of Appraisers Business Valuation generally, 6-7, 61, 350 Revenue Rulings (Rev. Rul.): Standards; Uniform Standards of Professional Appraisal Practice 2008-35, restricted management (USPAP)) account agreement, 349, 393–398 valuation approaches and, 414 50-60, fair market value, 66

478

Revenue Rulings (Rev. Rul.): Revised Uniform Limited Partnership (Continued) Act (RULPA), 90 65-192, intangible assets, "formula" Right of first refusal (ROFR), 102 approaches, 348, 358-362 Risk: 65-193, intangible assets, 348, 362–363 assessment of, 141 68-609, formula approach, intangible measures that bear on, 296 assets, 247, 349, 366–368 unsystematic, 181 Risk adjustment, company-specific, 174 77-287, valuation of restricted stock, 284, 349, 370–375 Risk analysis. See Comparative financial 83-120, closely held business, 349, statement analysis 376-379 Risk-free rate, 173 85-75, valuation misstatement, 349, Risk Management Association (RMA), 379-380 152 93-12, minority discounts, closely-RMA. See Restricted management held corporations, 6, 349, 381-383 account (RMA) generally, 6-7, 61, 349-350 RMBCA. See Revised Model Business Revenue Rulings (Rev. Rul.) 59-60: Corporation Act (RMBCA) comparable companies, 204–205 ROFR. See Right of first refusal (ROFR) fair market value defined, 99 Rollups, 273 as foundation of valuation, 6, 348, Royalties: 414, 415 customs valuation, 129 gift/estate tax values, stockholder transfers of intellectual property (see agreements, 215-216 Transfer pricing) RSTN. See Restricted Securities Trading guideline public companies, 344 key person discount, 256–257 Network (RSTN) market approach emphasized in Rules of thumb: 196-197 generally, 215–216 mathematical weighting of market approach, 213–214 approaches, 344–345 nature of, 213 section 1: purpose, 351 problems with, 214 section 2. background and definitions, sources for, 214 use of, 213-214 351-352 section 3: approach to valuation, 352 RULPA. See Revised Uniform Limited section 4: factors to consider, 352– Partnership Act (RULPA) S section 5: weight to be accorded to various factors, 356–357 Sanctions: discretionary, 84-85 section 6: capitalization rates, 357 generally, 76–77 section 7: average of factors, 357 section 8: restrictive agreements, Sarbanes-Oxley Act, 40 357-358 S corporations: section 9: effect on other documents, appraisal considerations, 110 358 case law, 100-104 summary, 350-351 in comparison chart, 94 text, 351 controlling interest appraisals, writing of, 197 108-109 **Revised Model Business Corporation** generally, 86–87, 99–100, 110–111 Act (RMBCA), 12 minority interest appraisals, 104–106

BINDEX

03/01/2011

Index

3:12:36

Page 479

Small-stock premium, failure to add, minority interest theories, 106–108 penalty for underpayment, 79 182 - 183summary, 110-111 Sole proprietorships, 87, 91 taxation and, 89 Spoliation of evidence, 42 SEC Institutional Investor Study: Standard Industry Classification (SIC) changes in SEC rules, 285 codes, 204 DLOM and, 284 Standard of proof, 70 generally, 284 Standard Research Consultants Study, 295, 296, 297 restricted stock studies subsequent to, 285-286 Standards of value: SEC's dribble-out rule, 290, 295 defining value, sources for, 3–7 SEC study, 296, 297 definition of value and, 2-3 Securities laws, 370 discussion of in report, 414 Selection bias, 292–293 fair market value (see Fair market Sensitivity analysis, 172 value) "Service," the. See Internal Revenue fair value (see Fair value) Service (IRS) generally, 1–3 Setoffs, 120 intrinsic value (see Intrinsic value) SFAS. See Statements of Financial investment value (see Investment Accounting Standards (SFAS) value) Standards Rule 10-2(a), 405 Shareholder-level discounts: blockage, 324-330 Standards Rule 10-3, 402, 403, 404 discount for lack of control (see Standards Rule 10-4, 405 Discount for lack of control State law. See also Statutes fair value, 12-13 (DLOC)) discount for lack of marketability (see and federal law, 58 Discount for lack of marketability federal law, conflict with, 59 (DLOM)) Statement of Contingent and Limiting generally, 271, 278, 321, 33 Conditions, 417 introduction to, 280–281 Statements of Financial Accounting undivided fractional interests in Standards (SFAS): property, 330–332 No. 133, balance sheet reporting and voting vs. nonvoting shares, fair value, 7 321-324 No. 141R, "Business Combinations," Silber Study, 295 15 - 16Site visits: No. 157, fair value, methods, 7, 13 generally, 159, 161 **Statutes:** interviews, outside company, state and federal, 59 160 - 161value definitions, 3–4 management interviews, 160 Stock options. See Options questions to ask expert, 436 Stocks, Bonds, Bills, and Inflation, Size premium, 174 Small Business and Work Opportunity Structured settlements, value definitions Act of 2007, 81 and, 6 Small businesses: Subchapter C corporations. See C and burden of proof, 74 corporations cash-basis accounting, 136 Subchapter S corporations. See S rules of thumb and, 213 corporations

480

Subsequent events: Terminal value: adjustments to valuation, 23–25 discounting method and, 169-170 estate claims, 22–23 in Gordon Growth model, 176 generally, 19, 27 Testimony, expert witnesses: key question, 19 concerns about, 44-45 reasonably foreseeable events, 21-22 contradictory prior, 439 Federal Rules of Evidence. (see Federal relevance, importance of, 25–26 Rules of Evidence (FRE)) subsequent sales, 26 valuation date and, 20-21 generally, 33 opinion testimony, 34, 35 Т scope of testimony, 35–36 Tariffs, 125 Tax Court, rules governing testimony Tax Advice Memorandum (TAMs), The Pension Protection Act of 2006, 43 349, 350, 383–386 Transaction-based valuation, 7 Tax Court: Transaction method, 280 adjustments to valuation, 23–24 Transaction value, customs valuation, 2, appellate review, 64-66 17, 126–127 Transfer pricing: bankruptcy courts, 64 burden of proof, 69, 71–75 adjustments, 120–121 court-appointed experts, 46 advance pricing agreements, 122 Court of Federal Claims, 63–64 apportionment of value among joint Division Opinion, 62 holders, 121–122 expert testimony, rules governing, arn's-length standard, 115, 116, 126 37 - 38catchall provision, 119 federal district courts, 63 collateral adjustments, 120 Gross decision, 98–99, 100-101 common control, 114 jurisdiction of, 62 comparable profits, 117–118 Memorandum Opinions, 6 comparable uncontrolled transaction procedure, 62-63 method, 116-117 Rule 143(g), 35 generally, 113–116, 123 T.C. Memos, effect o joint holder, apportioning value Tax Court Reports, 62 among, 121–122 Taxes, penalty for underpayment of, 77, methods, generally, 116, 119–120, 78. See also Penalties 123 Tax law. See also Revenue Procedures periodic adjustments, 120-121 (Rev. Procs.); Revenue Rulings profit split method, 118–119 summary, 112–113 (Rev. Rul.) unspecified methods, 119 acquiescence, 61 administrative regulations, 60–61 Trapped-in capital gains discount: Private Letter Rulings (PLRs), 61 case law, 251–252 Tax litigation: generally, 250 appellate review, 64-66 General Utilities doctrine, 250-251 Court of Federal Claims, 63-64 IRS position, 252 federal district court, 63 logic underlying, 250 "Notice of Deficiency," 62 partnership cases and, 255–256 United States bankruptcy courts, 64 reduction of 100 percent, Fifth Circuit U.S. Tax Court, 62–63 and, 254 Temporary regulations, 60–61 subsequent cases and, 252-254

BINDEX

03/01/2011

Index

3:12:36

Page 481

Treasury Department. See U.S. Treasury Regulations (see Treasury Department of the Treasury Regulations) USPAP. See Uniform Standards of Treasury Regulations: Professional Appraisal Practice fair value definition and, 423 interpretive regulations, 60 (USPAP) legislative regulations, 60 U.S. Tax Court. See Tax Court proposed regulations, 60 V Revenue Procedures (see Revenue Valuation Advisors' Lack of Procedures (Rev. Procs.)) Revenue Rulings (see Revenue Rulings Marketability Discount StudyTM, 291-292 (Rev. Rul.)) § 1.170A-13c, Qualified Appraisers, Valuation approaches: asset-based (see Asset-based § 1.83-7, valuation dates for stock approach) options, 428 generally, 12 § 20.2031-1b, 4 income approach (see Income temporary regulations, 60-61 approach) market approach (see Market value definitions, 4 Treaties, 125, 126 approach) Treharne, Chris D., 99, 108 report, approaches considered and Treharne model, 107 used, 414 Trend analysis, 147 weighting of approaches (see Trials: Weighting of valuation approaches) Court of Federal Claims, 5 Valuation controversies. See Burden of proof federal district courts, 59 Tax Court, 5 Valuation date. See Date of valuation Valuation multiples, market approach: assigning weights to, 211 Undivided fractional interests in generally, 207 property, discount for: level of, choosing, 208–209 case law, 331-332 mechanics of choosing levels of, comparable sales, 330-331 208-209 estimation of discount, 330 relative growth prospects, 208 generally, 330 return of sales, 208 partition analysis, 331 return on book value, 208 Uniform Standards of Professional risk, relative degree of, 207–208 Appraisal Practice (USPAP) selecting multiples, 209–211 report-writing standard, 400-405 Value. See also Conclusion of value assumptions, 17–18 Unsystematic risk, 181 U.S. bankruptcy courts, 64 definition of value and, 2-3 U.S. Constitution, 59 definitions, 7–12 U.S. Court of Federal Claims. See Court source for defining, 3–7 of Federal Claims standards of (see Standards of value) U.S. Court of International Trade, 59 subjective nature of, 29-30 U.S. Customs and Border Protection Value conclusion. See Conclusion of value (CBP), 125 U.S. Department of the Treasury Valuing Small Businesses and fair market value and, 1, 3, 5, 9 Professional Practices (Pratt), 385

BINDEX 03/01/2011 3:12:36

482 INDEX

Van Vleet, Daniel R., 99, 108 Van Vleet model, 107 Voting and nonvoting stock, 439 Voting vs. nonvoting shares, 321–324

Page 482

W

WACC. See Weighted Average Cost of Capital (WACC) Wall v. Commissioner, 101–102 Walton, L. Richard, 112, 124 Web sites:

Best Websites for Financial Professionals, Business Appraisers, and Accountants 2nd ed., 150

Weighted Average Cost of Capital (WACC): book values and, 179

capitalization rate and, 191 capital structure and, 177 discount rate and, 183, 187 example of, 176 income approach and, 176–177 stock value and, 179–180

Weighting of valuation approaches: examples of, 345–346 generally, 343, 347 mathematical vs. subjective, 344–345 theory and practice, 343–344

West, Tom, 214

Willing buyer and willing seller: fair market value and, 8 meaning of term, 10–11

Witnesses:

expert testimony, 33 (*see also* Experts) lay witnesses, 32–33

Working capital:

excess of deficient assets, 135 midyear convention and, 177 net cash flow to equity and, 165 net cash flow to invested capital and, 165 sales to net working capital, 143

Y Yield to maturity, 172