

The Broadband Tax Institute

2002 Annual Conference
Monterey, California

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Managing the Appraisal Process

Monday, September 30, 2002

How is the Appraisal Going to be Used?

- ◆ Financial Reporting
- ◆ Federal / State / Local Tax Filings
- ◆ Internal Financial Management
- ◆ Stock Options / Compensation
- ◆ ESOPs
- ◆ Litigation and Expert Testimony

Establish the Purpose of the Appraisal

- ◆ Purchase Price Allocation
- ◆ Business Enterprise Valuation
- ◆ Stock Valuation
- ◆ Property Taxes
- ◆ Litigation Support
- ◆ FASB 142 Impairment Analysis
- ◆ Employee Compensation

Goals of the Appraisal

- ◆ Meet Financial Reporting Requirements
- ◆ Meet Tax Filing Requirements
- ◆ Provide an Independent Opinion
- ◆ Provide an Alternative Valuation or Contest Another Valuation
- ◆ Assist Management in the Decision-making process
- ◆ Provide Merger and Acquisition Support
- ◆ Assist in Obtaining Financing / Review Collateral

How Do I Get Started?

- ◆ Project Initiation
 - Data Collection
 - Site Visit



Data Collection



◆ Timing

- Pre-Valuation Date
- Post-Valuation Date

Data Collection

◆ Personnel

■ Corporate

- Historical Financial Data (P&Ls, fixed asset costs)
- System Management Reports
- Property Tax Data

Data Collection

◆ Field / System

■ Detailed Data

- Equipment Listings
- Local Construction Costs
- Operational Reports
- Channel Charts and Rate Cards
- Customer Life Data

Site Visit

◆ Pros

- Facilitates data collection
 - Meet personnel face-to-face
 - Can judge completeness of collected data
 - Better understanding of in-place reporting data
 - Generally very efficient process
- Visual observation of tangible assets



Site Visit

◆ Cons

- Costs
- Retrospective valuation date

Key Aspects of the Appraisal Process

- ◆ Business Enterprise and Investment Valuations – Applications
 - Mergers and Acquisitions
 - Expert Opinions
 - Dispute Resolution
 - Investment Decisions and Financing
 - Investment Interests (stock, warrants, equity, debt, appreciation rights, options, estates)

Business Enterprise and Investment Valuations

- ◆ Who will be Involved?
 - President / CEO / COO
 - CFO
 - Senior Accounting Staff
 - Division Management

Business Enterprise and Investment Valuations

- ◆ Reasons for the Appraisal?
 - Transaction
 - Fiduciary Requirements (boards, trustees)
 - Contractual Requirements (buy-sell, puts)
 - Stock and Compensation Plans
 - Estate and Gift Taxes
 - Litigation

Key Aspects of the Appraisal Process

- ◆ Asset Appraisals – Applications
 - Purchase Price Allocations
 - Property Tax Matters
 - Like-Kind Exchanges
 - Royalty Rates / Transfer Pricing
 - IRS Support

Asset Appraisals

◆ Who will be Involved?

- Tax Director
- CFO
- Accounting and Tax Department Staff
- Local Management
- Engineering and Technical Staff

Asset Appraisals

- ◆ Reasons for the Appraisal?
 - Tax Reporting
 - Financial Reporting – Business Combinations (FASB 141)
 - Asset Writedowns
 - Asset Inventory Management (Property Taxes)
 - Charitable Contributions
 - Litigation

Business Enterprise and Investment Valuations

- ◆ Most Common Valuation Methodologies
 - Income Approach –
 - Discounted Cash Flow Analysis
 - Multiples Approach – Cash Flow / Revenues / Subs
 - Capitalized Earnings
 - Dividend Returns

Business Enterprise and Investment Valuations

- ◆ Most Common Valuation Methodologies
 - Market Approach –
 - Comparable Sales – Transaction Analysis
 - Guideline Public Companies – Public Markets
 - Multiples Analysis - Shorthand
 - Venture Capital Market
 - Fundamentals Analysis

Business Enterprise and Investment Valuations

- ◆ Most Common Valuation Methodologies
 - Cost Approach –
 - Rarely Used
 - When Used – Liquidation / Bankruptcy Situations
 - Sometimes Appropriate for Startups
 - Principle of Substitution – Pay no more than the cost to replicate

Asset Appraisals

- ◆ Most Common Valuation Methodologies – Tangible Assets
 - Cost Approach –
 - Replacement Cost Approach
 - Consider Factors Such as:
 - Condition
 - Obsolescence
 - Future Usefulness
 - Remaining Useful Life

Asset Appraisals

- ◆ Most Common Valuation Methodologies –Tangible Assets
 - Market Approach –
 - Comparable Sales – Real and Personal Property
 - Used Equipment Market
 - Sources: Blue Books, Vendors, Auctions
 - Factors: Condition, Demand, Location
 - Other Factors: Costs to Remove, Transport, Make-Ready

Asset Appraisals

- ◆ Most Common Valuation Methodologies – Tangible Assets
 - Income Approach –
 - Least Common – Used for Real Property
 - Requires Attributing Income to a Single Asset
 - Most Assets Cannot Generate Income Independently
 - Sometimes Used for Aggregated Assets
 - Confuses Business Income with Asset Income

Asset Appraisals

- ◆ Most Common Valuation Methodologies – Intangible Assets
 - Income Approach
 - Market Approach – Comparable Sales
 - Cost Approach – Cost to Replicate
 - Lifecycle / Attrition Studies