

Accounting for  
Intangible Assets:  
FASB Statements 141 and 142

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## Media Intangible Asset Identification Issues

In July 2001, the Financial Accounting Standards Board (FASB) issued Statements No. 141 and 142 addressing business combinations and intangible asset accounting issues of particular significance to broadcasters, cable television operators, and new media entities. This monograph describes several intangible assets encountered in the course of business combinations involving these enterprises.

FASB Statement No. 141 addresses accounting and reporting for business combinations, superseding APB Opinion No. 16, *Business Combinations*, and FASB Statement No. 38, *Accounting for Preacquisition Contingencies of Purchased Enterprises*. Essentially, all business combinations initiated after June 30, 2001 are to be accounted for using the purchase method of accounting. Statement No. 141 requires that, where it exists, Goodwill, defined as the excess of the cost of an acquired entity over the net of the amounts assigned to acquired assets and assumed liabilities, is to be recognized. Other acquired intangible assets are to be separately recognized if: (1) they arise from contractual or other legal rights, regardless of whether those rights are transferable or separable from the acquired enterprise, or (2) in cases where they do not arise from such contractual or legal rights, only if they are separable, that is, capable of being separated or divided from the acquired enterprise.

A list of illustrative intangibles which are deemed to be distinguishable from Goodwill has been compiled by the FASB. Among the listed intangible assets are: trademarks; tradenames; newspaper mastheads; non-compete agreements; customer lists; customer contracts and relationships; video, audio and music materials; licensing and royalty agreements; advertising contracts; lease agreements; franchise agreements; operating and broadcast rights; employment contracts; and Internet domain names.

Intangible assets routinely encountered in the broadcasting, cable television, and new media industries include FCC licenses, cable television franchises, affiliation agreements, paid subscribers, customer lists, and Internet domain names. These assets are typically among the most valuable assets of the associated businesses and, as such, are valued using one or more specialized approaches dictated by the characteristics of the entity at issue and the market in which it operates.

Virtually all media businesses possess other unique intangible assets which may call for specialized valuation approaches and methodologies. The examples which follow, and the associated valuation approaches, are not exhaustive nor are they intended to be definitive. However, they do provide some guidance as to the ways in which the values of certain types of intangible assets can be quantified.

Talent Contracts - Employment agreements with announcers, news anchors, and other on-air personalities may have identifiable values, measurable by comparing projected advertising revenues associated with the subject talent's performance to those an alternate performer or program might reasonably be expected to generate.

Management Contracts - Similar issues arise in the evaluation of management contracts. General managers, senior executives, and sales personnel may also be party to valuable employment contracts, the value of which can be analyzed in the context of revenues or income associated with the subject's performance, contrasted to that of a hypothetical substitute employee.

Non-Compete Agreements - Agreements not to compete may also constitute valuable intangible assets, particularly in cases where competition from a former operator of the business or a former employee would likely result in a material diminution of revenues and income. The analysis of such agreements often relies upon projections of the economic impact of hypothetical seller or employee competition over the term of the subject contract.

Favorable Leasehold Interests - Leases which contain below-market rental rates or favorable options may have a significant identifiable value. These values are often reflected by the difference in the rents called for in the subject lease and those which would be specified in a contemporary lease negotiated at arm's-length. Occasionally, a lease which provides access to a unique facility, such as a transmitter site from which a coverage and audience advantage may arise, can be analyzed in the context of the incremental revenues and income associated with that facility.

Favorable Franchise Agreements - Similarly, existing cable television franchise agreements may specify favorable terms, possibly in the form of below-market franchise fees or performance standards, which are measurably less burdensome than those a modern franchise would dictate. The cost savings attributable to these standards may form the basis for the quantification of the value of a favorable franchise agreement.

Programming Rights - Syndicated programs, sports rights, and feature film contracts may specify favorable rates or generate premium revenues in comparison to those of substitute programming. These savings or incremental revenues can provide a basis for the valuation of these rights.

Income Leases - Leases associated with a unique stream of incremental rental income, such as tower facility leases, may constitute identifiable intangible assets. The value of these assets may be reflected in the anticipated rental income associated therewith, considered in the context of any associated performance obligations or incremental expenses.

Computer Software - Internally-developed and purchased computer software and databases may constitute valuable assets. Among various means available, such software can be appraised by the analysis and quantification of replacement costs and anticipated future utility.

Audio and Video Libraries / Morgues - Commercial and news tape morgues, copy files, production libraries, and the like may have intangible, as well as tangible, components. These libraries may have a value which reflects the costs of obtaining or replicating comparable materials, as well as their anticipated future usefulness.

Block Programming Contracts - Agreements with purchasers of bulk program time, such as infomercial providers and religious broadcasters, may also constitute identifiable intangible assets. The value of these contracts may be a function of the incremental revenue attributable to them.

Advertising Contracts - Contracts which exist with advertisers may also be identifiable intangibles, the value of which may correspond to the terms and anticipated income associated with these agreements.

Financing Agreements - Seller notes and acquired debt instruments may carry below-market interest rates, interest moratoria, etc. To the extent that these terms will be reflected in reduced interest expense and corresponding incremental income, these may constitute identifiable intangible assets.

These examples, which are presented solely for illustration, depict the broad variety and complexity of intangible assets that may be encountered in media transactions. Each property has a unique complement of such assets which must be considered in properly allocating purchase prices. Additionally, the annual monitoring for impairment in the value of these types of intangible assets, as required by FASB 142, is complicated by their very nature. The complex valuation methodologies and the ever-changing marketplace further challenge media businesses in finding simplified approaches to satisfying the new FASB requirements.

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