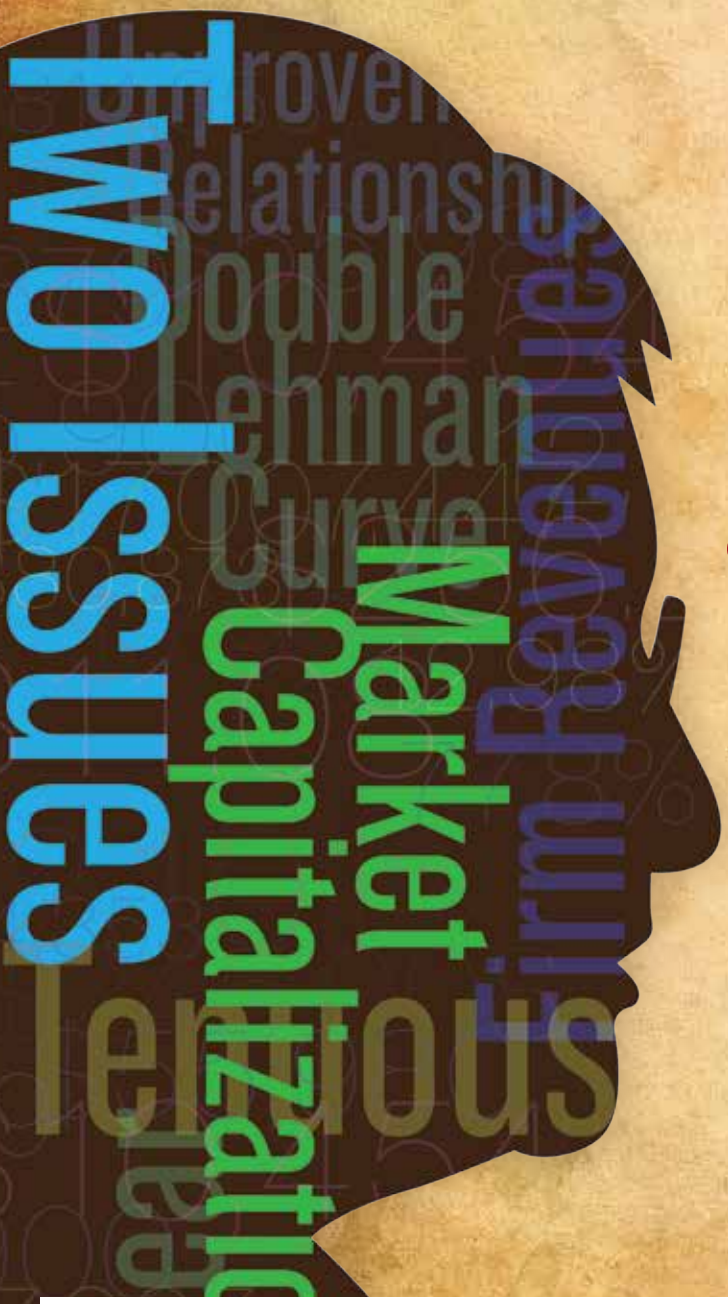
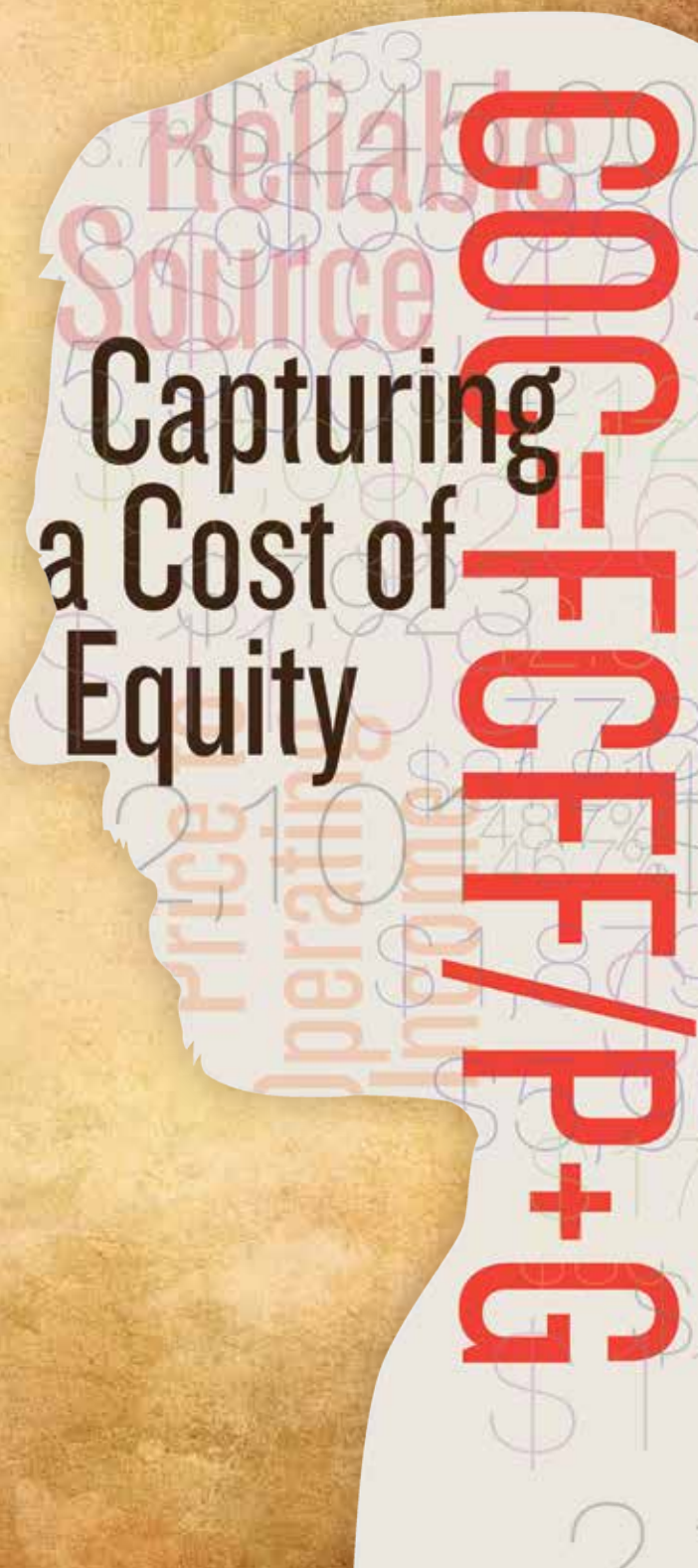
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Is IPCPL a reliable source for estimating small private company cost of capital ?



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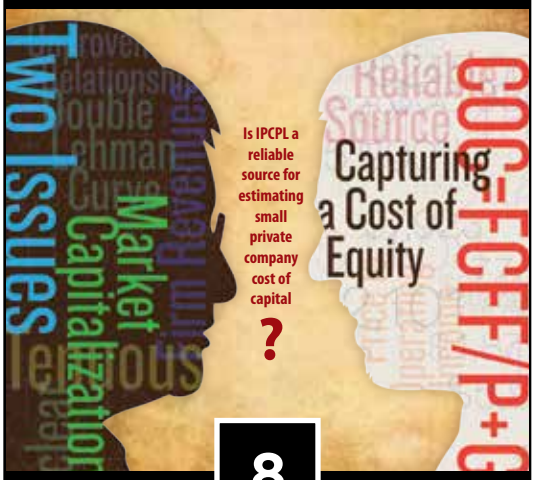
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On The Cover



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Does The Implied Private Company Pricing Line Make Sense?

By Richard R. Conn, CMA, MBA, CPA, ABV, ERP

The Implied Private Company Pricing Line (IPCPL) has been with us for several years now. This article examines the fundamental premise of the methodology and questions whether unbiased empirical data supports that premise. The purpose of the article is not to propose any modification or alternative, but simply to question whether the IPCPL is as well-founded on empirical evidence as the authors have claimed.

In This Issue...

6 ***EDITORIAL COMMENT:*** **A FAIR AND OPEN DEBATE**
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By Ronald J. Strauss, PhD, CPA

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LITIGATION CONSULTING

COURT CORNER

By Peter Agrapides, MBA, CVA

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PRACTICE MANAGEMENT

TIPS FOR PRACTITIONERS

Impact Of Inadequate Discovery In A Divorce Proceeding

By Eric A. Kreuter, PhD, CPA, CGMA, CMA, CFM, CFFA, CFE, CBA; and Eric J. Barr, CPA, ABV, CFF, CVA, CFE

Not all is fair in love and war when it comes to the fight for business records within a matrimonial action. When one spouse is denied adequate discovery, his or her case can begin to unravel.



PRACTICE MANAGEMENT

PRACTICING SOLO

By Rod P. Burkert, CPA, ABV, CVA

The author interviews sole practitioner Bill Ditty, CPA, PFS, CVA, CFF, MAFF, CDFA from Dublin, Ohio.

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5217 South State Street, Suite 400
Salt Lake City, UT 84107
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E-mail: NACVA1@NACVA.com

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VALUATION

Editorial: A Fair and Open Debate

By Nancy McCarthy, Senior Editor, The Value Examiner

The Value Examiner has a long tradition of bringing articles to you that delve into the methodology, tools, and concepts that inform the business of valuation. *The Value Examiner* also has another function: it is a venue through which new theories and ideas can be debated, discussed, and vetted.

In this issue, Richard Conn, CMA, MBA, CPA, ABV, ERP, opens a debate regarding a new model that has been gaining traction in estimating the cost of capital for privately held companies with revenues below $150 million: The Implied Private Company Pricing Line (IPCPL). The purpose of the model is to minimize or eliminate the inherent problems in comparing public and private data; specifically, to eliminate pitfalls for unsystematic/company specific risk, liquidity, small stock premium, pass through entity taxes, and cash/leverage. The purpose of the article is not to propose any modification or alternative, it does however question whether the IPCPL is as well-founded on empirical evidence as its proponents claim.

In turn, the proponents of IPCPL, chiefly Rod Burkert, CPA, ABV, CVA; Peter Butler, CFA, ASA; and Bob Dohmeyer, ASA, have been given an opportunity to respond to the article. Quoting from Igor Gorshunov's article, "IPCPL and Margin Reversion: Implications for the Valuation of Small Privately Held Companies,"[1] they say, "This independent test indicates that IPCPL is a reliable source for estimating small private company cost of capital."

Richard Conn plans to expand his questioning of IPCPL in a future issue of *The Value Examiner.* At that time, and with the permission of *Business Valuation Review*, Igor Gorshunov's article will be reprinted. Mr. Gorshunov's letter to the editor also appears in this issue.

The Value Examiner is pleased to present diverse points of view. We believe in thoughtful and respectful debate and encourage NACVA members and readers to weigh in on any issue they feel important. Our purpose is to allow the conversation to take place. We will gladly print letters to the editor or follow up articles. We do, however, reserve the right to ensure that both sides of any issue are given a fair and open forum. In that spirit, we invite you to weigh in on the issue of IPCPL. VE



Nancy McCarthy
Senior Editor
The Value Examiner

1 Igor Gorshunov, (2015) IPCPL and Margin Reversion: Implications for the Valuation of Small Privately Held Companies. Business Valuation Review: Summer 2015, Vol. 34, No. 2, pp. 70-73. doi: http://dx.doi.org/10.5791/0882-2875-34.2.70

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VALUATION

Does The Implied Private Company Pricing Line Make Sense?

By Richard R. Conn, CMA, MBA, CPA, ABV, ERP

When the first presentations of the Implied Private Company Pricing Line[1] (IPCPL) were published, I eagerly read the papers and reviewed the blogs. But I quickly began harboring the fear that I was simply not as smart as Messrs. Bob Dohmeyer, Pete Butler, and Rod Burkert (probably still true)—I just did not get it. However, I hoped that if I just persisted in following the literature and studying the concepts presented, one day the light bulb would illuminate. It has been several years now, yet, I must confess I am, like the subjects in Erasmus' fabled Kingdom, still standing in the dark.

ISSUE ONE: THE METHODOLOGY

My difficulty with the proposed methodology is very basic and relates to two rudimentary issues. The first is, in order to accept that the IPCPL will prove useful in approximating the pre-tax cost of unlevered equity for a small private company, one must believe that there is a strong and reliable association between firm revenues and cost of equity. The IPCPL is founded on the proposition that a private firm with higher revenues will incur a lower pre-tax cost of equity and, conversely, a firm with lower revenues has a higher pre-tax cost of equity. Tacitly, the theory relies upon an implied (but unproven) relationship between firm revenues and its market capitalization. For private firms, the IPCPL argues, the inverse relationship between market cap size and risk rate occurs for reasons not exclusively related to the 'size effect.' The IPCPL claims to codify all private firm pre-tax cost of equity based on firm revenue. The terminal ends of the IPCPL curve are anchored, at one end, by an aggregation of a large number of historic private transactions and, at the other, by the metrics of the publicly-traded iShares 'IWC' Micro-Cap ETF. It is important to recognize, however, that only the two terminal end points are derived from empirical data—the curve that connects the two is entirely theoretical.

Practically, one might speculate there is a general but very tenuous relationship between a firm's equity value and its revenues. After all, a company with only ten million dollars in current revenues is rarely found to have a market cap of $500 million (notwithstanding some infamous dot-com examples at the turn of the century) and conversely, a firm with $100 million in revenues will usually have a market cap of much more than just ten million dollars.[2] So by extension, if you believe there is an inverse relation between a private firm's equity value (private market cap) and its cost of equity, then it might be understandable that you would accept there also is an inverse relationship between revenues and cost of equity.

Intuitively, however, it just does not make sense that one could expect *revenues* to be a reliable predictor or determinant

1 Bob Dohmeyer and Peter Butler (2012), The Implied Private Company Pricing Line: Empirically Observing the Cost of Capital COC = FCFF/P + G. Business Valuation Review: Spring 2012, Vol. 31, No. 1, pp. 35-47.
doi: http://dx.doi.org/10.5791/BVR-D-12-00006R1.1

2 However, there are a number of very stable publicly listed firms that consistently report a 0.10 Price/Sales ratio. Their operating margins are low, but this additional risk is usually mitigated by low operating leverage.

of the cost of equity. Amongst even the very small firms, we can be sure they are going to have vastly different operating margins, tax exposures, earnings stability, capital structures, macroeconomic sensitivities, and capital requirements. It is more reasonable to believe the firm's perceived ability to generate future net free cash flows will have a much more profound impact on the entrepreneur's assessment of an adequate rate of return.[3] For example, two firms, both with a history of consistently generating five million dollars in revenues each year, could not possibly be expected to rate the same cost of equity if one firm only requires one million dollars in fixed assets and the other requires ten million. Without conducting any further investigation into the comparability between these two firms, can't we already conclude their risk profiles will be markedly different? Doesn't the fact that they both generate the same amount of annual revenues become largely irrelevant?

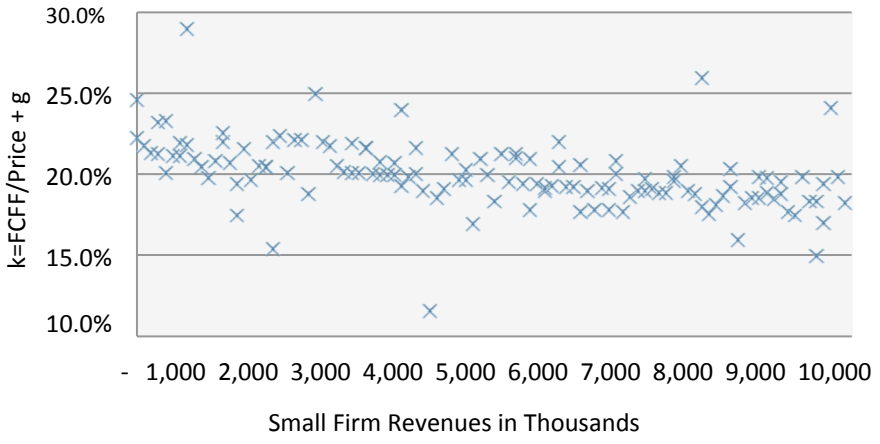
When the IPCPL hypothesis was first presented in the 2012 paper "The Implied Private Company Pricing Line: Empirically Observing the Cost of Capital COC = FCFF/P + G (Free Cash Flow to the Firm)"[4] every impression was given that the fundamental building block of the theory is founded upon Professor Myron Gordon's well known Growth Formula: Price = $D_1/(r - g)$, where "D_1" are the expected dividends in the next period, "r" (or "k" as IPCPL prefers) is the cost of equity, and "g" is the long-term expected growth rate for that individual firm. Dohmeyer et al., make some concessions and assume Operating Income is an acceptable substitute for D_1. Further concessions are made such that it is assumed the annual amount of sustaining capital required by the sample private firms will equate to the annual amount of book depreciation. The purpose of this compromise is so it can now be said that pre-tax Operating Income = pre-tax FCFF.[5] Dohmeyer et al., apply additional econometric techniques to their raw data in order to:

1) approximate the required "g" growth rate; and
2) adjust for the fact that the private firms used in the sample are taken from over a very wide expanse of time (and, ergo, must have been subject to a variety of macroeconomic conditions when each private transaction was executed); and
3) adjust for seller financing to simulate an all-cash transaction price; and
4) adjust for excess owner's compensation.

Just exactly how or why the IPCPL model shifts to using small firm revenues as the independent variable is not entirely clear.

Frankly, had Dohmeyer et al., provided visual confirmation that cost of equity for small private firms performed in the manner the IPCPL hypothesized, this would have gone a long way to quell my rising skepticism. For example, once all the aforementioned adjustments had been made to their initial sample of 830 transactions from the Pratt's Stats and BIZCOMPS databases, using the rearranged Gordon Growth formula of: k = ((FCFF or Operating Income)/ Price) + g, it should have been entirely possible to show a scatter-graph similar to:

FIGURE 1 - HYPOTHESIZED SHAPE OF IPCPL



3 Assuming, of course, the entrepreneur is risk-averse.

4 Bob Dohmeyer and Peter Butler (2012) The Implied Private Company Pricing Line: Empirically Observing the Cost of Capital COC = FCFF/P + G. Business Valuation Review: Spring 2012, Vol. 31, No. 1, pp. 35-47.

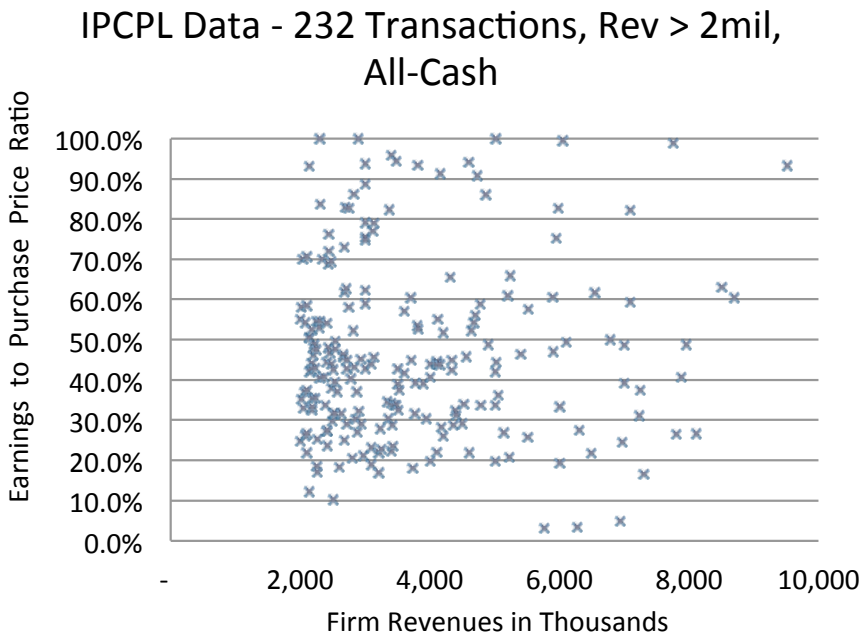
5 Critics of the IPCPL may have just cause to be very concerned over such a simplification. Even in very small firms, a company that is 'capital intensive' is unlikely to incur cash capital expenditures evenly or at the same rate as relatively low capital firms. In the ten million dollar fixed asset firm example, it is likely that reinvestment required to sustain the fixed asset base is going to be 'lumpy' and timing and variability of these expected cash injections is undoubtedly going to have a profound impact on the entrepreneur's overall assessment of business risk.

While the data in Figure 1 has just been invented from my imagination, without even turning on a calculator or reluctantly resorting to a number of sophisticated curve-fitting techniques, even I can see the formation of a negatively-sloped double-Lehman curve in the above hypothetical data. Such a presentation would have at least provided corroborating evidence that small firm cost of capital is negatively correlated to revenues, and that correlation is roughly approximated by the double-Lehman curve.[6]

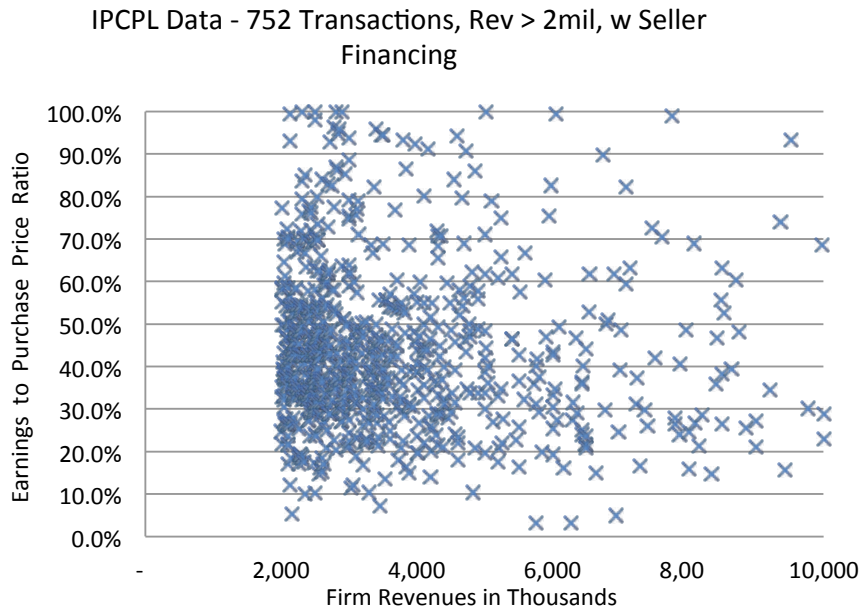
SOME EMPIRICAL DATA

At some time early after the introduction of the IPCPL, Dohmeyer et al., published a companion Excel® workbook intended to exemplify the mechanics of the model. Included in that data was a page of some 752 actual private transactions (which have annual revenues greater than two million dollars as required by Dohmeyer et al.); 232 of which were all-cash deals.[7] Seller's Discretionary Earnings (SDE) were also reported along with the final Purchase Price for each transaction, as was annual Gross Sales Revenues. For those analysts who believe the P/E (Price-to-Earnings) statistic provides some meaningful risk information (and, hence, the inverse, or E/P ratio represents the cap rate), it should be instructive to see a graphical representation of the cap rate plotted against revenues:

FIGURE 2[8]



Panel A – All Cash Deals



Panel B – All Cash and Seller Financing[9]

6 The Lehman Curve has traditionally been employed as a means for investment bankers to calculate the amount of commission fees due on the floatation of small-cap shares. The fee is a function of the equity dollars raised—it has never had any association with firm revenues.

7 Source: http://www.biz-app-solutions.com

8 IBID.

9 The IPCPL adjusts 'Seller-Financed' transactions to simulate an all-cash price. However, the mechanics of those adjustments are not disclosed, and therefore Panel B simply reflects the unadjusted sales price.

Visually, as demonstrated in Figure 2, there is no indication of any kind of a systematic, non-random relationship between revenues and the E/P ratio. Indeed, any attempt to fit a line or curve to either panel consistently resulted in R-Squared statistics of less than one percent.[10] This confirms that the sample cap rates are virtually uncorrelated to firm revenues (i.e., revenues are a poor explanatory variable for cap rates). A Spearman's Rank test was performed on the underlying data resulting in a reported Spearman's Coefficient of -0.095 (this value squared is consistent with the previous R-Squared observations of less than 0.01).[11] Again, this comparatively low value supports the previous observation that revenues and cap rates are only very poorly correlated at best.

I conducted an additional experiment with small-firm publicly-traded information primarily for the convenience that a large sample of 'single-point-in-time' data may be collected quickly and the FCFF/Price ratio was readily available for most firms in the sample. All of the U.S. and Canadian exchanges were included; the only exclusion criteria applied was that firm market cap must be less than $100 million and the currently reported P/E must be greater than zero (as a means of eliminating negative earnings from the sample). This resulted in an initial selection of 695 firms, but only 238 of these reported current positive FCFF/Price ratios.[12] As Dohmeyer et al., have claimed, the formula: k = (FCFF/Price) + g should provide a way of estimating a "k" (after-tax, in this case, as the FCFF reported by the data-providers is after-tax) for each of the 238 firms.[13] And, if there is some kind of systematic monotonic relationship between the 238 "k's" and revenues, this association should be revealed.

Of course, *if* the 238 firms were private, the resultant "k" cost of equity would be different for each. However, the fact that public company data is being examined here should not invalidate the applicability of these observations. Dohmeyer et al., have postulated that the primary differences between small private firms and small public firms are:

1. Illiquidity: private firms are more illiquid than public
2. Transaction Costs: cost of marketing the firm, due diligence, and brokerage are much higher for private firms (offset, somewhat, by higher reporting and compliance costs for public firms)

Therefore, as long as the sample of public firms is selected from a relatively homogeneous range of market capitalization, it is highly unlikely that either of the two factors listed above could be impacting revenue correlation in the public data set but be absent in the private (or vice versa). In other words, if samples selected out of the public data show a high degree of correlation between revenues and cost of equity, one would naturally expect the same relationship to exist in the private world. The effects of illiquidity and transaction costs may distort the degree of correlation between Private Firm Revenues and Private Cost of Equity but, we would still expect the underlying relationship to exist. Conversely, if the public data is examined and it is observed that there is no discernable correlation between Public Revenues and Public Cost of Equity, we would not expect the additional factors

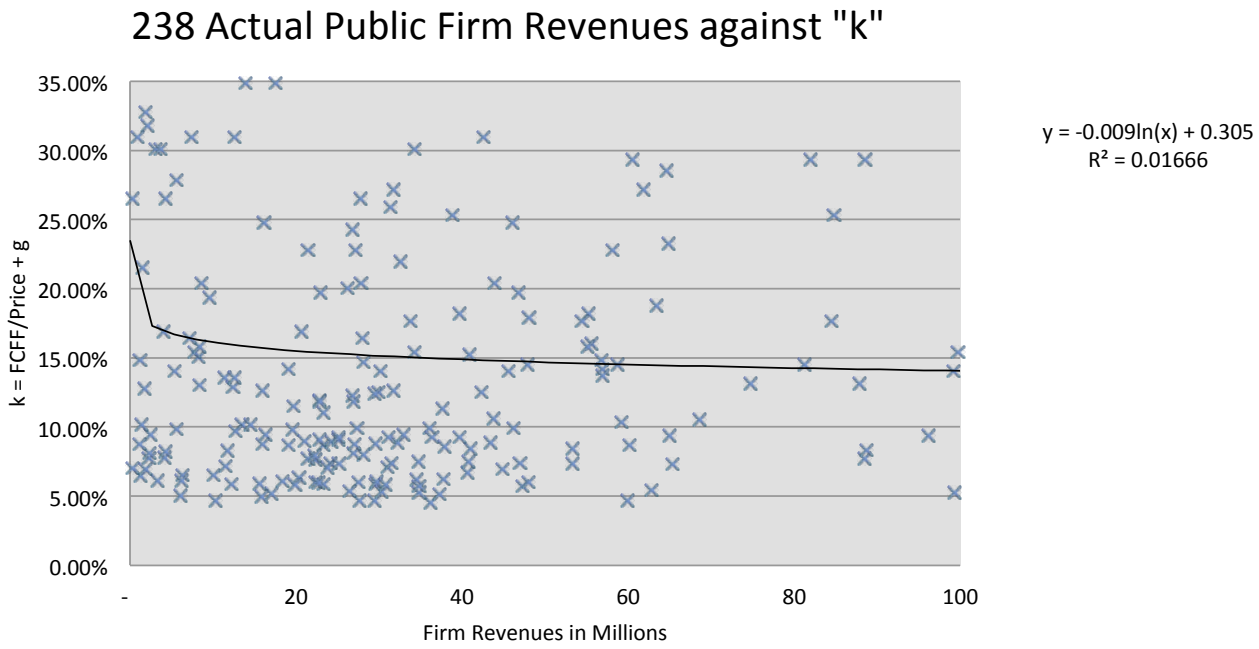
10 R-Squared, or, the 'coefficient of correlation', is the ratio of how much variability the fit line or curve has explained vs. the total amount of variability—therefore, an R-Squared of 0.01 means the change in revenues has only managed to explain one percent of the total change in the cap rate. Also note, the 'present day adjustment' of (ERP0 – $ERP_{15yravg}$)/2 that the Authors' recommend will not alter the R-Squared, because it is a constant for each observation in the sample.

11 The Spearman's Rank Test is an excellent test of monotonicity even when the expected relationship between the two variables is non-linear and the data is non-parametric (i.e., not normally distributed). A coefficient close to 1.0 is an indication of a strong direct correlation and close to -1.0 is an indication of strong inverse correlation. Values close to zero indicate a lack of correlation.

12 The average market cap of the 238 firms was $46.9 million and the median was $47.0 million.

13 As disclosed in the second IPCPL Paper, the method's sensitivity to the long-term growth rate "g" is relatively low and can be generally expected to equate to long-term real growth in the economy. As the Authors recommend, the "g" used here is derived from the current difference between the twenty-year U.S. Bond Rate and the twenty-year T.I.P.S. rate.

FIGURE 3[14] Spearman's Rank



of illiquidity and transaction costs to somehow systematically correlate Private Revenues to Private Cost of Equity.

Graphically, the results are shown on Figure 3, which gives every impression that the relationship between revenues and "k" is entirely random. Nonetheless, a number of line/curve-fitting exercises were attempted. The curve that best fit the observed data was logarithmic: y = -0.009ln(x) + 30.5%, note however, that the R-Squared, again, was less than two percent at only 0.0167. Notwithstanding the statistical unreliability of the curve, it is worth noting that these are after-tax results. A pre-tax curve would report significantly higher risk rates.[15] The Coefficient of this data is -0.016—extremely low.

I made additional tests with large-cap firms (market cap > ten billion dollars) wherein the cost of equity was derived using both the CAPM and then again with the Fama-French 3 Factor models. In no instance, however, were the results materially different than the examples graphically depicted in Figure 3.

None of the data examined would lead one to conclude that cost of equity is reliably correlated to company revenues. At best, revenues are only very poorly correlated to cost of equity.

ISSUE TWO: THE DOUBLE-LEHMAN CURVE

This article started out stating my confusion over the IPCPL was twofold. Obviously, the first concern is expressed at length above: it is just not logical that revenues and cost of equity could be reliably correlated. The second has been alluded to: the assertion of the double-Lehman curve appears to be entirely artificial. There has not been any empirical evidence to show that small firm entrepreneurs actually price risk in this manner. Instead, the IPCPL determines a point on the small-cap private end of the transaction data (based on an approximate four million dollars in revenues), then another point using the IWC Micro-Cap ETF (based on a hypothetical $150 million in revenues), and superimposes the Lehman curve in between. We are, apparently, just expected to accept the Lehman curve on faith.

14 Source: QuoteMedia.

15 The data reported here is after-tax, and therefore, also after interest cash flows. The occurrence and extent of debt in the sample was moderate: thirty-five percent of the firms had no debt, and another twenty percent had book debt-to-equity ratios less than twenty-five percent. Note that the effects of debt would be 'self-levering' given that both the numerator and denominator of the (FCFF/Price) ratio would reflect the presence of debt.

I cannot understand the purpose of the IPCPL Lehman curve when it would be far simpler and much more direct to simply use the underlying Prat's Stats and BIZCOMPS transactional data to construct a large portfolio of proxy firms meant to simulate the target firm's cost of equity. If, as Dohmeyer et al., suggest, k = (Operating Income/Price) + g is a valid means of determining the pre-tax cost of equity, why not simply collect 830 examples of transactions where the adjusted operating income approximately agrees with that of the target firm?[16] Aggregate the data and then determine what the combined pre-tax cost of equity ("k") is. The result will have all of the large-sample noise-elimination benefits that the IPCPL touts and offer the added advantage of giving a representative cost of equity for the average private firm *at that level of operating income*. It would not be necessary to rely upon the target's revenue position on the IPCPL curve. Of course, the consolidated results would be exactly that—a very broad-based amalgamation of 830 (or the largest sample available within the databases) different risk profiles representing the combined average of all. In no way could it be individualized to the unique risk characteristics of the target firm; but this is true of the IPCPL results as well. An apt analogy would be the S&P 500: any broad-based index such as the S&P 500 comes to synthesize the general nature and financial well-being of all its constituent firms. But, the post hoc volatility and return of the S&P 500 is unique onto the index itself and is not representative of any individual member except by random chance.

16 Operating income and price would need to be adjusted for changes in macroeconomic conditions over time if sufficient transactions cannot be found at or around the valuation date—similar to the 'present day adjustment' that the IPCPL uses.

CONCLUSIONS

The IPCPL has been tendered to the valuation profession as an alternative means of approximating cost of equity for small private enterprises. Valuation models are substantially different from models designed for use in the investment industry—where the goal is to derive the very best predictor of future events (assuming that is even humanly possible). For valuation models, it is not relevant how well they ultimately prove to predict actual post-acquisition events; the important feature is how well they can be said to be representative of what a reasonable, well-informed, hypothetical, willing buyer and seller would *believe* is the appropriate assessment of all the knowable risk variables at the valuation date. The profession is not about predicting what assets are actually worth but rather about what buyers and sellers perceive them to be worth. It is a study into human behavior and how investors assess risk and the laws of probability at a specific point in time given an uncertain knowledge of the future. In this regard, investigations using historical data can only be useful in the context that we believe 'what has happened in the past represents a reasonable approximation for what is most likely to happen again in the future'.

So, what becomes even more important than whether the adjusted Pratt's Stats/BIZCOMPS post hoc data provides evidence of a double-Lehman curve correlated to revenues, is the question: 'Would the risk-averse, self-interested hypothetical entrepreneur *expect* there to be a systematic and predictable relationship between revenues and risk?' If the intuitive answer is: 'No', then the utility of the IPCPL is largely diminished.

I think it is important to say that I greatly admire the tenacity of Messrs. Dohmeyer, Butler, and Burkert in their continued quest to find a defensible means of quantifying private equity risk. It is entirely possible that someday financial researchers (indeed, perhaps these three very same authors) will uncover a private-equity risk model that will revolutionize the closely-held valuation profession in the same way the Black-Scholes risk-neutral option pricing methodology changed the course of modern finance. But, the IPCPL appears to have been born more out of the desire to invent a black box wherein the "appraiser need not worry about highly theoretical issues of cost of capital (COC) and modern portfolio theory (MPT)". However, these highly theoretical subjects of risk-quantification and cost of capital lie right at the very heart of any valuation. It seems to me, those practitioners who hope to issue business valuation opinions based upon a methodology they themselves cannot clearly explain, do so entirely at their own peril. VE



Richard R. Conn, CMA, MBA, CPA, ABV, ERP, is a business valuation practitioner in Calgary, Alberta. He specializes in minority dissent claims and pricing hybrid securities and convertible debentures.
E-mail: rconn@connvaluation.com

VALUATION

Rebuttal: The IPCPL DOES Make Sense

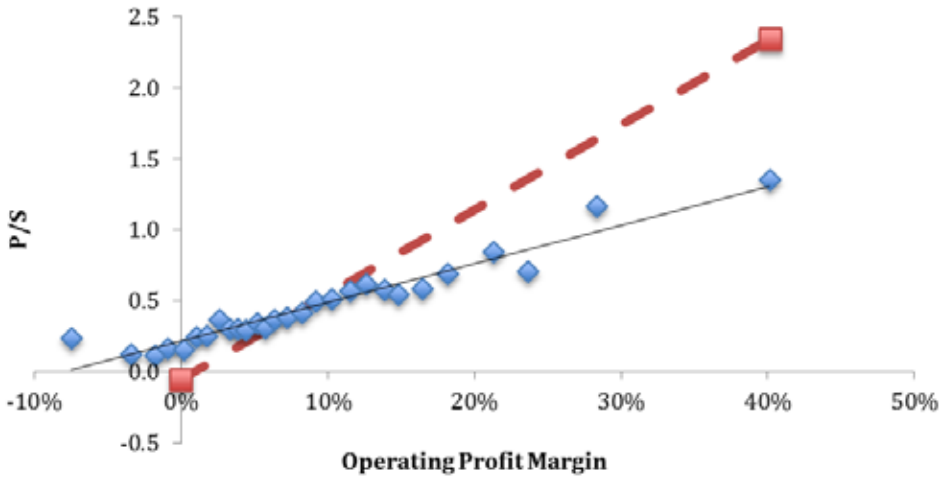
By Rod Burkert, CPA, ABV, CVA; Peter Butler, CFA, ASA; and Bob Dohmeyer, ASA

This rebuttal article is in response to the accompanying article, "Does the Implied Private Company Pricing Line Make Sense?" We would like to thank the author for entering the debate and *The Value Examiner* for providing us the opportunity to comment and, hopefully, provide better clarity on the topic.

The author indicates that he has followed the literature. We realize with multiple valuation organizations—each with their own publishing arm—this is difficult to do. Thus, for his and other readers' benefit, we have received permission to re-publish the article, "IPCPL and Margin Reversion: Implications for the Valuation of Small Privately Held Companies" written by Igor Gorshunov, MBA, CFA (originally published in the Summer 2015 edition of Business Valuation Review). (Editor's Note: This article will be reprinted in an upcoming issue of *The Value Examiner* along with Part II of Richard Conn's argument.) We believe many of the author's concerns will be cleared up after reading this independent, objective assessment of the IPCPL—as far as Point 1 on the pricing line is concerned.

To help illustrate our points, we refer you to Figure 1 (Editor's note: Igor Gorshunov uses the same illustration in his Letter to the Editor, which follows this rebuttal. It is reprinted with permission from the American Society of Appraisers.

FIGURE 1: MARKET VALUATION (SOLID) AND STEADY-STATE VALUATION (DASHED)



> The regression line equation is y = 2.73x + 0.21, leading to the average [Price/Sales] multiple for a company with average operating profit margin (8.2%) of 0.44. Under the average profit margin of 8.2%, the cost of capital can be estimated from the above (Gordon Growth) equation to be 14.8%, *which perfectly corresponds* to the current IPCPL cost of capital of 15.4% for a $6 million revenue company. (Emphasis added)

Gorshunov later says: "This independent test indicates that IPCPL is a reliable source for estimating small private company cost of capital."

As a side point, the red-dashed line—which is the "steady state line" if all companies were valued with the Gordon Growth Model independent of their profit margins—in comparison to actual transactions (blue diamonds) shows the reversion to the mean in the marketplace. At lower margins, the actual P/S multiples are higher than the red-dashed line. And at higher margins the actual P/S multiples are lower than what the red-dashed line would calculate. Thus, the market expects profit margins to regress toward the mean.

Moving on—and based on the issues raised—we agree that the author is "still standing in the dark" regarding IPCPL… and we're happy to shine a light. As a starting point, the author and the readers should think of the IPCPL as the size-adjusted equity risk premium (ERP) for small, privately-held companies. Much like appraisers use the stock market ERP as a reference point to build-up a subject company's total cost of equity (with all the uncertainties that leap of faith entails), appraisers who use the IPCPL now have a direct private company ERP, void of all of the public market-to-private market comparison issues.[1]

More specifically, however, we address some of the author's concerns below:

- The author indicates throughout the article that the IPCPL is capturing a cost of equity.
  - This is not true. The IPCPL calculates a weighted average cost of capital (WACC), not a cost of equity.
- The author states, "Dohmeyer et al., make some concessions and assume that Operating Income is an acceptable substitute for D_1."
  - This is not true. We deduct increases in working capital and fixed assets to derive free cash flow to the firm, or D_1.
- The author claims, "It just does not make sense that one could expect revenues to be a reliable predictor or determinant of the cost of equity."
  - In our IPCPL presentations, we note that appraisers agree, on average: very small privately held companies have higher total risk, lower debt capacity, and are less liquid than much larger private companies and as a consequence, have a relatively higher cost of capital.
  - For what it is worth, Duff & Phelps in its Cost of Capital publication (Table A-7) regresses the historical equity risk premium (since 1963) against the log of sales,[2] one of the determinants of size they believe has statistical significance. The trend, and inverse relationship, between the two is readily apparent for all who want to investigate.
  - As for the empirical data the author provides in Figure 2 (showing the seemingly random relationship between Earnings to Purchase Price Ratio [E/P] and Revenue), he has not considered that as firms get larger (i.e., moving to the right on the horizontal axis), their growth rate on average slows.[3] Thus, since Price to Operating Income (multiples graphed by the author) is a function of both required return and growth, the expected relationship of higher multiples as size increases will be muted by the average lower growth of these larger companies. And as a reminder, the IPCPL calculates a WACC, not the cost of equity or a capitalization rate, which is the E/P ratio.

1 IPCPL is an "average" concept for the 840 firms which comprise the data. Appraisers can use the Implied Private Company Pricing Model (the IPCPM) as a means to fine-tune their cost of capital for their privately-held company for factors other than just revenue. Since the author did not mention the IPCPM, it is unclear if he knew that the IPCPM exists and is designed to adjust for specific company differences unrelated to size.

2 And not only sales, but just as seemingly incongruent measures of size such as market value of equity, book value of equity, five-year average net income, market value of invested capital, total assets, five-year average EBITDA, and number of employees. Yet, we consider this a marked improvement over the "old Ibbotson" data that only allowed us to consider the circular reference relationship of cost of equity to market value of equity.

3 See "Pratt's Stats Data Are Not Biased: the DCF May be, However", Peter Butler, ASA, CFA; Bob Dohmeyer, ASA; and Herbert Kierulff, DBA (Business Valuation Review, Volume 34, Issue 2, Summer 2015).

Point 2 on the pricing line should lack relative controversy after using the iShares, IWC Micro-Cap ETF, and the Fama-French 3-factor Model to arrive at its calculation.

Another area where the author has some concern is the use of the Double Lehman formula to connect Point 1 and Point 2 when he says: "We are, apparently, just expected to accept the Lehman curve on faith." As we discuss below, it is not based on faith (alone), but on well-accepted theory.

In an effort to make sure the author has seen another independent review of the IPCPL, we point to "The Implied Private Company Pricing Line (IPCPL): On the nature, scope and assumptions of IPCPL Theory" written by Malcolm McClelland, PhD and David Goodman CPA, ABV, CFF, CVA (SSRN-id2609159).

In the abstract of their article, McClelland and Goodman point out that the IPCPL is based on the fundamental theory that no arbitrage opportunities exist between privately-held equity and publicly-traded equity. They go on to point out, this is the fundamental assumption underlying modern portfolio theory—that the marginal price of any risk must be the same in different markets after adjustment for transaction costs.

The IPCPL uses the Double Lehman formula to adjust for these transaction costs. If the author recommends another way to adjust for transaction costs between smaller private and larger public companies, we would be happy to consider it. Otherwise, we are content that our use of the Double Lehman formula is not inconsistent with asset pricing theory.

Moreover, McLelland and Goodman conclude, "'If you want to teach people a new way of thinking, don't bother trying to teach them. Instead, give them a tool, the use of which will lead to new ways of thinking.'[4] The IPCPL, we believe, is such a tool."

And: "The IPCPL represents a significant innovation in the valuation of privately-held, small-or-medium-sized enterprises (SMEs)."

One must also remember that the IPCPL is a model. As the famous statistician, George Box, once said, "All models are wrong, but some are useful." We (and others) believe the IPCPL to be of outstanding use to the private company appraiser—even if just as a sanity check against the proverbial status quo models.

But speaking of the status quo, how well do our current models deal with these conundrums:

- How or whether to extrapolate the small stock premium beyond 10z?
- Is the small stock premium really a liquidity premium?
- And, if so, how or where to price the lack of liquidity?
- How to price unsystematic risk?
- What tax rate to select for a pass-through entity?
- What is the optimal capital structure of the subject company?
- What is the appropriate cost of debt for the subject company?
- How to un-lever/re-lever beta?

Fortunately, the IPCPL and IPCPM handily avoid or largely mitigate these complex questions. And for this reason alone, we will continue to highlight its benefit to the business valuation industry—just as Professor Kierulff has done: "IPCPL represents a groundbreaking advance in valuation and should be a part of the curriculum of every valuation course. It has significant research potential with far reaching implications for pass through tax problems, company specific risk, capital structure decisions, and liquidity issues."[5] VE

4 R. Buckminster Fuller.

5 Herb Kierulff, DBA, The Donald Snellman Professor of Entrepreneurship and Finance in the School of Business and Economics at Seattle Pacific University and founder of the Private Business Valuation Challenge.



Rod P. Burkert, CPA, ABV, CVA, is President of Burkert Valuation Advisors, LLC (rodburkert.com). His engagements focus on income/gift/estate situations and working with successful business owners who are looking to make a transition. He also provides independent report review and project consulting services to assist fellow practitioners with their assignments. Rod is also the co-founder of Practice Builder Academy (practicebuilderacademy.com), a twelve-month mentoring program that teaches proven strategies to BVFLS professionals who want to build their practices and redesign their lives.



Peter Butler, CFA, ASA, is the founder of Valtrend, LLC located in the Boise, Idaho area. He has more than twenty years of financial analysis experience. He is the inventor and co-developer of the Butler Pinkerton Calculator and co-developer of the Implied Private Company Pricing Line/Model. E-mail: pete@valtrend.com



Bob Dohmeyer, ASA, is the founder of Dohmeyer Valuation Corp, a business valuation and M&A consulting firm. Bob has lectured and published several papers on various valuation topics and is on the editorial review board of the Journal of Business Valuation & Economic Loss Analysis and on the review board of the Business Valuation Review. E-mail: bdohmeyer@gmail.com

VALUATION

Letter to the Editor
Re: Does The Implied Private Company Pricing Line Make Sense?

Igor Gorshunov, CFA, MBA

The author of "Does the Implied Private Company Pricing Line Make Sense?" concentrates on the issue of the dependency between the size of the company and its cost of capital, but unfortunately skips a major part of the model, called "Point 1" in IPCPL terminology. In my view, this is the main point of the model, because it addresses the cost of capital on private market directly, avoiding reliance on public market cost of capital used in the current consensus approach (the build-up method). And to do this, the IPCPL relies on a very appealing assumption—that the private market as a whole is always in a steady state, and thus, can be described by a Gordon formula.

As IPCPL Point 1 was derived on an aggregate level, naturally, I was interested how Gordon formula would work on the level of individual companies. A simple strategic consideration suggests that every competitive advantage is sustainable for only a finite time, so market forces will equalize profits—on average (across all industries) companies with high profit margin will tend to diminish the margin. Valuing them with a Gordon formula (with cost of capital derived from the Gordon formula for the whole market) would overvalue them. Similarly, the Gordon formula would undervalue companies with low profit margin, because it fails to recognize that the margin will tend to rise. The only set of companies where the Gordon formula works well should be companies with average margins. This was exactly what I found in the data. If IPCPL cost of capital were wrong, this would not be the case, as illustrated in the chart below.

The red dotted line shows how the price-to-sales multiple would depend on the operating profit margin if all companies would be valued using the Gordon formula with the IPCPL cost of capital and the growth rate used in IPCPL to calculate this cost of capital. The blue diamonds show how the market actually valued companies. Different slopes of the two lines represent the margin reversion to the mean and the fact that they intersect at the point of average operating profit margin (8.2%) provides an evidence of correctness of IPCPL cost of capital. VE

Igor Gorshunov is a business valuation and private equity professional, CFA charter holder, and Columbia Business School graduate.

FIGURE 1: MARKET VALUATION (SOLID) AND STEADY-STATE VALUATION (DASHED)



VALUATION

Appraisal Review–Theory, Risks, and Rewards

By Roger Durkin, JD, MS, FASA

Whether you call your work Appraisal Review, Opposing Expert Critique, or Forensic Consulting, you should be aware of the risks of libel and slander in performing an appraisal review and how best to protect yourself from a law suit.

Appraisal review is the critical analysis of another appraiser's appraisal report. It is defined in the Uniform Standards of Professional Appraisal Practice (USPAP) as: "the act or process of developing and communicating an opinion about the quality of another appraiser's work that was performed as part of an appraisal or appraisal review assignment." A more detailed description of the appraisal review process can be found in Standard-3 of the USPAP.[1] In 2013, the International Valuation Standards (IVS) Guidance Note No. 11 governed appraisal review under IVS. The IVS[2] Guidance was very similar to Standard-3 of USPAP. IVS addressed the importance of appraisal review stating, "Because of the need to ensure the accuracy, appropriateness, and quality of valuation reports, valuation reviews have become an integral part of professional practice." The IVS Board decided in June 2012 that there was *ambiguity in the application of the IVSs to valuation reviews, and a potential threat to the public interest if inappropriate reliance was placed on a valuation on account of it having been reviewed*.[3] IVS no longer has separate guidance for the development or communication of an appraisal review.

The AICPA Statement on Standards for Valuation Services No. 1 does not address appraisal review. NACVA has a complete set of Appraisal Review Standards. NACVA defines a Business Valuation Review as: "the act or process of developing and communicating a member's opinion regarding the credibility of the work product of another valuation analyst. It is a type of service, whether in written or oral form, intended to provide to identified users that the report is credible." NACVA describes the appraisal review required scope of work as: "sufficient to provide a member a basis for rendering a credible[4] Business Valuation Review opinion regarding the relevance, reliability, completeness, and reliable application of the business valuation methodology under review, and its consistency with generally accepted valuation practices."

Appraisal review carries substantial risk if the review appraiser expresses an oral or written opinion that the underlying appraiser was not competent, not qualified, did this bad thing, or did something incorrect without providing substantial evidence to support the assertions.[5] A written review criticizing

1 See http://www.appraisalinstitute.org/

2 See https://www.ivsc.org/

3 IVSC Standards Board meeting Thursday, 25 October, 2012.

4 Credible means worth of belief. Black's Law Dictionary.

5 *Substantial evidence* is such relevant evidence as a reasonable mind might accept as adequate to support a conclusion.

another appraiser's credibility can be a risky undertaking. If you publish a critical opinion (oral or written) that is not supported by evidence other than your personal experience and intuition, you may be liable for libel or slander.[6] An appraisal review is a published report to someone. Defamation generally relates to a publicly broadcast false statement that causes injury to the plaintiff. Unless you can prove your critical assertion with substantial evidence, you risk being sued for libel or slander. Appraisers fall into the category of professionals. Therefore, a written or oral attack, without basis (evidence), on an appraiser's professional reputation, character, or standing may constitute defamation per se.[7] The plaintiff appraiser does not have to prove injury/damages. Injury to an appraiser's reputation, business, profession, or calling is assumed.[8]

This risk of defamation applies to professional association peer review committees. A Massachusetts federal jury awarded appraiser Daniel Briggs over one million dollars in damages for professional libel.[9] The case has national implications because one of the libel defendants was his appraisal association. The Society of Accredited Marine Surveyors' (SAMS) Ethics Committee found Briggs in violation of their Code of Ethics and Practice by making a misleading appraisal. The SAMS' Board revoked Briggs' membership. Briggs sued for defamation. "The test to be applied as to the defamatory character of published words is whether in the mind of any considerable and respectable class of the community they tend to injure the reputation of the person to whom they refer and expose him to hatred, ridicule and contempt."[10]

Shannon Pratt, renowned business valuation guru, said to his client that a particular business appraiser was not qualified to have performed a professional practice enterprise appraisal. One of the plaintiffs was a former N. H. supreme court justice and former congressman. The cost of defending the lawsuit was significant because Dr. Pratt lives in Oregon and he was sued in New Hampshire federal court. Dr. Pratt was found not liable for defamation because he had a substantial evidence basis for his opinion.[11]

An appraisal review is not and should not be a personal attack. It must be an objective, professional, critique based on evidence measured against applicable appraisal standards, the logic of the presentation, and the credibility of the appraisal report.

The appraisal review process can be difficult because many appraisal associations' appraisal standards are principles-based vague, and ambiguous guidelines rather than imposed appraisal practice rules. Similarly, the concept of *credibility* is itself vague and ambiguous. Critiquing a business valuation report for "its consistency with generally accepted valuation practices" requires the underlying appraiser and report to have committed to performing his or her appraisal in accordance with defined appraisal standards. There is no agreement of a set of *generally accepted valuation practices* (standards) in the business valuation profession. We have IRS 59-60 Standards, USPAP Standards, IVS Standards, AICPA Standards, NACVA Standards, ASA Business Valuation Standards, and business broker standards.[12] If the underlying appraiser is a member of the particular appraisal association, then imposition of the particular *generally, accepted valuation practices* of that association may be practical in finding non-compliance with the association's requirements. Rule-based critique often gives way to a personal interpretation of valuation practices and fall into a personal opinion critique. The review appraiser has to measure the underlying report and performance against some established enforceable rule. An unsupported personal opinion based on the experience of the review appraiser is not sufficient evidence and might lead to a defamation lawsuit.

Having one's appraisal report critically and objectively reviewed can be a significant and positive benefit to any appraiser. The majority of appraisers have not had the experience of a critical appraisal review, therefore after a few years of practice, many appraisers devel-

6 Libel is the written or broadcast form of defamation, distinguished from slander, which is oral defamation.

7 By itself, intrinsically. In the law of defamation, slander, or libel *per se* refers to certain language that is actionable as slander or libel in and of itself without proof of special damages.

8 A defendant is liable for defamation if it publishes a "false statement regarding the plaintiff, capable of damaging the plaintiff's reputation in the community, which either causes economic loss or is actionable without proof of economic loss." *White v. Blue Cross & Blue Shield of Mass. Inc.,* 442, Mass. 64, 66 (2004).

9 *Daniel C. Briggs, v. Boat/U.S., Inc. and Society of Accredited Marine Surveyors, Inc.,* No. 12-11795, DJC U.S. Dist. Ct, Mass. (2014).

10 *Rawson v. Arlington Advocate, Inc.*, 336 Mass. 31, 33-34 (1957).

11 *Douglas and Hewson v. Shannon Pratt and Associated Press.* U.S. Fed. Dist. Court N.H. Civil 98-416-M (2000).

12 A subject for another time, is to explore innate appraisal dogma including why business appraisers insist that every valuation apply 59-60 and define value as fair market value.

op an omnipotent attitude. The experience of having your appraisal reviewed objectively can significantly improve your appraisal work. The ASA's Appraisal Review Committee developed 60-hours of multi-discipline appraisal review courses that specifically address the development and communication of an objective appraisal critique. The course material and textbooks have progressively improved because of positive critical reviews from students. In-class students have hands-on review experience of actual (redacted) appraisals. These exercises have added[13] practical experience to the theory of the Appraisal Review Paradigm and appraisal report writing in general.

One day, we may accept the unification of our diverse appraisal standards and thereby improve our appraisal profession. At present, the various appraisal standards and their supporting associations are like competing churches, each with its own agenda, dogma, and need to survive. Like the multiplicity of churches, we will not become one church with one creed. Government imposition of licensing for business appraisers should be carefully handled as if it were a loaded gun. The cost of defense against licensing boards has run into the hundreds of thousands of dollars. Licensing of real estate appraisers has all but destroyed the concept of a real estate appraisal designation.[14] Real estate appraisal enforcement of licensing law and regulations has caused the demise of over 20,000 real estate appraisers since 2007. VE



Roger Durkin has five ASA designations, holds a Fellow of ASA, a Master of Science in Valuation, a Juris Doctorate, and has been a multi-discipline appraiser for over forty years. He taught USPAP for twenty years, Narrative Appraisal Report Writing, the Appraiser as Expert Witness, and Appraisal Review around the U.S., Canada, Lithuania, Mexico, and Slovenia. His law firm is primarily plaintiff and defense counsel for appraisal related negligence claims. E-mail: durkinrp@aol.com

13 The National Association of Certified Valuators and Analysts (NACVA) offers a four-day workshop on business appraisal review. Upon completion of the appraisal review and passing a final exam, appraisers qualify for the Accredited in Business Appraisal Review (ABAR) accreditation.

14 Be aware that Federal real estate appraisal law and the Agencies' regulations prohibit federally regulated financial institutions from excluding appraisers from consideration for an assignment solely by virtue of their membership, or lack of membership, in any appraisal organization.



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ACADEMIC REVIEW

Contemporary Research in Valuation and Forensic Accounting

By Ronald J. Strauss, PhD, CPA

This column provides readers of *The Value Examiner* with summaries of contemporary research in valuation and forensic accounting. The manuscripts selected were chosen from a broad array of academic research outlets that include topical coverage of valuation and related forensic accounting issues. The objective here is to illustrate the core of this novel research while increasing awareness among the community of the subject matter.

As this column evolves, readers are encouraged to forward relevant manuscripts or working papers for consideration. Please send links and/or files to jim@dmcpa.com or digabrielej@mail.montclair.edu with Academic Research Briefs in the subject line.

STAKEHOLDERS EXPECTATIONS: AUDITORS' FINANCIAL FITNESS

Title: The Expectation Differences Among Stakeholders in the Financial Valuation Fitness of Auditors
Author: James A. DiGabriele, Montclair State University
Source: http://www.emeraldinsight.com/toc/jaar/17/1

This research examines whether a gap exists in the expectations that accounting academics, accounting practitioners, and users of financial statements have with respect to the financial valuation fitness of auditors. In the post sub-prime crisis environment, with greater emphasis on the valuation of complex, illiquid, financial instruments, an important concern for the accounting profession is the fitness of auditors to effectively audit fair values. Through the survey instrument used in this research, the paper clarifies this expectations gap and finds that important differences do exist in the expectations among accounting academics, practitioners, and users of financial statements with respect to the valuation fitness of auditors. The implications for each group is discussed.

Literature Considered in the Study

Historically, the expectation differences in auditing have come to be known as the "expectation gap" (McEnroe and Martens, 2001). The American Institute of Certified Public Accountants (AICPA) has described such gap as the difference between what auditors believe to be their responsibilities and what third-party users consider to be the responsibilities of the auditor (1993). More recently, users of financial statements have expressed the necessity for auditors to acquire financial valuation skills (Christensen et al., 2012) while the audit community has been criticized for deficiencies in fair value skills. Bell and Griffin (2012) have suggested additional courses in finance to reduce the gap in the need for auditor training in fair value assessment. Accounting educators have been criticized by users of financial statements, regulators, and standard setters for lacking the additional training necessary to improve the judgments of auditors auditing fair value estimates. Further, educators have not provided a significant response to teaching fair value concepts in the university curriculum (Carlino, 2012; Hanson, 2013).

Design/Methodology/Approach

Twelve hundred randomly selected accounting academics, accounting practitioners, and users of financial statements were surveyed as to their expectation with respect to the financial valuation fitness of auditors. The survey instrument employed was prepared, pre-tested, and e-mailed to the 400 survey participants in each of the three groups. Survey respondents chose from

a five-point Likert scale ranging from "strongly agree" to "strongly disagree." The main portion of the survey consisted of nine statements.

Digest of Findings and Conclusions

A total of 229 individuals responded to the survey, for an overall response rate of 19.8 percent with the responses approximately split evenly among the three groups. The statements the participants showed the highest level of agreement were: Item 1 "The aftermath of the sub-prime crisis has increased the knowledge requirements for auditors of financial statements," with 48. 5 percent strongly agreeing; and Item 4 "The increasing use of fair value estimates in financial statements requires greater knowledge of finance in order for auditors to successfully understand and interpret the estimates," with 46.3 percent strongly agreeing. A salient area of disagreement revealed in the results of this study between academics and practitioners is continuing education. For Item 8 "Continuing professional education courses on auditing for financial valuation should be a required component for CPA license renewal," all three groups differed from each other. Accounting practitioners had the lowest scores, followed by accounting academics, and then users of financial statements again having the highest scores. The outcome that the group held accountable for a continuing education requirement (accounting practitioners) had the lowest score and statistically different from academics suggests that there are substantial training needs for practitioners in the current auditing landscape. With respect to academia, the findings encourage university department heads to integrate financial valuation skills in the relevant components of an auditing, advanced accounting, or contemporary issues course. University curricula should balance the constraints imposed by accreditation bodies and concurrently align programs with market demands (Pan and Perera, 2012). In summary, this research addresses the clarion call to accounting educators to align university curriculum toward market expectations as well as the need for focused continuing education for practitioners involved in fair value valuation.

JUDGES' BIAS IN EXPERT WITNESS TESTIMONY

Title: Factors Which May Bias Judges' Decisions to Exclude Accounting Expert Witness Testimony
Authors: Madeline Ann Domino (Mercer University); Matthew Stradiot (Assurance Department, PricewaterhouseCoopers LLC); Mariah Webinger (John Carroll University)
Source: http://www.emeraldinsight.com/doi/10. 1108/ARJ-11-2014-0097

Increasingly, accounting experts as part of financial services litigation support services are providers of expert testimony under the U.S. judicial guidelines commonly known as the *Daubert/Kuhmo* standards. Building from previous research studies, this paper is an examination of three specific factors—gender, complexity, and familiarity—that may influence judges' decisions to allow or exclude the testimony from such accounting experts. The results indicate that judges are not biased towards accounting experts based upon these variables.

Literature Considered in the Study

Gender bias has been described as a "predisposition to treat people according to sex stereotypes" (Abrahamson, 1993, p. 1209) and has been recognized and discussed extensively in the legal system since the 1990s. Gender bias is common in decision-making and in the courtroom (Abrahamson, 1993; Czapanskiy, 1993). According to Schafran (1990), gender bias in the courtroom denies women equal treatment and opportunity.

Complexity has been defined by high amounts of technical language and computational information, and has been shown to affect receivers' cognitive satisfaction, comprehension, and perception of the speaker's credibility (Jackson, 1992).

According to Awasthi (1990), an individual's ability to abstract complex information from an unfamiliar setting to more familiar components is related to decision performance. Prior research suggests that judges may abstract, from facts presented in expert testimony, something that is relevant to their own expertise, creating a bias toward or against certain areas of expertise or certain areas of law (e. g., familiarity bias).

Design and Execution of the Study

Decisions by judges in which opposing council evoked a *Daubert/Kuhmo* challenge to the expert testimony of 130 professional accountants were examined using a binary logistic regression model. The period of study was 2010 through 2014 and the three variables believed to potentially influence or bias judges to systematically exclude expert testimony were examined—gender, complexity, and familiarity.

Findings and Conclusions

The results of binary logistic regression show that none of the variables has a significant relationship to the accounting expert witnesses' probability of surviving a challenge to *Daubert/Kuhmo* standards.

The findings suggest that judges are objective in evaluating the testimony provided by accounting experts under *Daubert/Kuhmo* guidelines and that they may be immune to biases based solely on gender, complexity, and familiarity.

REASSESSING BENFORD'S LAW, SARBANES-OXLEY AND DODD FRANK

Title: Reassessing Benford's Law, Sarbanes-Oxley & Dodd Frank: A Non-Parametric Exploration of Financial Statement Numbers 1970–2013
Authors: Bradley J. Barney, Kennesaw State University; Kurt S. Schulzke, Kennesaw State University
Source: http://papers. ssrn.com/sol3/papers.cfm?abstract_id=2704579

Sets of un-manipulated financial statement numbers, especially positively skewed data sets for which the mean exceeds the median (Wallace, 2002), can be expected to conform with Benford's Law, while most but not all manipulated number sets can be expected to exhibit diminished conformity (Durtschi et al., 2004). With the implementation of Sarbanes-Oxley (SOX) in 2003 and Dodd-Frank (DFA) in 2010, the authors of this paper expected increased conformity with Benford's Law post-2002 and post-2009, which would comport with a decline in the manipulation of financial statement numbers that these legislative initiatives were designed to produce. Such was not the case, which suggests the possible failure of the regulatory initiatives to meet some of their intended objectives. As noted by the author, deviations from Benford's Law are not necessarily conclusive evidence of fraud or error and such deviations should be further examined to reveal possible causes.

Literature Considered in the Study

Forensic accounting engagements and routine financial audits now frequently involve an assessment of the conformity of accounting numbers with the digit frequencies predicted by Benford's Law (Durtschi et al., 2004; Nigrini and Miller, 2009; Nigrini, 2012). Benford's Law prescribes expected frequencies for leading digits in naturally occurring collections of numbers, including most sets of accounting numbers found in typical financial statements (Durtschi et al., 2004). Durtschi et al., (2004) identify limited circumstances in which sets of accounting measurements should *not* be expected to conform to Benford's Law, such as where the numbers are assigned (e.g., check or invoice numbers) or are otherwise subject to inherent or built-in minima or maxima (e.g., where an account tracks refunds in excess of a predetermined cutoff amount). In testing for Benford's Law conformity, some investigations have focused on the frequencies of first digits alone (Amiram, Bozanic, and Rouen, 2014), the second digits alone (Kinnunen and Koskela, 2003), or on the first digits and first-two digits (Alali and Romero, 2013). Nigrini (2012) indicates that the first digits and second digits tests are highly aggregated and, therefore, of limited analytical usefulness except when applied to datasets too small to accommodate the first-two digits test. This study focuses primarily on the frequencies of the first two digits but also briefly address first digits and second digits frequencies.

Design and Execution of the Study

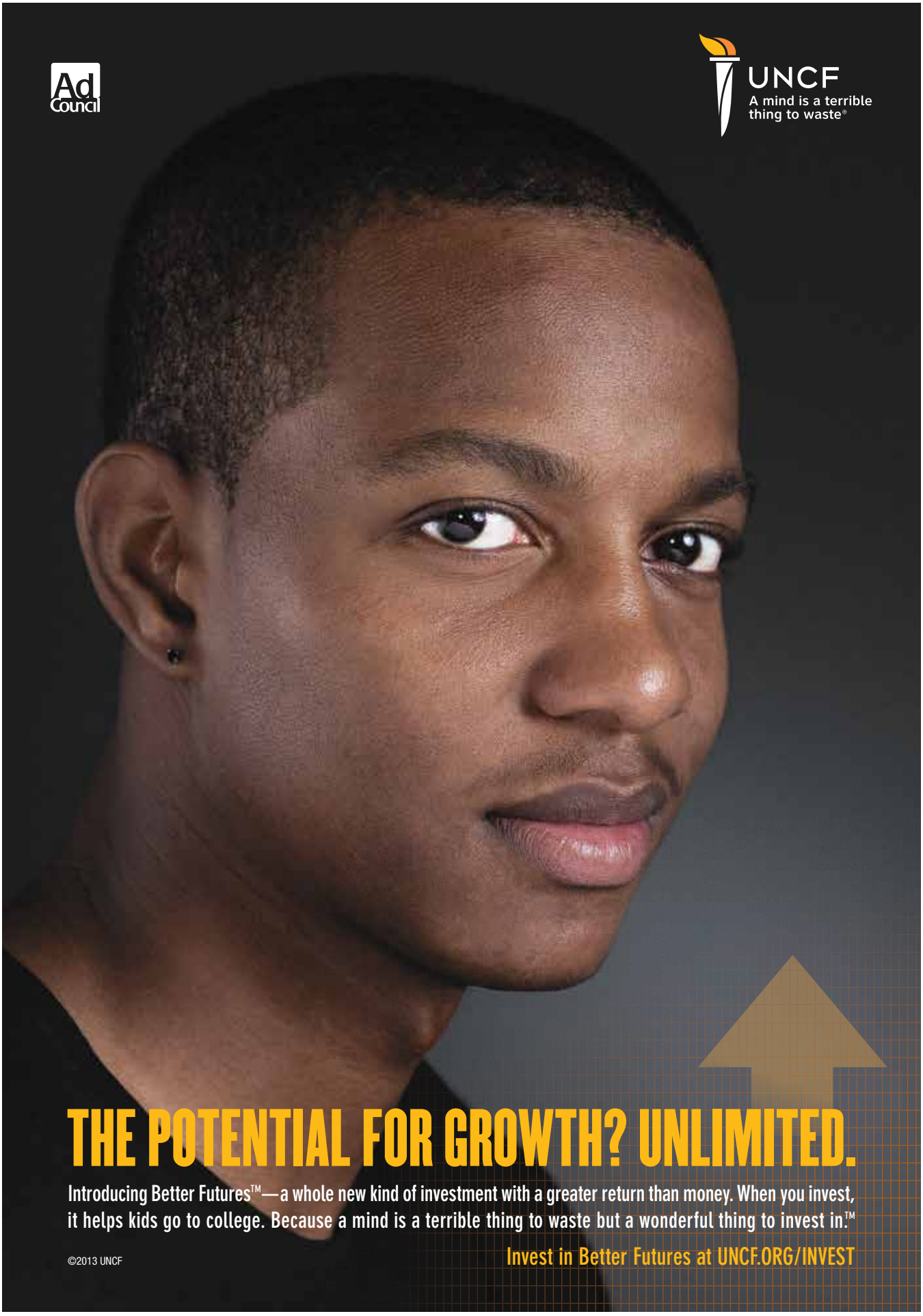
The focus of the researchers is to examine if conformity to Benford's Law has undergone systematic changes during the past forty-plus years. If so, the researchers are interested in identifying those time periods in which conformity is relatively high or relatively low, as well as inflection points between them. Time intervals of primary interest are: pre-2003, 2003 to 2009, and post-2009. If SOX and DFA are fully effective, then post-2002 (post-2009) financial statements should have greater conformity than pre-2003 (pre-2010) financial statements. Financial data used for the analysis was gathered from the merged CRSP/Compustat fundamentals annual database. Only consolidated financial statements reported in U.S. dollars from firms headquartered in the United States covering the fiscal years 1970-2013 (inclusive) were used.

Findings and Conclusion

With the implementation of SOX in 2003 and DFA in 2010, post-2002, and post-2009 the authors expected shrinking deviations from Benford's Law that would align with a decline in the manipulation of financial statement numbers that these legislative initiatives were designed to produce. The results upset these expectations and suggest conformity has not increased since the implementation of SOX (2003) and the DFA (2010). While financial statement manipulation is expected to increase nonconformity (Amiram et al., 2014), other as yet unknown factors may also contribute. Continued investigation is necessary to identify such factors and better understand their impact. VE



Ronald J. Strauss, PhD, CPA, is an accounting professor at Montclair State University. He holds a PhD in business/accounting ethics from Rutgers University and has over thirty-plus years of global business and accounting experience primarily in the financial services industry. E-mail: straussr@mail.montclair.edu


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LITIGATION CONSULTING

Court Corner

By Peter Agrapides, MBA, CVA

MERGERS AND ACQUISITIONS

Merion Capital LP v. BMC Software

2015 Del. Ch. LEXIS 268; July 20, 2015 (decided October 21, 2015)
Court of Chancery of Delaware, Judge Glasscock

CASE SUMMARY

This case has some important lessons regarding how to minimize potential exposure under the Delaware appraisal statute. It is instructive to merger arbitrageurs and other stockholders considering whether or not to seek appraisal rights in connection with a merger.

The case stemmed from the sale of BMC Software, Inc. to a consortium of private equity firms, which included Bain Capital, Golden Gate Private Equity, and Insight Venture Management. Merion Capital LP and Merion Capital II LP, after acquiring stock of BMC for the sole purpose of seeking appraisal in connection with the transaction, brought an appraisal action following consummation of the merger.

In 2012, Elliot Associates, an activist investor, had acquired 5.5% of BMC's stock and then advocated for a sale of the company, even initiating a proxy contest. In conjunction with a settlement with Elliot, BMC agreed to nominate two Elliot appointees to its board and explore strategic options, including a sale. The company initiated two separate sales processes and engaged with several bidders before agreeing to a sale of the company for $46.25 per share on May 6, 2013. Following a thirty-day go-shop period, the sale closed on September 10, 2013.

COURT HOLDINGS

1) In an appraisal action under Del. Code Ann. tit. 8, § 262, the court conceded it had some disagreements with the company's expert, but the court generally found him better able to explain and defend his positions than the shareholders' expert; 2) A discounted cash flow (DCF) analysis resulted in a per share price for the company of $48; 3) The sales process was sufficiently structured to develop fair value of the company, and thus, the merger price was a relevant factor the court could have considered in appraising the company; 4) The merger price did not require reduction for synergies to represent fair value; 5) Due to the uncertainties in the DCF analysis and the court's review of the record as it pertained to the sales process that generated the merger, the merger price of $46.25 per share was the best indicator of fair value of the company as of the merger date.

The court held that the merger price in this case was the best indicator of the fair value of the company and elected against awarding the stockholders any additional consideration.

MARITAL PROPERTY

Wood v. Wood

160 Conn. App. 708; May 26, 2015
Appellate Court of Connecticut, Judge Dupont

CASE SUMMARY

Curtis Wood and Deborah Wood were married in August 2004 and had two children. By October 2011, Curtis Wood sought the dissolution of the marriage. The matter was tried in court in July and August 2013. At stake was the value of the

marital property holdings. In November 2013, the court issued a memorandum ordering Curtis Wood to pay Deborah Wood $750,000 as a lump sum property settlement.

Curtis Wood immediately appealed this ruling claiming the trial court improperly calculated the value of the marital estate, divided the marital estate, and ordered him to make payments that exceeded the amount of funds available to him.

COURT HOLDINGS

The lower court's judgement was affirmed for the following reasons: 1) Trial court properly characterized a husband's interest in a limited liability company (LLC), to which he transferred a real estate property acquired during the term of his marriage for residential development, as distributable property for the purposes of Conn. Gen. Stat. § 46b-81. The court properly valued the husband's enforceable interest in the LLC by relying on the husband's financial affidavit and his trial testimony; 2) The court acted within its discretion when it weighed the statutory criteria set forth in § 46b-81, including the husband's liabilities and tax debt on real property, and ordered the husband to pay a lump sum property settlement to the wife; 3) The court provided the husband with sufficient assets to pay within the time frame set by the court a lump sum property settlement, attorney's fees, and a portion of the guardian ad litem's fees.

PROBATE

Sterling v. Sterling

2015 Cal. App. LEXIS 1022; November 16, 2015
Court of Appeals of California, Judge Filer

CASE SUMMARY

In this appeal, Donald T. Sterling sought to regain ownership of the Los Angeles Clippers (Clippers), a professional basketball team bought by Steven Ballmer on August 12, 2014[1].

The National Basketball Association's (NBA) April 2014 charge against Donald triggered Sterling's lifetime ban from the Clippers and prompted the sale of the team. Initially, Sterling authorized the sale and actively encouraged his wife, Rochelle, to sell the team, he subsequently vigorously opposed it. His adamant opposition to sign the sale agreement caused Rochelle Sterling to remove Donald Sterling as trustee and to file an ex parte petition in the probate court, seeking confirmation of Donald's removal as trustee and instructions relevant to the sale of the Clippers. The probate court's order following the ex parte petition was the subject of this appeal.

The evidence credited by the probate court overwhelmingly showed that Donald Sterling was properly removed as trustee of the Sterling Family Trust, which owned the Clippers. The credited evidence overwhelmingly supported the probate court's conclusion that exigent circumstances warranted the sale of the Clippers to prevent extraordinary loss to the trust. The probate court's sanctioning the sale was correct even though Donald Sterling, who initially agreed to the sale, purportedly revoked the trust in an effort to block the sale.

On appeal, Donald Sterling failed to demonstrate any legal error and failed to consider the facts in accordance with the proper standards on appeal.

COURT HOLDINGS

1) Because acts taken pursuant to Prob. Code, § 1310, subd. (b), were valid regardless of the outcome on appeal, no relief was available to a former trustee removed by reason of incompetency who sought to undo a sale of a unique asset—a professional basketball team; 2) Substantial evidence supported the removal determination under the terms of the trust and Prob. Code, §§ 810, 811, because two physicians testified as to the trustee's cognitive impairment and resulting inability to manage finances; 3) Extraordinary circumstances of imminent monetary loss justified applying § 1310, subd. (b), because the team likely would have lost substantial value had it not been sold promptly; 4) The sale was a proper exercise of winding-up powers under Prob. Code, § 15407, subd. (b), and was in the beneficiaries' interests under Prob. Code, § 16002, because the price was unusually high. The lower court's order was affirmed.

1 See *The Value Examiner, September-October 2014 Special Issue.*

REAL ESTATE

Riverstone Development v. Garrett & Associates Appraisals

2015 Ala. LEXIS 136; October 23, 2015
Supreme Court of Alabama, Judge Stuart

CASE SUMMARY

In 2009, Riverstone Development, Co., Inc. owned 170 acres of property abutting Lake Guntersville in Guntersville, Alabama, which was purchased in 2005 by its predecessor. Riverstone Development primarily used debt financing to develop the property from 2005 to 2007, and the debt was secured by a mortgage on the property. No substantive work had been done to develop the property after June 2007, but Riverstone continued to pay interest on the debt until mid-2009, at which time the loan went into default when the bank and Riverstone could not agree on renewal terms.

In March 2010, the bank obtained an appraisal of the property in the amount of $1.7 million from an appraiser who had previously appraised the property in 2007 at $2.115 million, and again in 2009 at $1.765 million. In June 2010, the bank hired a new appraisal firm who valued the property at $340,000. The bank foreclosed on the property and purchased it at a foreclosure sale for $300,000, leaving a deficit of approximately $1.3 million on Riverstone's loan.

Riverstone sued Garrett & Associates Appraisals, Inc. for negligence, wantonness, and conspiracy. The company lost on all claims at the trial level. The circuit court entered judgment as a matter of law (JML) in favor of Garrett & Associates on the negligence claim. The jury also found in favor of the appraiser on the wantonness and conspiracy claims.

The developer appealed, claiming that the trial court erred by: (i) entering a JML on the negligence claim; and (ii) denying a motion for a new trial based on juror misconduct.

COURT HOLDINGS

1) Where a lender refused a property owner's offer of a deed in lieu of foreclosure due to the property's low appraised value, and the owner sued the appraisal company for negligence, the trial court properly granted the company judgment as a matter of law because no expert testified that the company's appraisers breached the standard of care; specifically, there was no expert testimony that an appraiser's error in overlooking an easement had an effect on the property's final appraised value; 2) The trial court did not exceed its discretion in denying the owner's motion for a new trial on the basis of juror misconduct because there was a basis from which the court could have concluded that the owner was not probably prejudiced by a juror's failure to disclose during voir dire the existence of judgments entered against him.

The Alabama Supreme Court affirmed the judgment of the lower court.

TAX COURT

Calvanico v. Commissioner

T.C. Memo 2015-64; November 9, 2015
United States Tax Court, Judge Guy

CASE SUMMARY

The petitioners, Joseph and Kelly Ann Calvanico were married in 2006. Mr. Calvanico was a licensed real estate appraiser; Mrs. Calvanico, who earned a law degree from the University of Virginia, worked part-time as an independent contractor. She also cared for the couple's infant son, born in 2009, and, with Mr. Calvanico's help, managed and maintained three rental properties.

The respondent, The Internal Revenue Service (IRS), selected petitioners' 2010 tax return for examination, and they initially turned to H&R Block for assistance in responding to requests for information. The IRS determined a deficiency of $13,368 in the petitioners' federal income tax for 2010 and levied an accuracy-related penalty of $2,673 under section 6662[a]. The petitioners filed for a redetermination with the court.

The issues for decision are whether: (1) a deduction for a $40,963 loss that petitioners reported on Schedule E, Supplemental Income and Loss, was precluded by the passive activity loss rules prescribed in section 469; and (2) were the petitioners liable for an accuracy-related penalty under section 6662(a).

COURT HOLDINGS

1) The taxpayer husband's reliance on work that he performed as a real estate appraiser for two firms to show that he qualified as a real estate professional under 26 U.S.C.S. § 469(c)(7) was misplaced, as he did not own an equity interest in either firm and offered no other evidence that he was a five percent owner

of either firm; 2) Thus, the personal services he performed as an employee of those firms could not be taken into account in computing the number of hours that he performed under § 469(c)(7)(D)(ii); 3) The taxpayer wife's log inflated the number of hours she performed personal services in respect of rental real estate activities and thus, she did not qualify as a real estate professional; 4) The taxpayers were subject to the 26 U.S.C.S. § 6662(a) penalty, as they substantially understated their income and offered no defense to the imposition of the penalty. The court entered a decision in favor of the Commissioner. VE



Peter H. Agrapides, MBA, CVA, is a principal with Western Valuation Advisors, where his practice focuses primarily on valuation for gift and estate tax reporting and buy-sell engagements. These engagements have ranged from the valuation of small family-owned businesses to companies with over one billion dollars in revenue. Mr. Agrapides served on NACVA's Valuation Credentialing Board in 2010, and he is a member of the Current Update in Valuations instructor team. E-mail: peter@westernva.com



PRACTICE MANAGEMENT

Tips for Practitioners

By Eric A. Kreuter, PhD, CPA, CGMA, CMA, CFM, CFFA, CFE, CBA
and Eric J. Barr, CPA, ABV, CFF, CVA, CFE

IMPACT OF INADEQUATE DISCOVERY IN A DIVORCE PROCEEDING

Accurately determining the value of a business ownership interest in a divorce proceeding at statutory points in time (date of marriage/date of commencement) is dependent on several factors, one of which is the quality and completeness of the data from which the valuation is derived. Such data is obtained by the valuator or forensic accountant in several ways:

- Through documents and information submitted through counsel
- Provided by the engaging spouse
- The product of subpoena
- Depositions
- Interrogatories
- Court order resulting from motion practice

Not all is fair in love and war when it comes to the fight for business records within a matrimonial action. When one spouse is denied adequate discovery, his or her case can begin to unravel. Usually some records are available, either because the spouse had some previous access or there was a partial document production. "For many dependent spouses, it is an uphill battle to force the other spouse to divulge much-needed information; yet full financial disclosure is critical for an informed settlement in equitable distribution proceedings."[1]

Sometimes the business records provided by the custodial spouse indicate clear manipulation of transactions, leading to situations where one spouse reported substantially lower income to the taxing authorities and the court than determined by the other spouse's financial expert. Examples of such manipulations include: unreported business revenues, understatement of accounts receivable, under reporting of inventory, and improper recording of owner's compensation (including perquisites), dividends, and loans. In cases where there is a depletion of working capital by the custodial spouse, valuation can be permanently or temporarily reduced. Moreover, if the withdrawn funds are hidden, there are additional adverse financial consequences to the non-moneyed spouse. Thus, understanding the true nature of cash outflows caused by the custodial spouse will influence equitable distribution and alimony, as well as child support obligations.[2]

DISCOVERY

Discovery is intended to "make a trial less a game of blind man's bluff and more a fair contest with the basic issues and facts disclosed to the fullest practicable extent."[3] However,

1 "Sanctions for Discovery Violations", National Legal Research Group, Inc., 1998.

2 Describing the specific forensic accounting procedures in a divorce proceeding to be performed by the appraiser is beyond the scope of this article. For guidance with respect to such procedures, see Forensic Accounting for Divorce Engagements, a Practical Guide, third edition, published by the American Institute of Certified Public Accountants, 2009.

3 *United States v. Proctor & Gamble*, 356 U.S. 677, 682 (1958). https://supreme.justia.com/cases/federal/us/356/677/case.html)

the court has discretion in determining what discovery is necessary, and if the analysis used by an expert to reach conclusions is reliable and admissible.

The Federal Rule of Evidence 702: Testimony by Experts states:

> If scientific, technical, or other specialized knowledge assist the trier of fact in issue, a witness qualified as an expert by knowledge, skill, experience, training or education, may testify thereto in the form of an opinion or otherwise if: (1) the testimony is based upon sufficient facts or data; (2) the testimony is the product of reliable principles and methods; and (3) the witness has applied the principles and methods reliably to the facts of the case.

In *Daubert v. Merrell Dow Pharmaceuticals, Inc., 509 U.S. 579, 589 (1993),* "the trial judge's responsibility with regard to expert opinions is to ensure that any and all scientific testimony or evidence admitted (at trial) is not only relevant, but reliable." Accordingly, a court can reject a business appraiser's findings if it is based on incomplete or erroneous data. There are many published cases where the testimony of financial experts has been excluded due to inadequate factual data.

The message from the courts is clear—use all appropriate means to obtain the evidence needed to render a reliable conclusion.

CASE STUDY

The following is an example of what can occur if there are limitations imposed on discover.

In a hypothetical divorce case, husband and wife jointly owned several business entities. Husband was in full control over the operational management of the businesses and maintained the business records. As a way of thwarting a complete forensic analysis, husband objected to a motion to open up the records for physical inspection; he also objected to paying the necessary retainer. Instead, he was able to convince the judge to allow the wife to access the electronic recordkeeping system only during non-business hours. He successfully convinced the judge that allowing her access during business hours might disrupt the business. The expert, meanwhile, explained to wife's attorney that the manner of reviewing records set forth by the court would not allow a complete forensic review and would, therefore, be inadequate.

The few business records available strongly suggested that husband was taking money from one of the jointly held businesses and recording the outflows of cash as shareholder loans. In effect, he was borrowing interest-free from wife, at least the extent of fifty percent of the aggregate amount.

Inadequate access to the full array of business records resulted in insufficient data on which to base forensic findings. As such, the disadvantaged spouse was left unable to plead her case with the accuracy needed to present a credible case. At husband's deposition, he stonewalled the examination through evasive answers or assigning responsibility for the books and records to the outside accountant. Because the non-moneyed spouse did not have ready access to the bank accounts of the closely-held businesses, she was on unequal footing with her husband. Accordingly, she was unable to engage the proper level of expert assistance.

The unsympathetic judge contributed negatively to the dilemma by focusing his attention on matters involving the couple's children and did not hear the pleas of wife or wife's attorney. Instead, he accepted the unsupported assertions of husband that the businesses had seriously declined and were unable to provide the same level of financial support to wife as they did during the marriage. The expert's affidavits reporting the suspected taking of additional cash through loans were ignored by the judge, allowing husband to live comfortably while choking off the cash flow to wife who did not have equal access to the accounts of the businesses. Transactions posted to the General Ledger masked by journal entries made by the outside accountant resulted in further confusion.

AVAILABLE REMEDIES

Though costly, the wife could have brought a shareholder derivative action seeking access to the books and records vis-à-vis her stock ownership interest and therefore bypass the vagaries of Family Court. However, without adequate funds she was unable to commission this step. Thus, the sheer lack of available funds to commission a deeper legal and forensic investigation hampered the non-moneyed spouse's desire to have the truth uncovered.

Wife's counsel could have petitioned the court for sanctions against husband for refusal to produce records where there was a clear and willful defiance of court-ordered cooperation.

In cases where each spouse has equal ownership rights, the judge should understand that where one spouse borrows needed funds but the other spouse cannot do so, then the spouse in full control has a distinct and unfair advantage. If the spouse not having access or control cannot fund his or her case, then justice will be more difficult to achieve because the truth will be kept well-hidden.

The independent outside accountant could be deposed and asked to produce the work papers associated with the filed tax returns. Often the accountant is fully aware of what is going on, but might not be willing to conceal the truth at the deposition table.

SUMMARY

It is critically important for a business appraiser to obtain adequate discovery in connection with the development of a reliable valuation conclusion. Failing to obtain and critically examine necessary documents can result in failing to identify owner manipulations such as understatements of revenues, overstatements of expenses, and improper and/or nonrecurring transactions. Business appraisers should consider all appropriate means to obtain needed discovery. Failing to obtain sufficient, reliable discovery can ultimately result in the production of a report that is incorrect and/or rejected by the courts. VE

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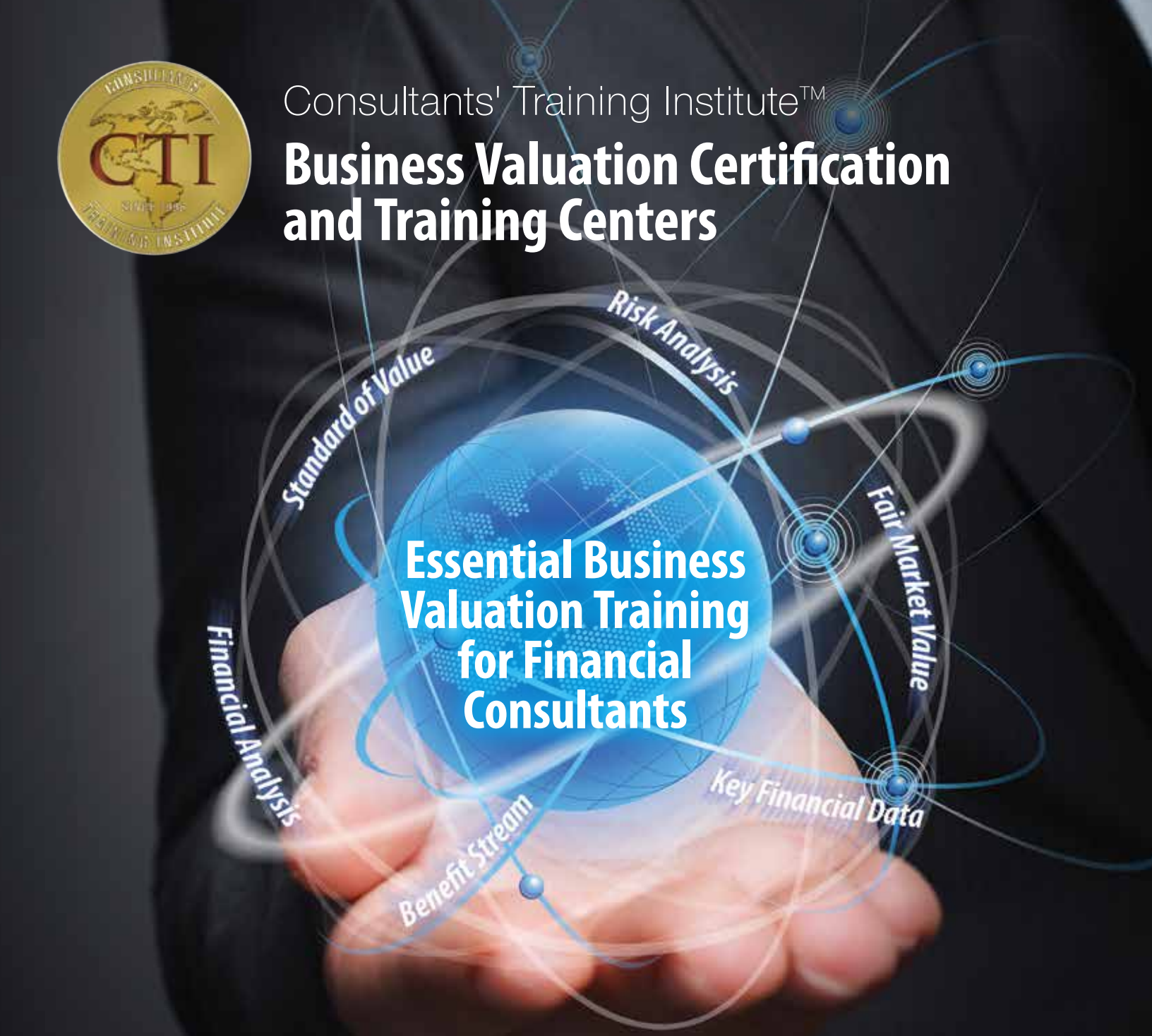
Eric J. Barr, CPA, ABV, CFF, CVA, CFE, is the partner-in-charge of Marks Paneth LLP's Valuation Services Group. He is the author of Valuing Pass-Through Entities, (John Wiley & Sons, Inc., 2014). Eric has more than forty years of public accounting experience specializing in litigation support, consulting, and traditional accounting and auditing services. Prior to joining Marks Paneth, Eric was a litigation and accounting partner in a national CPA firm. He is currently a member of the editorial board of The Value Examiner. E-mail: ebarr@fbwcpas.com



Eric Kreuter, PhD, CPA, CGMA, CFE, CBA is a Partner in the Financial Advisory Services group at Marks Paneth LLP. He specializes in litigation and forensic services including commercial damages and fraud investigations. His background includes management, human resources and other consulting services. He is also a specialist in all facets of the construction industry. E-mail: EKreuter@markspaneth.com

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PRACTICE MANAGEMENT

Practicing Solo

"Practicing Solo" features interviews with our industry's seasoned sole practitioners. If you are itching to join the solo ranks, or striving to be more efficient and effective in your established one-person firm, this column offers you practical advice, steeped in experience from the trenches, that can move you forward.

By Rod P. Burkert, CPA, ABV, CVA

INTERVIEW: BILL DITTY

I hope you enjoyed last issue's interview with Pat Perzel. Our interview series continues, with this issue featuring Bill Ditty, CPA, PFS, CVA, CFF, MAFF, CDFA (WHEW!). Bill hails from Dublin in THE Buckeye State of Ohio.

Bill launched his solo practice in August 1991, a long time ago relative to other people I've talked to. He practices under the banner of Ditty Financial Forensics (dittyfinancial.com). His practice sweet spots are business valuation and litigation support, mostly in the divorce arena, and he generally deals with companies having five to fifty million dollars in revenue.



Bill Ditty

Rod: What was your first year like, and what would have made it better?

Bill: My first year—with a new business generating zero dollars while carrying the obligatory fixed expenses—was intimidating. It helped tremendously that I was teaching full time as a professor at the Columbus branch of a national university chain. Still, income that could've gone to new furniture or a vacation was instead plowed into my fledgling practice. I was also a new father with two young children, so the economic balancing act was always on my mind—as was attempting to attract clients.

My first year could have been better had I planned ahead to obtain some client engagements prior to plunging in; instead, the only commitment I had was the rent! But I also wanted to avoid a problem that plagues many of my colleagues: paralysis by analysis. I knew I could justify NOT starting my practice because "I need one more client/issue/thing/whatever" to be in place before I hang my shingle. Prudence is an important attribute for us as professionals. But life will sometimes simply demand that we take a chance (thoughtfully, obviously), and in my case, moving forward and opening my practice.

Rod: Do you practice in a specialized niche?

Bill: The definition of niche is a job, activity, etc. that is very suitable for someone. Within that definitional realm, my niche is my practice, as it is. I enjoy working for myself with both the pleasures and pressures that come with it. My area focuses on business valuations and forensic accounting; that skill set allows for a large variety of interesting work within that context. I enjoy the opportunity of working with a variety of businesses and people helping to solve a problem or resolve a conflict.

When I started practicing, I would eagerly extend myself to working with essentially anyone for any price just to get the register ringing. One of my most liberating business activities now is turning business down. There are people, issues, and circumstances that I want absolutely nothing to do with. And in my practice, I have the luxury of saying no to clients I don't want.

Today, my practice allows me to pursue economic avenues and opportunities as they arise. I have both the freedom and

the risk of making the decisions that suit me and my skill set.

Rod: What has been your best marketing tactic?

Bill: Resorting to Merriam-Webster, the definition of marketing is: "activities that are involved in making people aware of a company's products [services]…" I've found that the ability to clearly and objectively present complex information to the uninitiated in a manner that brings them to my way of thinking, without condescension, is a powerful marketing tool.

This may sound passé or be obvious, but my best marketing tactic has been to do an exemplary job with the cases I get. Particularly in litigation, I provide a defendable, quality work product so the attorney who hired me will engage me again. And this marketing tactic works on opposing counsel as well. She sees me presenting my efforts in a way that the trier of fact not only understands but also ends up agreeing with my perspective, and she wants to hire me next time out.

I also market through larger forums (i.e., beyond board rooms and court rooms) with webinars, teleconferences, and live seminars. I speak to a number of attorney groups such as the American Academy of Matrimonial Lawyers, Ohio State Bar Association, and numerous local city/county bar associations.

Rod: How do you differentiate yourself from larger firms?

Bill: Big firms are not my competitors. The giant clients needing the services of our profession are not looking to me to provide them. I harbor no illusions of a Fortune 500 company seeking me out to help them reconcile a multi-billion-dollar merger.

I don't harbor those illusions because a core attribute I adhere to is not doing cases or engagements that are outside of my experience, knowledge, and background. So my differentiation from the larger firms is that my clients are hiring me, working with me, and it's me that is ultimately fully responsible for the final work product. And I realize that "just me" is both a selling point and a rejection point, but I'm okay with that.

One of the great absurdities of the guru-like mass marketing shylocks is how you can morph yourself into everybody liking you and hiring you. Please. One, it's a lie, and two, it's way too much work. The joy of my practice is working with clients that have similarities with my attitudes and work ethic. That makes accomplishing things so much easier…and fun.

Rod: Do you work from a home office or an "office" office?

Bill: I attempted working from home for a short time. While it might work for some, it was just horrible for me. Horrible as in the distractions of home comforts, movies, Saturday college football, etc., would easily intercede even when I had work to get done. It was a mess.

Now, I have the best of both worlds. My office outside the home is large, accommodates my needs, and has room for me to grow. It's less than three miles from my house, which allows me to scoot there on weekends when necessary, get some work accomplished, and be swiftly home. And when I'm home, I'm home. No business distractions.

Rod: What is your current mobile device?

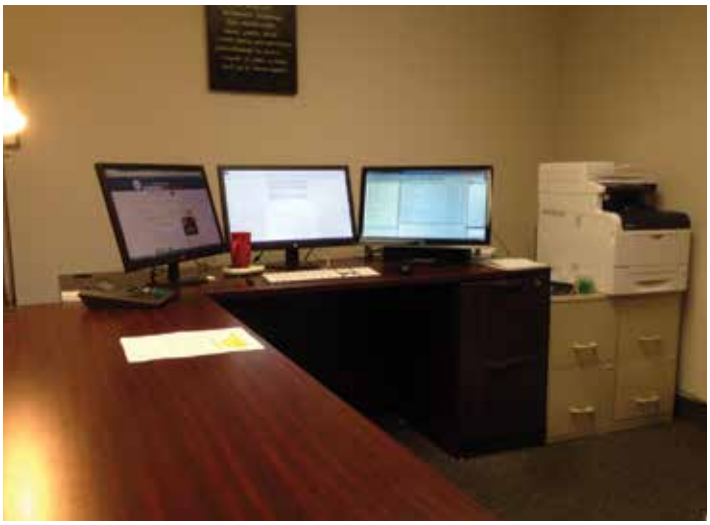
Bill: The famed science fiction writer Arthur C. Clarke said, "Any sufficiently advanced technology is indistinguishable from magic." Hence, the magic that I possess and use is the iPhone and iPad, paired with LogMeIn Ignition to tie both devices into my office computer.

Rod: Describe your current computer workstation set up.

Bill: I work in a paperless office so I have three large computer screens that allow me to analyze, manipulate, and print large volumes of documents. I put up the source documents on one or two screens and use that information to create my analysis (whatever that may be) on the third screen. I can then label or annotate the source documents as needed, and reference them on my analysis to fully document my workflow. For me, this process works especially well when I have cases where there are long time lags between picking up the files and figuring out where I last left off.

Rod: Besides your phone and computer, any office hardware or software that you just couldn't live without?

Bill: Some of my essential software includes BVM Pro for valuations and FinPlan for support calculations. I also love eFileCabinet electronic storage (www.efilecabinet.com) that, when coupled with my high-speed scanners, completely eliminates the need for hard copy, offsite document storage. All of the information I need for any case is on my hard drive (and backed up to the cloud), taking up no space, and instantly available anytime or from anywhere.



Bill's office is a model of organized efficiency.

Rod: What do you listen to while you work?

Bill: I listen to nothing. I savor dead silence when working. An NPR story in the background (especially the Story Core segments, which almost always make me cry) is just too much of a distraction. Either I dedicate myself to the task at hand, or I sit back with my coffee and listen to NPR. I don't serve two masters…I know some can, but I can't!

Rod: What tool(s) do you use to manage your to-do list?

Bill: I use my iCloud Outlook calendar to meet deadlines and complete 'to-dos' (with my office computer, iPad, and iPhone all linked together). The Reminders feature on my iPhone notifies me to pick things up when I pass certain locations. Like in the morning when my wife asks me to pick up milk on the way home, which I inevitably forget, my iPhone will remind me to grab it as I cruise by the store. Imagine that—an inanimate object helping a relationship.

Rod: Early bird or night owl—what's your sleep routine?

Bill: My sleep routine is linked to the season. With summer's warm weather and plenty of sunshine (plenty being relative to central Ohio), I tend to be both an early bird and a night owl. But in the cold depths of winter, I'm the exact opposite—I tend to sleep in later and go to bed earlier.

Rod: How do you stay technically current with changes in the profession?

Bill: Remaining current is a considerable and constant challenge. My main "go to" resources are: *The Value Examiner, National Litigation Consultants Review, Journal of Accountancy,* the Experienced Business Appraisers LinkedIn group, and issues I become aware of from reading diverse publications such as *The Economist* and *The Wall Street Journal*.

Rod: What business, but non-BV, book have you most recently read or want to get to and why?

Bill: Getting Things Done: The Art of Stress-Free Productivity by David Allen. We live in a world of amazing technology, with devices that have the potential to create so much productivity, yet many people end up distracted by all the buzz. They think they are productive, but they accomplish little. This book does a great job of sorting tasks, and your thinking, to create a more efficient and effective life, which translates into less stress for me.

Rod: What practice areas do you think offer the most promise to someone going solo now?

Bill: I'm going to sound like a consultant and say…it depends. For example, divorce is certainly an active arena with tremendous economic potential. A lot of forensic work is involved, defending or condemning separate property claims, finding hidden assets, and valuing businesses all represent interesting and profitable work. But if you hate being deposed or testifying in court, well, then divorce work is not for you.

I think the most promising area for going solo is the area in which you possess the requisite skills and expertise and the environment is one that suits your personality. If you truly enjoy what you do, you will do it well, and others will see that and be attracted to that. In order to be believed, you must believe. Do something you believe in.

Rod: Finish this sentence: If I knew then what I know now, I would…

Bill: By "then," I'm going to define as the start of my practice. And at that time I did the traditional (and for me desperately boring and tedious) bookkeeping/tax preparation work. This was around the time that Shannon Pratt and other business valuation luminaries were really beginning to put their imprint on the forensic/valuation world we now live in. I wish I had looked up from the tax returns long enough to have seen the opportunity and jumped much, much earlier onto the valuation

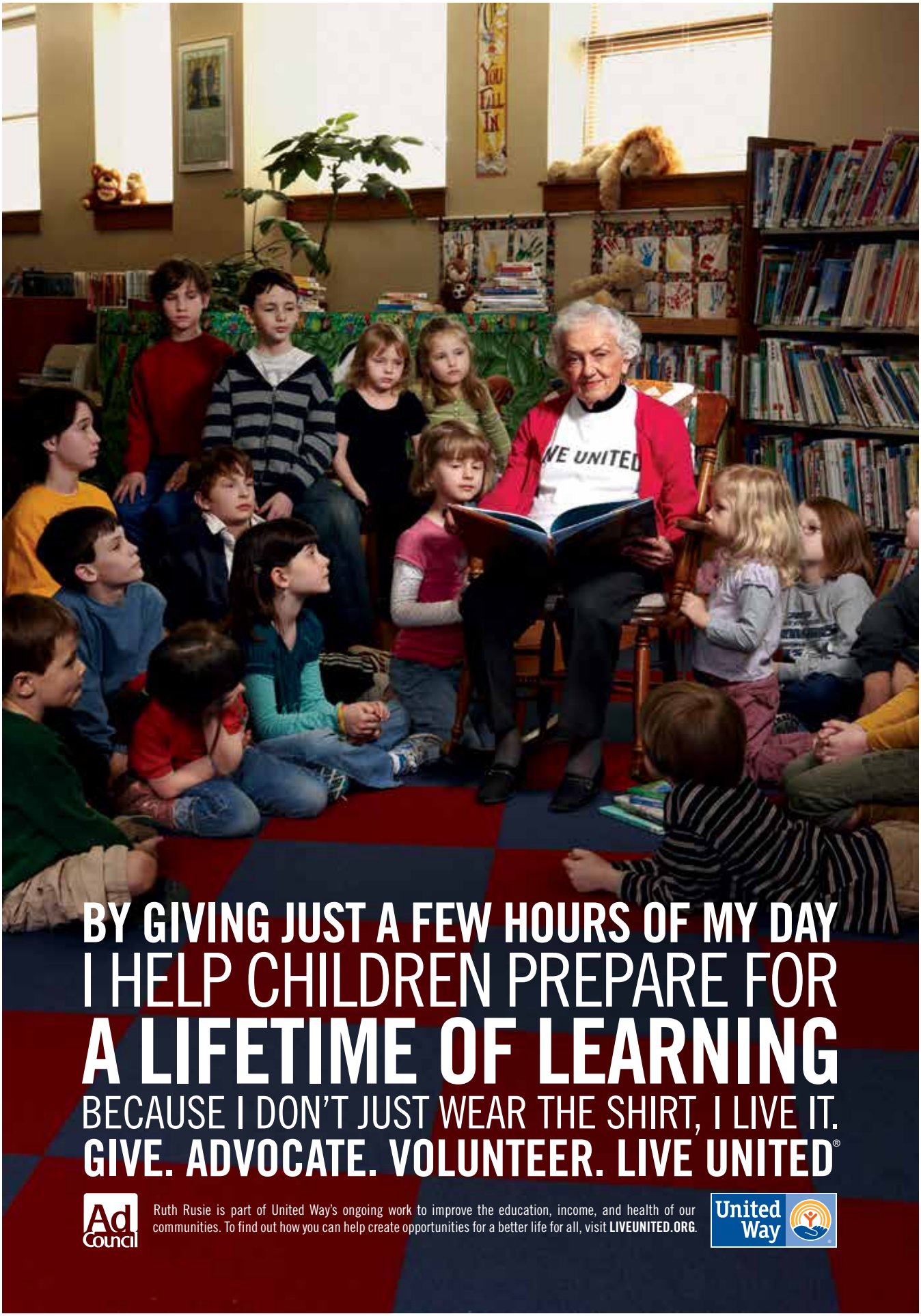
bandwagon. Who knows, there might have even evolved a Ditty Approach to valuation methodologies. Just please don't ask me what that might look like!

That's a wrap! Do you have a Practicing Solo issue you would like me to address? E-mail me at *rod@practicebuilderacademy.com*. Looking for advice on how to build your practice or redesign your life? Post your question on Practice Builder Academy TV at www.AskPBA.com. VE



Rod P. Burkert, CPA, ABV, CVA, is President of Burkert Valuation Advisors, LLC (rodburkert.com). His engagements focus on income/gift/estate situations and working with successful business owners who are looking to make a transition. He also provides independent report review and project consulting services to assist fellow practitioners with their assignments. Rod is also the co-founder of Practice Builder Academy (practicebuilderacademy.com), a twelve-month mentoring program that teaches proven strategies to BVFLS professionals who want to build their practices and redesign their lives.




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