

Guide to Intangible Asset Valuation

Book Review

Neil Beaton, CPA

Willamette Management Associates managing directors Robert Reilly and Robert Schweihs recently authored the book, Guide to Intangible Asset Valuation, which was published by the American Institute of Certified Public Accountants. This review, written by Neil Beaton, provides an overview of the contents of the book as well as the author's views on the relevance and quality of this important book.

INTRODUCTION

“Does the *Guide to Intangible Asset Valuation* (the “*Guide*”) have any substance?” was the question I posed to myself when I was reviewing the *Guide*. After finishing my review, I can respond with resounding confidence: “YES!”

The purpose of the book is three-fold: (1) an introduction to intangible assets and intellectual property and their underlying economics, (2) a reference guide for practitioners, and (3) a reference guide for non-practitioners who want to gain a better understanding of intangible assets and intellectual property.

The book is laid out in rational order beginning with the identification of intangible assets and intellectual property, followed by reasons a valuation of such assets is needed and then valuation principles specific to intangible assets and intellectual property, both in a litigation and nonlitigation setting.

There are eight chapters that focus on processes and analysis followed by nine chapters outlining specific valuation processes applicable to intangible assets and intellectual property. The remaining 18 chapters cover the valuation of intangible assets and intellectual property in the context of financial reporting under Accounting Standards Codifications 820 and 805.

EVALUATION BY SECTION

Chapters 1 and 2: Identification of Intangible Assets and Intellectual Property

These chapters are a basic introduction to intangible assets and intellectual property. With all of the confusion in the industry defining these asset categories, these chapters are a breath of fresh air. Differences between tangible assets and intangible assets, differences between real estate and tangible personal property, differences between real property interests and intangible personal property, common categories or intangible assets, and differences between intangible assets and intellectual property are adequately covered.

Further, intellectual property is described and defined as falling into four categories: patents, copyrights, trademarks, and trade secrets. These chapters are useful introductions for anyone who has not previously worked with intangible assets or intellectual property.

Chapters 3 through 7: Reasons to Value and Principles of Valuation

A comprehensive, bullet-point list of reasons to value intangible assets is a useful tool for young and seasoned valuation professionals alike. The concepts surrounding the valuation of intangible assets are framed and the reasons why these valuations are necessary are explored. In addition, broader considerations when valuing intangible assets, such as valuing intangible assets as part of a business enterprise and differences in analysis depending on the purpose and audience of the valuation, are provided.

These chapters describes the process of conducting an intangible and intellectual property

asset assignment including defining the purpose/objective of the assignment, selecting an appropriate valuation date, selecting the appropriate standard of value, selecting the appropriate premise of value, and understanding the bundle of rights theory of valuation. There are a number of excellent examples to assist the reader in understanding the principles. Chapter 6 expands on the principles set out in Chapter 5, classifying intellectual property into three categories: transaction, notation, or controversy. Chapter 7 takes the principles set forth in Chapters 5 and 6 and applies them in an economic damage setting.

Chapters 8 through 13: Valuation Data Gathering and Analysis

These chapters present procedures for data gathering and analysis from the due diligence process to the identification of highest and best use. There are helpful exhibits that list and describe research sources that the valuation analyst could use as part of a due diligence investigation, but it is also realistic in the sense that it cautions the analyst on the pitfalls of data gathered from the owner/operator.

Chapter 9 presents a thorough discussion of documentary discovery considerations for litigation matters, but certain important documents have been left off the list such as any actual licenses for the underlying intellectual property from the reasonable royalty rate documents. These chapters can be summed up by specific statements made by the authors such as: “The effective structuring of the intangible [or intellectual property] asset analysis assignment should result in the efficient development of the analysis and the clear reporting of a well-supported analysis conclusion.” And “valuation models are not proved; they are validated.”

The two chapters on the economic damage process and highest and best use analysis are required reading for anyone providing litigation support or attempting to assess the highest and best use of a particular intangible asset. Unique concepts such as the Entire Market Rule, the Georgia-Pacific factors and reasonable royalties are presented and explained.

Chapters 14 through 20: Valuation Approaches and Procedures

What is a book on valuation worth without a comprehensive analysis and description of the valuation approaches and methodologies applicable to intangible assets and intellectual property? From the cost approach to the market approach and finally the income approach, these chapters introduce the read-

er to the specific nuances of valuing intangible assets and intellectual property, and nuances they are!

For example, under the guideline transaction method, the sale of licenses is often called comparable uncontrolled transactions (CUTs), which provide a direct and systematic analysis of intangible asset value, damages, or transfer prices. However, collecting and selecting relevant CUT data isn't always simple because information about the economic factors that influenced the buyer or licensee and the seller and licensor are not usually provided in public records. In addition to specific valuation methodologies, a number of rich examples are provided that illustrate the theoretical constructs provided in these chapters.

Chapters 21 through 34: Valuation for Financial Reporting

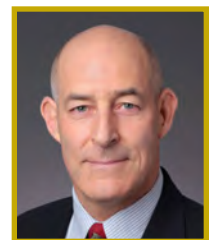
These chapters provide an easy-to-read, concise summary of fair value accounting under ASC 820, ASC 805 and ASC 350. While these chapters do not necessarily cover any new ground, the high-level overviews are informative, easy to follow and practical.

If there is a flaw in this book it is the fact that it does not offer “real world” practical applications for financial reporting under ASC 820. However, this is understandable given that the book already weighs in at 718 pages! Nonetheless, Chapter 22 pulls through with examples for customer relationships, leasehold interests, technology, trademarks and noncompete agreements.

The only other flaw in an otherwise excellent fair value synopsis is a lack of comparison to international financial reporting standards. Perhaps the authors are waiting for the second edition to grace us with yet another destined valuation classic.

Neil Beaton, CPA, is a managing director with Alvarez and Marsal in Seattle, Washington. He specializes in the valuation of businesses and intangible assets. In addition to being a licensed certified public accountant, accredited in business valuation and certified in financial forensics, Neil holds the chartered financial analyst and accredited senior appraiser designations.

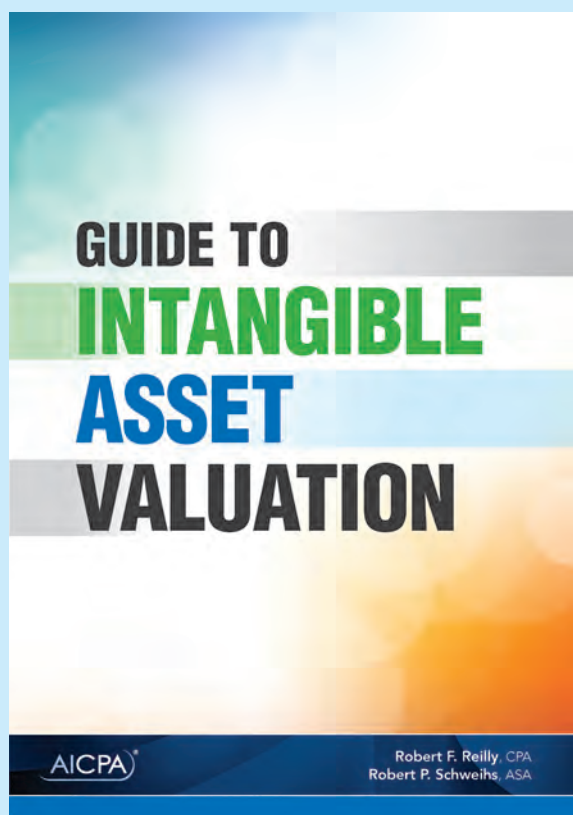
Neil would like to thank Bob Schweihls and Robert Reilly for the opportunity to review their book. He would also like to thank the entire A&M Valuation team in Seattle who provided detailed reviews of each chapter and made this review possible. Neil can be reached at 206-664-8934 or at nbeaton@alvarezandmarsal.



We are pleased to announce the publication of . . .

Guide to Intangible Asset Valuation

by Robert F. Reilly and Robert P. Schweihs



This 700-page book, published in 2013 by the American Institute of Certified Public Accountants, explores the disciplines of intangible asset valuation, economic damages, and transfer price analysis. *Guide to Intangible Asset Valuation* examines the economic attributes and the economic influences that create, monetize, and transfer the value of intangible assets.

Robert Reilly and Bob Schweihs, Willamette Management Associates managing directors, discuss such topics as:

- Identifying intangible assets and intellectual property
- Structuring the intangible asset valuation, damages, or transfer price assignment
- Generally accepted valuation approaches, methods, and procedures
- Economic damages due diligence procedures and measurement methods
- Allowable intercompany transfer price analysis methods
- Intangible asset fair value accounting valuation issues
- Valuation of specific types of intangible assets (e.g., intellectual property, contract-related intangible assets, and goodwill)

Illustrative examples are provided throughout the book, and detailed examples are presented for each generally accepted (cost, market, and income) valuation approach.

Who Would Benefit from This Book

- Litigation counsel involved in tort or breach of contract matters
- Intellectual property counsel
- International tax practitioners
- Property tax practitioners
- Auditors and accountants
- Valuation analysts
- Licensing executives
- Multinational corporation executives
- Commercial bankers and investment bankers
- Merger & acquisition professionals
- Bankruptcy professionals
- Judges and arbitrators



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Guide to Intangible Asset Valuation is available for a limited time only for 40% off the retail price! If you order by September 1, 2014, you pay only \$73.50 (regularly \$122.50) plus shipping! To order, please visit our website at www.willamette.com/books_intangibles.html.



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