

T.C. Memo. 2011-244

UNITED STATES TAX COURT

ESTATE OF LOUISE PAXTON GALLAGHER, DECEASED, F. GORDON SPOOR,
PERSONAL REPRESENTATIVE, Petitioner v.
COMMISSIONER OF INTERNAL REVENUE, Respondent*

Docket No. 16853-08.

Filed October 11, 2011.

James R. Spoor and Jon M. Wilson, for petitioner.

Stephen R. Takeuchi and Robert W. Dillard, for respondent.

SUPPLEMENTAL MEMORANDUM OPINION

HALPERN, Judge: Our Memorandum Findings of Fact and Opinion in this case was reported as Estate of Gallagher v. Commissioner, T.C. Memo. 2011-148. We issue this supplemental opinion to

*This opinion supplements our previously filed Memorandum Opinion, Estate of Gallagher v. Commissioner, T.C. Memo. 2011-148.

correct an error in our computation of the value of 3,970 membership interests (units) in Paxton Media Group, LLC, a Kentucky limited liability company included in Louise Paxton Gallagher's gross estate.

In the appendix to our original report, we calculated the value of the 3,970 units to be \$32,601,640 by using a discounted cashflow analysis. We computed the total present value of expected cashflows for 5 years and added to that sum the present value of a reversion, which we assumed to be received at the end of the fifth year. In computing the present value of the reversion, we erred in using the present value factor $(1 + 0.1)^6$. To determine the present value of the reversion to be received at the end of the fifth year, the value of the exponent in the present value factor should have been 5, not 6. We have attached hereto a new appendix in which we have revised our computation of the value of the 3,970 units, using the corrected present value factor and determining a value for the units of \$35,761,760 (an increase of \$3,160,120), which we find to be the value of the 3,970 units (the shares) as of the valuation date.

Decision will be entered
under Rule 155, Tax Court Rules
of Practice and Procedure.

APPENDIX

Valuation of 3,970 Units of Paxton Media Group, LLC as of July 5, 2004

<u>Projected Items</u>	<u>LTM¹ ended June 27, 2004</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
<u>Revenue</u>	\$163,602,288	\$172,514,890	\$175,102,613	\$176,853,640	\$178,622,176	\$180,408,398
<u>Operating income</u> (@ 36.4% op. margin)		62,795,420	63,737,351	64,374,725	65,018,472	65,668,657
Other income (expense) (@ 0.1% of revenue)		172,515	175,103	176,854	178,622	180,408
Adjusted operating income		62,967,935	63,912,454	64,551,579	65,197,094	65,849,065
<u>Cashflow adjustments</u>						
+ Depreciation (3.1% of revenue)		5,347,962	5,428,181	5,482,463	5,537,288	5,592,660
(-) Working capital additions (-2.5% of revenue)		222,815	64,693	43,776	44,213	44,656
(-) Capital expenditures (2.8% of revenue)		<u>(4,830,417)</u>	<u>(4,902,873)</u>	<u>(4,951,902)</u>	<u>(5,001,421)</u>	<u>(5,051,435)</u>
Yearend cashflow		63,708,295	64,502,455	65,125,916	65,777,174	66,434,946
Discount rate (WACC)		10%	10%	10%	10%	10%
Present value interest factor (1 / (1.1) ⁿ)		0.9091	0.8265	0.7513	0.6830	0.6209
Present value of cashflows		57,917,211	53,311,279	48,929,101	44,925,810	41,249,458
Total present value of cashflows (year 1 - year 5)		\$246,332,859				
Present value of reversion: 66,434,946 (1.01 / (0.1 - 0.01)) / ((1 + 0.1) ⁵)		<u>462,981,425</u>				
Total present value of all future cashflows		709,314,284				
Long-term debt		<u>(243,602,413)</u>				
Enterprise value of PMG (w/o discount)		465,711,871				
Value less in-the-money value of options ¹		448,290,271				
Value with 23% minority discount		345,183,509				
Value with 31% lack of marketability discount		238,176,621				
Value of each unit		9,008				
Value of 3,970 units		35,761,760				
* Last 12 months						

¹(\$9,008-\$2,786) x \$2,800 = \$17,421,600