

Tax Diversity Opportunities Atlanta 2008

A high level presentation that
discusses the different aspects of
being a tax professional

Welcome

- Biggest challenge today is to destroy long established preconceived notions or “prejudices”
- What one hears about anything is impressed in one’s brain and is very difficult to erase
- Even first hand knowledge has hard time supplanting the “prejudices”

Most common unfair perceptions about college student

- They are zombies after being out all night
- Spend all day long on Facebook
- Uninvolved and uninterested - never vote
- Stretch graduation as long as parents allow
- Study the minimum necessary
- Substitutes “like” for every noun known to mankind

Most common unfair perceptions about tax professionals

- Boring profession
- Complicated and dry laws
- Repetitive processes and dealing with numbers
- Back office operation stuck in inside cubicles
- No real correlation to the business

But real tax professionals can be:

- Extrovert
- Trend-setter
- Life of the party
- Occupy corner offices
- Flamboyant in his interactions
- Extremely effective and at ease presenting in front of large crowds
- Very tied in with the business

An example of how tax can be presented

- The following is an example of how a tax professional made a presentation about “Tax issues relating to corporate acquisitions”
- This is representative of many tax professionals
- You can be this type of tax professional

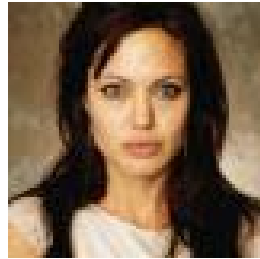
Description of an acquisition done the boring way

- Identifying the Target
 - Search and Identify
- Valuation
 - Methods, Reliability, Alternatives
- Critical Transaction Issues
 - Stock v. Assets
 - Representations, Warranty and Indemnification
- Diligence
 - Financial, Legal, HR, IT, IP and TAX
- Integration

OR

- See the following

Acquirer: Angelina Jolie

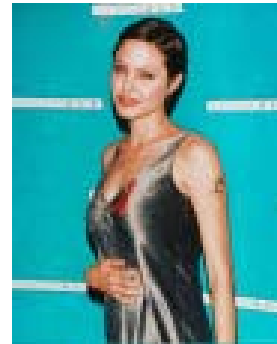


- Solid Financials
- “Most Admired”
- Flush with Cash
- Looking Long-Term
- Can Afford to Be “Picky”
- Coming Off a Great year

Target Search Strategy

Two Important Steps

- Hire a Bunch of Investment Bankers, Lawyers and Accountants, etc.
- Have them play golf and eat expensive dinners with a bunch of other Investment Bankers, Lawyers and Accountants, etc.



Target 1: Denzel, Inc.



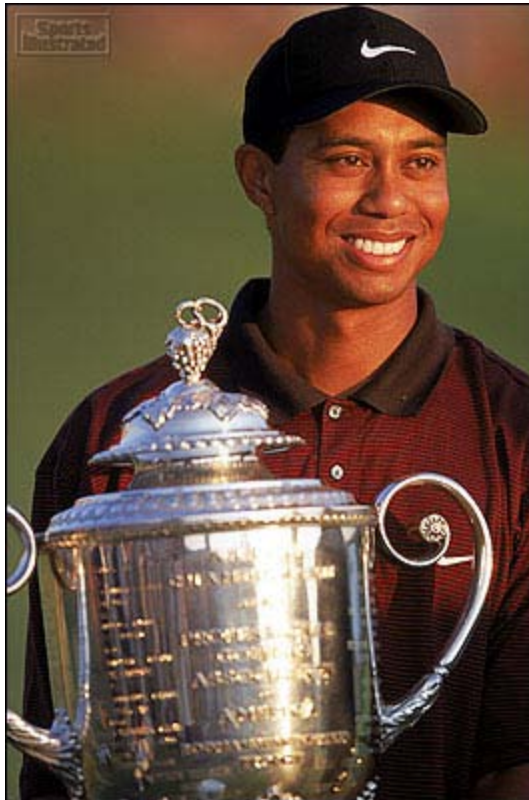
- Financially Sound Investment
- Geographically Desirable
- Steady, Dependable Brand
- Has He Peaked?

Target 2: Beckham, Ltd.



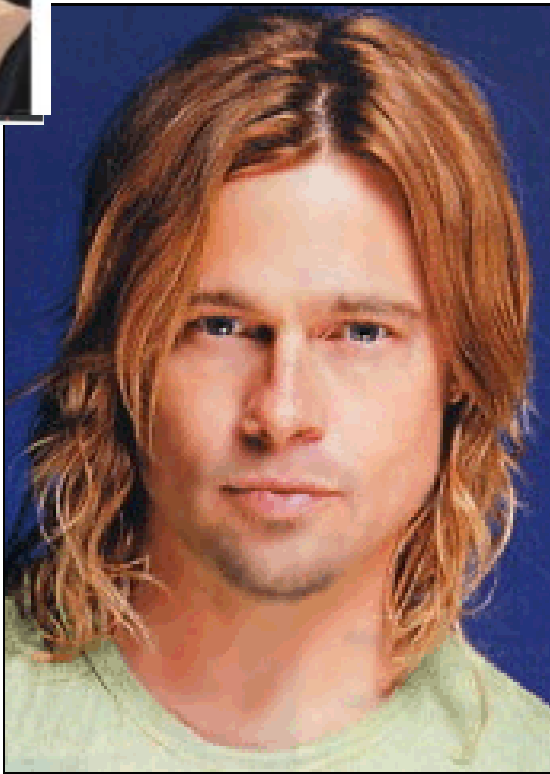
- Durable and Dependable
- Strong International Brand
- Has Already Proven that He Can Be Bought
- Willing to Provide Own Hair Gel

Target 3: Woods Investment Co.



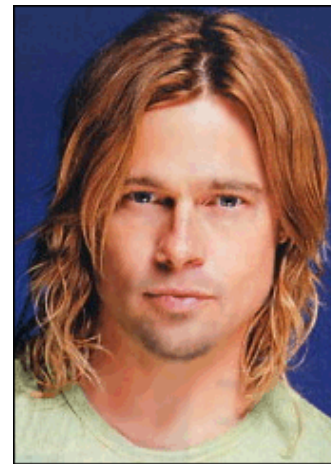
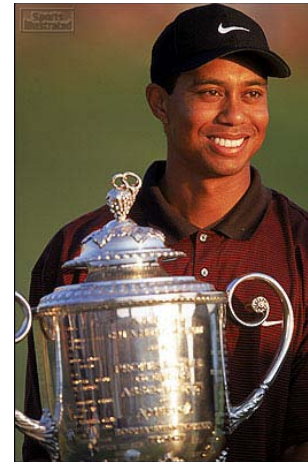
- Appeal Across All Markets
- Proven “Best in Class” year after year
- Filthy Rich
- Age a plus: May not have reached prime earnings potential

Target 4: Pitt, Inc. d/b/a BRAD



- Strong Balance Sheet
- Market Leader
- Versatile
- Obvious “Synergies”
- Significant Intangibles, may provide springboard to other markets

Target Selection



Stock or Assets

- Generally, Seller will want to sell stock
 - Take all of it, good and bad including unknown value or unknown Liabilities
- Generally, Buyer will want to buy assets
 - Pick and Choose wanted assets
 - Do not want to take on liabilities
- Tax Reasons May Compel The Choice
 - What is the Seller's Tax Basis in Stock or Assets?

Pick and Choose the Pitt Assets



Or.. Take the Pitt Stock



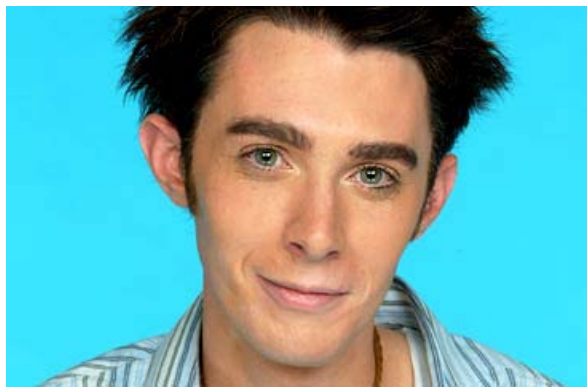
- All Pitt Assets
 - Including his brand
 - All Pitt Liabilities
 - Known Liabilities
 - Latent Liabilities
 - All Debts
 - All Contracts
- Continue,

Including....

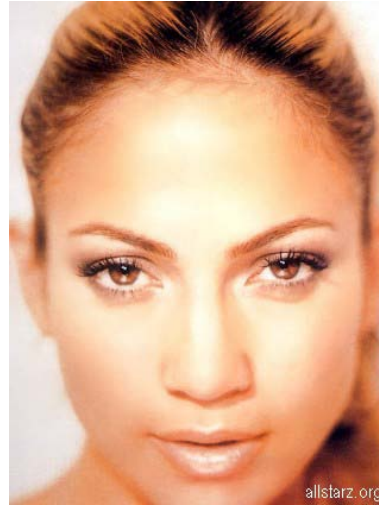
Unwanted Burdensome Contracts



Panic Time: May Be Pick One Of These

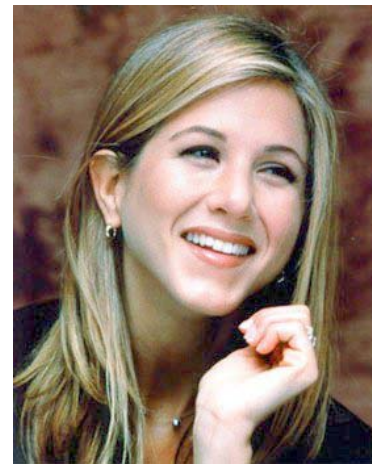


If We Don't Buy Him Now...Other Acquirers Wait For An Opportunity



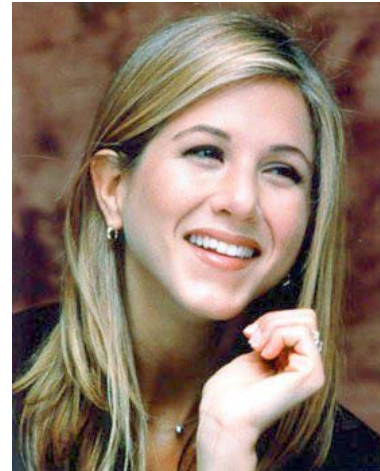
Solutions

- Pre-Close Carve Out of Unwanted Aniston Contract



Other Solutions

- Short to Mid-Term Service Contract whereby Aniston Contract remains for a period of time
- Ultimately, It is Often Just a Matter of Money



Stock v. Asset Sale

- Pitt Stock Basis (himself) **\$1 billion**
- Pitt Asset Basis:
 - Cars 100 million
 - Houses 200 million
 - Jewelry 50 million
 - Wine cellar 50 million
 - Total Asset Basis **\$400 million**

Simple Asset Sale: Tax Impact

- Buy Pitt Assets for \$ 1 billion
- Asset Gain to Pitt of $(1B - 400 M) = 600$ Million
Pitt will have to pay tax on 600 million.
- Since Angelina would pay \$ 1 Billion for these assets, she takes a new \$1 Billion Basis in the assets for Depreciation purposes
- Created: An Extra \$ 600 million Depreciation Deduction Over Time for Angelina
- But Angelina does not get Brad's image

Simple Stock Sale

- Buy Pitt Stock for \$ 1 Billion
- Stock Gain of $(1B - 1B) = 0$ Million
No tax payment for Brad
- Angelina takes a \$ 1 Billion Basis in the Stock and gets Brad's image
- But, she is stuck with Pitt's old 400 million Basis in the assets (it carries over)
- Did She walk away from a \$ 600 million Deduction? Yes she did

Tax Due Diligence

- Has Brad paid all taxes (Federal, State, Property, VAT)?
- Has Brad adequately reserved for tax exposure items? (may be the tax on his latest movie purse has not been paid)
- Negotiate Proper Purchase Price Reductions, or Contractual Protection.
- Look for Structuring and Integration Opportunities.

Indemnity Issues, or: Will Someone Else protect Angelina From Getting Hurt



- Pitt is organized and in good standing
- Pitt will not lose his value pre-closing
- Pitt has paid his taxes
- Pitt has told you about all his liabilities
- Pitt will not cut his hair

Integration or: how the two will be together

- Beyond the Scope of this presentation



Consideration

- If by any chance someone is still thinking that a tax professional needs to be locked in a cubicle, spending the day filling boxes with numbers, reading obscure tax statutes and filing tax returns, they are “right” and “wrong”
- Every profession has the pros and cons

Fantastic Professions

- Flight attendant: Atlanta to Paris with two days stay over for \$75,000 a year
- Actress on Broadway making \$250,000 a year
- Young investment banker making \$500,000 a year on Wall Street and working on the mega merger of the year
- Nasa scientist working in Houston

The other side of the story

- A lot of flight attendants fly from Atlanta to Cleveland for \$30,000 a year
- An actress can spend 20 years on the set of the Phantom of the Opera saying just “Oh my God they have killed Roberto”
- The young investment banker crunches numbers on models into the early hours of the night for months on end without a weekend off
- The scientist with no name in the left third row cubicle has figured the ratio of weight to lift off power for the last 20 launches

In other words.....

- Tax is a profession that is as good and as bad as any other with the following caveats: the demand for tax professionals will be the highest it has never been in the next 20 years
- There are no certainties in life other than death and taxes, and while anyone has great opportunities for success, minorities have an especially fertile area because of a dire under representation in the tax profession