# **INDEX**

[Current to Release 2020-1. References are to section numbers. VAL refers to "VAL—Practice Aids—Independent Valuation Consultants" tab. INT refers to pages under the "INT—Practice Aids—Internal Accountants/Analysts" tab. Page numbers that begin with SSP-refer to pages in the Self-Study Program section at the end of Volume 3.]

#### **ACCOUNTANT'S REPORT**

GAAP errors, 410.19

### **ACCOUNTING PRINCIPLES**

Comparability, 420.16

**ACCOUNTS RECEIVABLE.** See FORECAST

**ADJUSTED BOOK VALUE**, 205.45

### **ADJUSTMENTS.** See also under VALUATION METHODS

- Balance sheet, 420.06 to .09, 420.18 to .20
- Closely-held companies, 420.20
- • Illustration of, Appendix 4E
- Normalization, 420.18 to .22
- Case study (SJM Clothing Inc.). See CASE STUDY (SJM CLOTHING INC.)
- Financial statement, 420.01 to .04
- GAAP departures, 420.12
- • Illustration, 420.14
- Income statement, 420.06 to .09
- Closely-held companies, 420.20
- • Normalization, 420.23 to .34
- Income taxes. See INCOME TAXES
- Normalization, 420.17
- • Balance sheet, 420.18 to .22
- • Closely-held companies, 420.20
- • Income statement, 420.23 to .34
- • Presentation of, 910.07
- Posting, 420.05
- Presentation, 420.05
- Professional practices, 1110

# **ADVANCE INCOME TAX RULINGS**, 1010.05

• ATR-36

### ADVISORY ENGAGEMENTS, 105.06 to .07, 300

- Conflicts of interest, 305.12
- Data required, 305.03

# AICPA. See AMERICAN INSTITUTE OF CERTIFIED PROFESSIONAL ACCOUNTANTS

**ALBERTA SECURITIES COMMISSION**, 1200.04

### **ALTERNATIVE DISPUTE RESOLUTION**, 1370

- Arbitration, 1370.26 to .41
- Combined mediation/arbitration, 1370.42

Mediation, 1370.03 to .25

AMALGAMATIONS, 1005.16

# AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (AICPA)

- Professional requirements, 905.01
- Standards, 105.27 to .28
- Standards for all CPAs, 105.29

# **AMERICAN SOCIETY OF APPRAISERS (ASA)**

- Advanced business valuation conference, 110.113
- Business Valuation Committee Standards, 105.24, 905.07
- Business Valuation Standards, Appendix IA-6
- Code of Ethics, Appendix 1A-5
- Educational program, 110.111
- Expert testimony, 905.18
- Litigation services, 905.18
- Principles of appraisal practice, Appendix 1A-5
- Professional requirements, 905.01
- Reaccreditation, 110.115
- Standards, 105.23
- Valuation reports, 905

### **AMERICAN STOCK EXCHANGE.** See AMEX

**AMEX**, 510.11

ANALYSIS, 400

# APPRAISAL FOUNDATION

- Expert testimony, 905.19
- Standards, U.S., 905.06
- Valuation reports, 905.01

# ARM'S LENGTH TRANSACTIONS, 1010

### **ARTICLES OF INCORPORATION. See LEGAL DOCUMENTS**

ASSET APPRAISER, 705.08 to .10

**ASSET PROTECTION**, 1420.31

**ASSET-BASED METHODS.** See VALUATION METHODS

### **ASSETS**

- Excess, 420.19 to .20
- Long-term, 525.43

- Non-operating, 420.19 to .20
- Shares, compared, 1030
- Shortages, 420.19, 420.21

# AVERAGE GUIDELINE COMPANY RETURN. See GUIDELINE COMPANIES

# **AVERAGE MARKET RETURN**, 510.07

- Build up, 510.02 to .06, 510.19
- Computation, illustration of, 510.08
- Equity risk premium, 510.05
- Risk differentials, 510.09 to .10
- Risk factors, 510.15 to .16
- Risk-free investment rate, 510.03 to .04, 510.10
- Short-term rate, 510.07
- Size premium, 510.11 to .14

### **BALANCE SHEET ADJUSTMENTS.** See **ADJUSTMENTS**

# BALANCE SHEET DATA. See CASE STUDY (SJM CLOTHING INC.)

BANK OF CANADA, Appendix 4B

BANK OF CANADA REVIEW, 510.06

### BENEFIT STREAM, 220.24 to .26, 505.10

- Adjusting, 520.10
- Capitalized returns method. See under VALUATION METH-ODS
- Gordon model, 525.46 to .49
- Net cash flow, 505.10
- Net earnings, 505.10
- Tax provision, 520.09

## **BENEFITS**, 420.51

Family members, 420.52

#### BETA, 515.10. See also GUIDELINE COMPANIES

BIZCOMPS, Appendix 4C-1

BONDS VERSUS PREFERRED SHARES, 1405.06 to .11

**BOOK VALUE**, 205.44, 601.72 to .77

# **BRITISH COLUMBIA SECURITIES COMMISSION**, 1200.04

Background, 1215.01 to .06

# BUILD-UP METHOD. See DISCOUNT RATE BUMP. See WIND-UPS

### **BUSINESS, TYPE OF. See VALUATION MULTIPLE**

### **BUSINESS COMBINATIONS. 1805.01**

Purchase cost allocation, 1805.18 to .25

# BUSINESS GROWTH PROSPECTS. See VALUATION MULTIPLE

# **BUSINESS LIFE. See PERPETUAL BUSINESS LIFE**

#### **BUSINESS VALUATION DATA. See DATA**

### **BUSINESS VALUATION EXPERTS**

- Codes of ethics, 1355.24
- Duties to the court, 1355,24
- Professional standards, 1355.24
- Rules of professional conduct, 1355.24

### BUSINESS VALUATION LIBRARY, Appendix 1D, 220.03

#### **BUSINESS VALUATIONS.** See VALUATION ENGAGEMENT

**BUSINESS VALUATOR.** See VALUATOR

# BUY-SELL AGREEMENTS, 1020.82 to .85. See also LEGAL DOCUMENTS

- Interpretation Bulletin IT-140R3, Appendix 10A-1
- Professional practices, 1115.25, 1130.15
- Valuation concerns, Appendix 10C

### **BY-LAWS.** See **LEGAL DOCUMENTS**

**CALL OPTIONS/WARRANTS**, 601.94

### CANADA BUSINESS CORPORATIONS ACT, 1400

CANADIAN BOND RANKING SERVICE, 1420.38 to .40, Appendix 14B

CANADIAN CASE LAW, 1020.58 to .59

**CANADIAN PENALTIES**, 1000.19

**CAP RATE.** See **CAPITALIZATION RATE** 

### CAPITAL, AVAILABILITY OF. See VALUATION MULTIPLE

CAPITAL, COST OF, 510.06

• Weighted average, 530.11

CAPITAL, RELATIVE SIZE, 601.24

# CAPITAL ASSET PRICING MODEL (CAPM) METHOD. See VALUATION METHODS

**CAPITAL EXPENDITURES**, 505.11

### CAPITAL GAINS, 1005.02 to .07

- Exemption, 1005.20 to .25
- Inclusion rates, 1005.02
- Discount, 1035

- • Canadian position(s), 1035.20 to .25
- • CRA position, 1035.26
- U.S. experience, 1035.03 to .19

**CAPITAL STRUCTURE**, 601.29

**CAPITALIZATION. See MARKET CAPITALIZATION** 

CAPITALIZATION OF EARNINGS METHOD. See VALUATION METHODS

CAPITALIZATION OF GROSS CASH FLOW METHOD. See VALUATION METHODS

CAPITALIZATION OF NET CASH FLOW METHOD. See VA-LUATION METHODS

CAPITALIZATION RATE, 215.11 to .12, 505.05 to .07

- Adjustment of, 420.39
- Attributes, 505.08
- Build-up method, 510.18 to .19, 510.25
- Capital asset pricing model (CAPM), 515.24
- Capitalized returns method. See VALUATION METHODS
- Controlling interest, 530.04
- Debt-free value, 530.08 to .09
- Deriving from discount rate, 515.19
- Determining, methods for, 505.09
- Discount rate, converting from, 505.26
- • Normal relationship does not occur, 505.30 to .34
- Discount rate, deriving from, 515.19
- Discount rate, relationship, 505.05
- Earnings, 510.17
- Formula, 505.06
- Illustration, 505.06
- Minority interest, 530.03
- Multiplier, 505.07

CAPITALIZED RETURNS APPROACH. See VALUATION APPROACHES

CAPITALIZED RETURNS METHOD. See VALUATION METH-ODS

# CASE STUDY (SJM CLOTHING INC.), 435

- Adjusted Financial ratios, Appendix 4G
- Assets, net tangible, 720.25
- Balance sheet adjustments, 435.05
- Balance sheet data, Appendix 4E
- Beta calculation, 515.13
- Capital asset pricing model (CAPM)
- • Adjustment factors, 515.20 to .23
- • Illustration, 515.20
- Size-related risk adjustment, 515.22
- Characteristics, 602.11
- Company and industry background, Appendix 4D
- Build-up method, 510.18 to .25

- Discounted net cash flow method, 815.40 to .41
- Discounting process, illustration of, 525.73
- Dual capitalization method, 815.43
- Excess earnings calculation, 720.25
- Excess earnings method, 720.21, 815.40 to .41
- Financial ratios, adjustment of, Appendix 4G
- Forecast of future net cash flow, 525.68
- • Assumptions, 525.69
- Guideline companies
- Agilysys, Inc. Selected Financial Data, Appendix 6A-1
- Black Box Corp. Selected Financial Data Appendix 6A-4
- ePLUS Inc. Selected Financial Data, Appendix 6A-3
- GTSI Corporation Selected Financial Data, Appendix 6A-2
- Comparative assessment, 602.15 to .25
- Description of, Exhibit 6-16
- • Financial information, 603.38
- Micros Systems, Inc., Appendix 6A-5
- • Sapient Corp. Selected Financial Data, Appendix 6A-6
- Selection of, 602.11
- Tax adjustments, 603.44
- Value multiples, 601.53 to .86
- Guideline company data, 600.1 to .13, 601.1 to .108 See also separate entry for GUIDELINE PUBLIC COMPANY DATA
- Asset shortages, 601.104
- Computing value using, 601.96
- Controlling interest, 605.7
- Excess assets, 601.104
- Minority interest, 605.6
- • Redundant assets, 601.104
- Sanity checks, 601.101, 601.103, 601.101 to .108
- Total value, Exhibit 6-11
- Income statement adjustments, 435.04
- Income statement data, Appendix 4F
- Mid-year discount factors, 525.71
- Net cash flow discount rate, 515.20
- Normalized earnings, 720.25
- Operating value, 525.73
- Payback period computation, 810.06
- Price/earnings ratio illustration, 602.21
- Rate of return, 720.25
- Redundant assets, 525.74 to .75
- Residual value, 525.72
- Specific ownership interest, 815.44
- Terminal value, 525.72
- Underlying assets method, 710.22
- Valuation methods
- Capitalized returns method, 520.21 to .22
- Guideline company method, 600.1 to .13, 601.1 to .108
- Guideline public transactions method (mergers and acquisitions), 600.1, 600.3, 603.1 to .46
- Value, 805.18 to .23
- Value multiple, 601.92 to .100
- Adjusting, 601.98
- • Documenting computations, 601.99

- • Financial position, 601.56
- Operating results, 601.56
- Selecting, 601.53 to .91

# CERTIFIED GENERAL ACCOUNTANTS' ASSOCIATION OF CANADA

- Code of Ethical Principles and Rules of Professional Conduct, 105.14, Appendix 1A-4
- Guidelines, 905.03
- Litigation service engagements, 905.15 to .16
- Standards, 905.03

# CERTIFIED INSTITUTE OF CHARTERED ACCOUNTANTS (CICA), 1800.8

- Handbook, 1800.02 to .04, 1800.07 to .11
- • Business combinations, 1805.01
- • Goodwill, 1800.04 to .05
- • Goodwill impairment testing, 1805.26 to. 42
- Intangible assets, 1800.08 to .11
- • Purchase cost allocation, 1805.18 to .25
- Litigation service engagements, 905.15 to .16

# CGA-CANADA. See CERTIFIED GENERAL ACCOUNTANTS' ASSOCIATION OF CANADA

# CHARACTERISTICS OF VALUES, 605.1 to .9

- Company stock, 605.8
- Controlling/minority value, two factors, 605.2 to .7
- Distinguishing, 605.7
- Valuation, guideline data, 605.9
- • Value, guideline company price, 605.3 to .5

### **CHARTERED ACCOUNTANTS**, 525.32

# CHARTERED BUSINESS VALUATORS (CBV) INSTITUTE

- Accreditation, requirements for, Appendix 1C
- Business valuation courses, description of, Appendix 1B
- Code of Ethics, 905.17, 1355.24, Appendix 1A-1
- Courses offered, 110.09
- • Address, 110.10
- Duties to court, 1355.24
- Expert testimony, 905.17
- Litigation services, 905.17
- Professional standards, 105.09 to .10, 1355.24
- Standards, 105.09, Appendix 1A-2, 1220.15 to .25
- Valuation reports, 905.01
- • Court of law, 910.10
- Website, Appendix 4B

# CHARTERED PROFESSIONAL ACCOUNTANTS (CPA), 105.11 to .13

- Code of Ethics, 905.04
- Courses offered, 1110.11
- Professional standards, 105.11 to .12
- Rules of professional conduct, 105.11

- Standards and guidelines, 905.02
- Valuation reports, 905.01

### CHECKLISTS. See also PRACTICE AIDS; WORKSHEETS

- Data collection checklist, INT-4, VAL-5
- Engagement review checklist, VAL-18
- Valuation procedures checklist
- Capitalized returns method, INT-8, VAL-9
- • Discounted future returns method, INT-9, VAL-10
- Excess earnings (dual capitalization) method, INT-11, VAL-12
- Liquidation value method, INT-13, VAL-14
- Net asset value (adjusted balance sheet) method, INT-12, VAL-13
- Sellers' discretionary cash flow method, INT-14, VAL-15
- • Value multiples using guideline company methods, INT-10,
- Valuation report checklist, INT-15, VAL-16

### **CIVIL PENALTIES.** See **PENALTIES**

### CLOSELY-HELD BUSINESS, 100.01 to .03, 1020.78

- Asset shortages, 520.26
- Controlling interest, 815.21
- Dividends, 601.63
- Equity value, 605.8
- Excess assets, 520.23 to .25
- Marketability, discount for lack of, 530.07
- Minority interest, 815.21
- Publicly-traded, 100.03
- Redundant property, 520.23
- Shares
- Previous sale of, 1020.79 to .81
- Special, 1405.01, 1405.03 to .05
- Size, 100.02

## **CLOSELY-HELD COMPANIES**

Normalization, 420.20

**COMMON SHARES.** See SHARES

**COMPANY BENEFITS.** See **BENEFITS** 

**COMPANY DATA. See DATA** 

**COMPANY FACTORS, INCOME TAX VALUATIONS**, 220.14

**COMPANY SPECIFIC METHODS.** See VALUATION METHODS

**COMPETITION.** See VALUATION MULTIPLE

COMPOUND GROWTH RATE, 505.28, 510.22 to .23

COMPUSTAT II, 515.11

**COMPUTER HOME PAGE**, Appendix 4B

**COMPUTER RESOURCES**, 110.17

**CONFLICTS OF INTEREST**, 305.12

CONSOLIDATED FINANCIAL STATEMENTS. See FINANCIAL STATEMENTS

**CONTROL**, 500.03

CONTROL PREMIUMS, 1020.61. See also CONTROLLING INTERESTS

### CONTROLLING INTERESTS, 210.05, 220.13, 1020.62

- Contractual restrictions, 815.08
- Control, degrees of, 815.06
- • Illustration, 815.13
- Ownership, distribution of, 815.11 to .12
- Premiums, 815.14. See also CONTROL PREMIUMS
- • Illustration, 815.14
- • Level of, 815.19
- • Necessity of, 815.18
- Prerogatives of control, 815.05
- Regulations, 815.09
- Statutes, 815.09 to .10

**CONVERTIBLE SECURITIES**, 601.94

**CORPORATE DOCUMENTS**, 410.28

CORPORATE INCOME TAX RATES. See FEDERAL CORPORATE INCOME TAX RATES

**CORPORATE REORGANIZATIONS**, 1005.07

**CORPORATION RECORDS.** See STANDARD AND POOR'S

**COST CONCEPT.** See VALUATION CONCEPTS

**COST OF CAPITAL QUARTERLY**, 515.61

**COST OF SALES.** See **FORECAST** 

CRA PRONOUNCEMENTS, 905.13. See also INFORMATION CIRCULARS; INTERPRETATION BULLETINS

CREDIT STATUS, 601.29

CULPABLE CONDUCT, 1065.09 to .10

### **DATA**

- Adjustment, 430.03
- Analysis, 430.01
- Assessing, 410.30 to .31, 415.18 to .19
- Availability of, 220.07, 415.01 to .02

- Business valuation, Appendix 4B
- Capital market, Appendix 5A
- Checklists, INT-4, VAL-5
- Company, Appendix 4A
- • Case study, Appendix 4D
- Sources of, Appendix 4B
- Comparative financial, 415.17
- Demographic, 415.12, Appendix 4A
- Document request letter, INT-4a, VAL-5a
- Economic, 415.01 to .02, 415.06, Appendix 4A
- Applying, 415.24
- Assessing, 415.18 to .19
- Local, 415.12
- • National, 415.10 to .11
- • Professional practices, 1105.34 to .42
- Sources of, 415.06, Appendix 4B
- Economic indicators, Appendix 5A
- External, sources of, 415.06
- External factors, 415.06
- Financial and economic indicators, Appendix 5A
- Financial market statistics, Appendix 5A
- Gathering, 430.02
- Industry, 415.01 to .02, 415.13 to .16
- Applying, 415.24
- • Assessing, 415.18 to .19
- Comparative financial data, Appendix 4A
- Professional practices, 1105.34 to .42
- Regional, Appendix 4A
- Sources of, 415.06
- Market, 415.04, 415.20
- Applying, 415.24
- Professional practices, 1105.34 to .42
- Monetary policy variables, Appendix 5A
- National economic, 415.08 to .11, Appendix 4A
- Regional economic, 415.12
- Sources of
- • Economic, 415.06
- • External, 415.07
- • Industry, 415.06
- National economic, 415.10 to .11
- Types needed, 415.03
- Usefulness, 410.14
- Valuation date, 405.03

# DATA GATHERING, 405

Checklist. See CHECKLISTS

### **DATABASES**

- Transactional, caveats to/troubling language, Appendix 6F
- Transactional, use of, Appendix 4H

DEBT, LONG-TERM, 525.43

**DEBT-FREE VALUE**, 505.33, 530.08 to .09

- Equity, 604.4
- Excess earnings method, 720.24
- Guideline companies, 600.12 to .13
- Liquidation value method, 715.18
- Price/revenue ratio, 601.65 to .71
- Value multiples, 601.72 to .77

**DEEMED DISPOSITIONS**, 1005

**DEFERRED TAX EXPENSE**, 520.07

**DEFERRED TAXES**, 601.59

**DEMOGRAPHIC DATA.** See **DATA** 

**DEPARTURE TAX**, 1020.03

**DEPRECIATED REPLACEMENT VALUE**, 205.47

**DEPRECIATION**, 601.59

**DISCOUNT RATE**, 215.11, 505.02 to .04, 525.44

- Attributes, 505.02 to .04
- Build-up method, 510
- • Adjustments, 510.22 to .24
- Case study (SJM Clothing Inc.). See CASE STUDY (SJM CLOTHING INC.)
- Guideline companies, 510.01
- M510.01
- Capital asset pricing model (CAPM), 515.05, 515.24
- Capitalization rate, converting to, 505.26 to .27
- Normal relationship does not occur, 505.30 to .33
- Capitalization rate, relationship, 505.05 to .07
- Case study (SJM Clothing Inc.). See CASE STUDY (SJM CLOTHING INC.)
- Controlling interest, 530.04
- Debt-free value, 530.08 to .09
- Determining, methods for, 505.09
- Growth adjustment, 510.22 to .24
- Illustration, 505.03
- Minority interest, 530.02
- Net cash flow. See NET CASH FLOW
- Present value factors, 505.03
- Rate of return, 505.03
- Risk adjustment, 510.20 to .21

DISCOUNTED FUTURE EARNINGS METHOD. See VALUATION METHODS

DISCOUNTED FUTURE RETURNS APPROACH. See VALUATION APPROACHES

DISCOUNTED FUTURE RETURNS METHODS. See VALUATION METHODS

# DISCOUNTED NET CASH FLOW METHOD. See VALUATION METHODS

**DISCOUNTING FUTURE CASH FLOWS**, 505.56

DISCOUNTS. See also CONTROLLING INTERESTS; DISCOUNT RATE; MINORITY INTERESTS; SHARES

- Capital gains tax liability. See CAPITAL GAINS
- Key-person, 1020.66 to .71
- Marketability, lack of, 1020.65
- Minority. See MINORITY DISCOUNTS
- Qualification methods, 1020.72 to .77

**DIVERSIFICATION**, 510.15, 601.24

#### **DIVIDENDS**

- Cumulative, 1405.02
- Dividend discount model, 1056.86-.96, 1420.06
- Earnings protection, 1420.20 to .21
- Earnings-coverage ratio. See VALUATION RATIOS
- Gordon model, 1420.08 to .11
- Perpetuity, 1405.01
- Preferred shares. See PREFERRED SHARES
- Salaries, compared, 420.26

### DIVORCE ENGAGEMENTS, 1600.01 to .03

- Burden of proof, 1605.24
- Challenges of, 1600.08 to .09
- Checklist, Appendix 16
- Choosing valuation methods, 1600.11 to .12
- Commingled property, 1605.20 to .21
- Data gathering and analysis phase, 1625
- Confidentiality agreements, 1625.13 to .16
- Depositions, 1625.19 to .20
- Discoveries, 1625.18
- • Discovery phase, 1625.03 to .08
- • Documentary request list, 1625.09 to .12
- Facility visits and interviews, 1625.17
- Protective orders, 1625.13 to .14
- Equalization settlement structure, 1615
- Excluded property, 1605
- Earnings from, 1605.23
- Special issues, 1605.16 to .27
- Types, 1605.12 to .15
- Expert witness testimony, 1630.05 to .12
- Family patrimony, 1605.13 to .15
- Family property, 1605.01 to .10
- Gifted property, 1605.12
- Importance of objectivity, 1600.10
- Inherited property, 1605.12
- Life insurance proceeds, 1605.19
- Marriage contract, 1605.25
- Participants in divorce case, 1600.04 to .07
- Payor spouse
- • Undisclosed income, 1635

- Pre-engagement and planning phase, 1620
- • Anticipated deadlines, 1620.07 to .09
- Availability of needed information, 1620.04 to .05
- • Fee and collection issues, 1620.10 to .13
- • Reputation of potential client's lawyer, 1620.03
- Pre-marital property, 1605.12
- Reporting and wrapping up engagement, 1630
- • Representation letters, 1630.03
- • Updating valuation reports, 1630.04
- Standards of value, 1610
- Substituted property, 1605.22
- Valuation dates, 1610.11 to .19

DIVORCING COUPLES, 1005.18 to .19

**DOCUMENTS**, 410.28 to .29

DUAL CAPITALIZATION METHOD. See VALUATION METHODS

EARNINGS PER SHARE, 601.93

**EARNINGS-BASED METHODS.** See VALUATION METHODS

**EARNOUTS**, 1115.22 to .23

**ECONOMIC DATA.** See DATA

**ECONOMIC INDICATORS.** See DATA

**ECONOMIC INFLUENCES**, 601.22

EDGAR, Appendix 4B

EDUCATION, 110

EFFICIENCIES, 601.24

ELECTRONIC DATA GATHERING, ANALYSIS AND RETRIEVAL. See EDGAR

**ELECTRONIC RESOURCES**, 415.21

EMPLOYEES, STABILITY AND SKILLS. See VALUATION MULTIPLE

**EMPLOYMENT CONTRACTS.** See **LEGAL DOCUMENTS** 

**ENGAGEMENT.** See VALUATION ENGAGEMENT

### **ENGAGEMENT LETTERS**, 320

- Drafting form, VAL-4
- Illustrative, Appendix 3B
- Sample engagement letter drafting form—business valuations, VAL-4

 Sample litigation engagement letter, Appendix 3C, 1365.13 to .16

EQUITY, COST OF, 515.61

**EQUITY RISK PREMIUM**, 510.05, 515.07

**EQUITY VALUATION RATIOS**, 515.061

ESTATE AND GIFT TAX VALUATION, 1020.01 to .03

**ESTATE FREEZES**, 1025

Recapitalization under section 85 freeze, 1025.04 to .06

ESTATE PLANNING, 1000.14 to .17. See also ESTATE FREEZES

ESTATE TAX ACT (REPEALED), 1020.58 to .59

**EXCESS ASSETS.** See ASSETS

**EXCESS EARNINGS METHOD.** See VALUATION METHODS

**EXPECTED FUTURE EARNINGS**, 220.22, 220.31. See also **PRESENT WORTH OF FUTURE BENEFITS** 

**EXPENSES.** See FORECAST

**EXPERIENCE**, 110.01, 110.12 to .13

EXPERT TESTIMONY, 305.10, 905.15 to .21

- Answering questions, 1355
- Closing arguments, 1360
- Cross-examination testimony, 1330, Appendix 13B
- lost-profits damages expert, Appendix 13A
- Direct-examination testimony, 1325
- Story Board for Public Company Method Testimony, Exhibit 13-1
- Examination-for-discovery, 1320
- Examples of courts' observations, poor expert testimony, 1355.24
- General guidelines, 1315
- Hearsay, 1350.10 to .14
- "Ikarian Reefer" case, guidelines for, 1350.15 to .18
- Preparation, 1310
- Rebuttal testimony, 1345
- Re-cross-examination testimony, 1340
- Re-direct testimony, 1335
- Rules of evidence, 1350
- Top mistakes of, 1355.30

EXPERTISE, DEVELOPMENT OF, 110.02 to .03

FACILITIES, QUALITY OF. See VALUATION MULTIPLE

FAIR MARKET VALUE, 205.03, 1000.01 to .06

- Fair market value, defined, Appendix 2B
- Income Tax Act, 1000.02
- Income Tax Application Rules, 1971, 1000.02
- Non-arm's length transactions, 1010
- Notional market, Appendix 2B
- Willing buyer, 205.35, Appendix 2B
- Willing seller, 205.35, Appendix 2B

### FAIR VALUE, 205.04, 205.36-.39

- Under Shareholder Dissent and Oppression Remedies, 1500 to 1530
- Canada Business Corporations Act, 1000.02

#### FAIR VALUE MEASUREMENT, 1800, 1810.13, App. 18

- Some intangibles subject to, 1810
- • Brand names, 1810.47 to .48
- • Computer software, 1810.50
- Contributory assets, 1810.54 to .57
- Customer contacts, 1810.52
- Customer relations, 1810.52
- • Non-contractual, 1810.53
- Databases, 1810.51
- • Fair value, 1810.03
- • Fair value estimates, 1810.04 to .07, 1810.11 to .14
- • Fair value measurements, 1810.15 to .19
- Intangible assets, 1810.08 to .10
- • Remaining useful life, 1810.20 to .39
- Internet domains, 1810.49
- • Trademarks, 1810.40 to .45
- • Trade names, 1810.46

### **FAIRNESS OPINIONS**

- Background, 1220.01 to .05
- CICBV standards, 1220.15 to .25
- Engagement letter, sample, Appendix 12B
- IDA standards, 1220.26 to .31
- Performance guidelines, 1220.06 to .14
- Professional liability, 1220.32 to .40
- Samples, Appendix 12A-1, 12A-2

FALSE STATEMENT, 1065.07 to .08

# FAMILY MEMBERS, BENEFITS FOR. See BENEFITS

### **FEDERAL CORPORATE INCOME TAX RATES**, 520.07

1999, 420.37

FEDERAL INTEREST AND CAPITAL MARKET RATES, Appendix 4C-4

FEE ARRANGEMENTS, 420.56

FINAL VALUE, DETERMINING, INT-1, VAL-1

# **FINANCIAL ACCOUNTING STANDARDS BOARD (FASB)**, 1800.05, 1800.11, 1805.01, 1805.02, 1920.07 to .09

### FINANCIAL AND ECONOMIC INDICATORS. See DATA

FINANCIAL CONSULTANT, 110.02

FINANCIAL FORECAST. See FORECAST

#### FINANCIAL INFORMATION, 410.10 to .13

- Completeness, 410.13
- Departures from GAAP, 410.17
- GAAP errors, 410.18 to .19
- Historical, 910.04 to .06
- Accountant responsibility, 910.09
- Incomplete, 410.13, 410.15 to .16
- Internal company information, 410
- Labelling, 910.03
- Location of, 910.02
- Non-accountant responsibility, 910.13
- Normalized
- Accountant responsibility, 910.12
- Presentation of, 910.07
- Preliminary analysis, 410.12
- Prospective. See PROSPECTIVE INFORMATION
- Unusable, 410.16

### FINANCIAL MARKET STATISTICS. See DATA

# FINANCIAL PROJECTION. See PROJECTION

FINANCIAL RATIOS. See RATIO ANALYSIS

# FINANCIAL RATIOS, ADJUSTED. See CASE STUDY (SJM CLOTHING INC.)

## FINANCIAL RISK, 510.15, 1420.12 to .19

Case study (SJM Clothing Inc.). See CASE STUDY (SJM CLOTHING INC.)

# **FINANCIAL STATEMENT ANALYSIS**, 425

# FINANCIAL STATEMENTS, 500.05. See also FINANCIAL INFORMATION

- Accountant involvement, 410.19
- Accountant's report, accompanied by another, 910.14
- Adjustments. See ADJUSTMENTS
- CA/CGA involvement, 410.20
- Capitalized returns method. See under VALUATION METH-ODS
- Comparing data, 425.02
- Consolidated, 410.15
- Current assets, 425.02
- Current liabilities, 425.02
- Debt financing, 425.02
- Equity capital, 425.02

- Interim, 410.06
- Modification of, 420.14
- Non-operating income, 425.02
- Non-recurring expenses, 425.02
- Normalized, 910.12
- Off-balance-sheet financing, 425.02
- Property and equipment, 425.02
- Revenues, 425.02
- Review of, 420.01 to .04
- Subsequent-period, 410.07
- Unrecorded revenue, 420.14
- Variations, significant, 425.02

# FINANCIAL STUDIES OF THE SMALL BUSINESS, Appendix 4C-2

### FIXED ASSETS, 525.43

#### FIXED-INCOME SECURITIES. See PREFERRED SHARES

### FORECAST, 525.04 to .05

- Accounts receivable, 525.18
- Adjustments, 525.36 to .38
- Administrative expenses, 525.21
- Approval of, 525.31
- Assumptions, 525.09, 525.23 to .25
- • Reasonable, 525.26
- Case study (SJM Clothing Inc.). See CASE STUDY (SJM CLOTHING INC.)
- Chartered accountants, responsibility of, 525.32
- Consultant's role, 525.31
- Cost of sales, 525.19 to .20
- Debt, 525.23 to .24
- Depreciation, 525.22
- Equipment, 525.22
- Equity, 525.23 to .24
- Future operations, 525.58
- GAAP, 525.07 to .08
- • Errors, adjustment for, 525.36 to .37
- General expenses, 525.21
- Income taxes, 525.25
- Industry revenue factors, 525.17
- Inflation, 525.11 to .12
- Inventory, 525.19 to .20
- Key factors, 525.09
- Reasonable, 525.26
- Normalization items, adjustment for, 525.36
- Normalized future operations, 525.07 to .08
- Presentation responsibilities, 525.32
- Product sales level growth, 525.13
- Property, 525.22
- Receivables, 525.10
- Reporting responsibilities, 525.32
- Revenue, 525.10

- Revenue factors, 525.17
- Revenue growth, 525.16
- Sales growth, 525.13
- Selling expenses, 525.21
- Simplified, 525.68
- Stabilized level of operations, 525.27
- Taxes, 525.25, 525.39
- Terminal year. See TERMINAL YEAR
- Years to be included in, 525.30

# FORENSIC VALUATIONS

- Background, 1700
- Canadian Industry Benchmark Reference Sources, Exhibit 17 1
- Checklist, Appendix 16
- Financial statement adjustments, 1710.01
- Balance statement adjustments, 1710.05 to .11
- • Work-in-progress inventory, 1710.09 to .10
- Income statement adjustments, 1710.02 to .04
- • Expenses, 1710.03
- Forensic and Investigative Techniques, 1715
- • Horizontal analysis, 1715.02
- Industry standards, 1715.08 to .11
- • Vertical analysis, 1715.03 to .06
- Indirect method, 1730
- Notional income, 1705
- Payor spouse, obtaining information on, 1635
- Reconstructing income, 1720
- Matrimonial, example, 1725
- • L.(S.) v. G.(H.) case, 1725.01 to .19
- • Restaurant case study, 1725.33 to .50
- • Shareholder litigation, 1720.03 to .25
- • Kruger case, 1720.06 to .10
- • Maple Leaf Gardens case, 1720.24 and .25
- • Télémedia case, 1720.12 to .23
- • Xerox Canada case, 1720.11
- Seeking documents, 1720
- U.S. Industry Benchmark Reference Sources, Exhibit 17-2

# FORMS. See PRACTICE AIDS

### FREE CASH FLOW METHOD. See VALUATION METHODS

## FRESH-START REPORTING, 1810

- Brand names, 1810.47 to .48
- Computer software, 1810.50
- Contributory assets, 1810.54 to .57
- Customer contacts, 1810.52
- Customer relations, 1810.52
- Non-contractual, 1810.53
- Databases, 1810.51
- Fair value, 1810.03

- Fair value estimates, 1810.04 to .7, 1810.11 to .14
- Fair value measurements, 1810.15 to .19
- Intangible assets, 1810.08 to .10
- Remaining useful life, 1810.20 to .39
- Internet domains, 1810.49
- Trademarks, 1810.40 to .45
- Trade names, 1810.46

### **FUTURE BENEFIT**, 210.06

Discounting. See PRESENT VALUE

# FUTURE CASH FLOWS, DISCOUNTING. See DISCOUNTING FUTURE CASH FLOWS

### **FUTURE-ORIENTED FINANCIAL INFORMATION**, 525.04

- Assumptions, reasonableness of, 525.26
- Assurance, 525.32

#### **GAAP**

- Adjustments, 410.18
- Departures, 420.12
- Apparent, 410.17
- Illustration, 420.14
- Errors, 410.18 to .21
- Forecasts, 525.08

### **GEOGRAPHIC DIVERSIFICATION**, 601.24

GIFT TAX, 1020.51 to .57

### **GOING CONCERN. 220.19**

Value, 205.42

# **GOODWILL**

- Business combinations, and, 1805
- • Fair value determination, 1805.02 to .17
- • Purchase cost valuation, 1805.18 to .25
- Defined, 1800.04
- Fair value measurement, 1800
- Impairment testing, 1805.26 to .42

# GORDON MODEL. See DIVIDENDS; TERMINAL YEAR

# GOVERNMENT GRANT APPLICATIONS. See LEGAL DOCUMENTS

GROSS CASH FLOW, 601.59

**GROWTH RATE**, 505.25, 505.30

### **GUIDELINE COMPANIES**, 515.02

- Analysis, 601.20
- • Documenting, 601.35
- Average return, 515.07
- Beta, 515.09 to .13

- Capital, relative size, 601.24
- Capital asset pricing model (CAPM) method, 510.01
- Capital structure, 601.29
- Comparability, 601.34
- Credit status, 601.29
- Data, 220.17 to 220.26
- Discount rate, used in determining, 505.09
- Diversification, 601.22
- Dividend-paying capacity, 601.32
- Documenting selection and analysis, 601.35
- Economic influences, 601.22
- Efficiencies, 601.24
- Financial risk, 601.29
- Finding an appropriate, 515.02
- Geographic diversification, 601.24
- Growth prospects, 601.26
- Historical trends, 601.25
- Identifying, 601.11 to .36
- Industry similarity, 601.21
- Information, obtaining, 602.9
- Liquidity, 601.29
- Management depth, 601.31
- Market dominance, 601.28
- Market share, 601.28
- Median guideline company beta, 515.09
- Mergers, 603.1 to .46
- Multiples, 603.21 to .25
- Net-of-debt value. See NET-OF-DEBT VALUE
- Operating results, determining measure of, 601.53
- Operating risk, 601.30
- Product comparison, 601.22
- Product price differences, 601.24
- Quantity discounts, 601.24
- R&D successes, 601.28
- Ratios. See VALUATION RATIOS
- Selection, documenting, 601.35
- Stock price, 600.12 to .13
- • Determining, 600.5 to .6
- Size, 601,23
- Valuation method. See under VALUATION METHODS
- Valuation multiples. See VALUATION MULTIPLE
- Worksheet, INT-10a, VAL-11a

# **GUIDELINE COMPANY**

- Information, sources of, 601.38 to .39
- Narrowing list of potential companies, 602.8
- · Obtaining information about, 602.9

## **GUIDELINE COMPANY DATA, 600.3**

Stock value, 600.2, 600.5, 600.12 to .13

# **GUIDELINE PUBLIC COMPANY METHOD**, 600.1, 600.3, 601.1 to .108

Defined, 600.4

- Procedural steps, overview, 601.1
- Adjustment for GAAP errors, Step 2, 601.6 to .7
- Application of guideline methods, Steps 9-12, 601.92 to .100
- • Adjusting selected value multiples, 601.98
- • Computing multiples, 601.92 to .95
- • Determining appropriate value multiples, 601.96 to .97
- Documenting computations, 601.99
- • Illustrations of calculations, 601.100, 602, 603
- Applying financial adjustments, "sanity checks", Steps 13-16, 601.101 to .108
- • Adjusting estimated values, 601.108
- • Determining appropriate values, 601.104 to .107
- • "Sanity checks", 601.103
- • Weighting, 601.102
- • Identify guideline data, Step 4, 601.11 to .36
- • Company and industry background information form, 601.14
- • Conclusions, 601.34
- • Dividend paying capacity, 601.32
- • Documentation, 601.35
- • Guideline public companies, 601.20
- • List of companies' characteristics, 601.11
- • Major competitors, 601.14
- • Potential guideline data, Step 4, 601.11 to .12
- • SIC/NAICS code history, 601.15 to .19
- • Obtain financial information, Step 1, 601.5
- Obtain financial information, guideline data items, Steps 5 and 6, 601.37 to .52
- • Information sources, 601.38 to .41
- • Pre-tax/after tax, 601.58
- • Re/computing income taxes, 601.50
- • Types, 601.43 to .47
- • Operating results, Step 8, 601.87 to .91
- • Historical operations, average, 601.91
- • Projected operations, 601.90
- • Recent fiscal year, 601.89
- • Time period, determination, 601.87 to .88
- • Time period, operations, 601.89
- • Re/compute income taxes, Step 3, 601.8 to .10
- Selecting value multiples, Steps 7 and 8, 601.53 to .91
- • Financial position, 601.56
- • Market value of invested capital (MVIC) multiples, 601.86
- • Operating results, 601.56
- • P/NAV method, 601.80 to .85
- • Price/book value multiple, 601.72 to .77
- • • Illustration, Exhibit 6-3
- • Price/dividend multiple, 601.63 to .64

- • Price/earnings multiple, 601.57 to .64
- • Price/net asset value multiple, 601.78 to .85
- • Price/revenues multiple, 601.65 to .70
- • • Illustration, Exhibit 6-2
- • Stock price, 601.54 to .55
- Stock price, 600.12 to .13
- Topics, resources, illustrations, 602.1 to .28
- Circumstances for using, 602.2
- • Company characteristics, 602.3
- • Illustration, SJM Computer Solutions, 602.10 to .28
- • Comparative assessment, 602.15 to .25
- • Computing value, Exhibit 6-11
- Financial adjustments/ "sanity checks", Steps 13-16, 602.26 to .28
- • Financial information, Steps 5 and 6, 602.14
- • Guideline assessment, Exhibit 6-7
- • Initial screening criteria, Exhibit 6-5
- • Price/EBT multiples, 602.23, Exhibit 6-10
- • Price/earnings multiples, 602.16 to .21, Exhibit 6-8
- • Selection and analysis, 602.11
- • Six guideline public companies, 602.13
- • TIC/EBITDA multiples, 602.22, Exhibit 6-9
- • Total value, Exhibit 6-12
- • Value multiple calculations, Steps 7-12, 602.15 to .25
- • Narrowing list, 602.8
- Obtaining information, 602.9
- • EDGAR, 602.5, 602.9
- Online sources public company info, 602.7, Exhibit 6-4
- Using SIC/NAICS codes, 602.4, 602.8

# **GUIDELINE TRANSACTIONS METHOD (MERGERS AND ACQUISITIONS),** 600.1, 600.3, 601.1 to .108, 604.1 to .46

- Cautions, guideline transaction data, 603.26 to .34
- Anumber, 603.32
- Data quality, 603.34
- Guideline companies, similarity, 603.31
- • Price, 603.28
- Reliability of earnings, 603.29
- Reliance, 603.33
- • Reported revenues, 603.30
- Choosing multiples, 603.21 to .25
- Conditions, 603.1
- Defined, 600.4
- Illustration, SJM Computer Solutions, 603.35 to .46
- Applying final adjustments/ "sanity checks", Steps 13-16, 603.44 to .46
- Description, guideline companies, Exhibit 6-16
- • Financial information, Steps 5 and 6, 603.38
- MVIC/Sales multiples, Exhibit 6-17
- • Selection and analysis, 603.36, Exhibit 6-15

- • Total value, Exhibit 6-20
- • Value, finance solutions transaction, Exhibit 6-19
- • Value, guideline transaction method, Exhibit 6-18
- Value, multiple calculations, Steps 7-12, 603.39
- Transaction data sources, 603.6 to .18
- Business valuation guideline company database, Exhibit 6-13
- Valuation parameters, Exhibit 6-14
- Value multiples, 603.2 to .5

# HINDSIGHT, USE OF, 1020.04 to .08

- Death of taxpayer, 1020.16 to .26
- Known or knowable, 1020.151
- Non-tax cases, 1020.27 to .34
- Notional-value conclusions, 1020.35 to .38

HISTORICAL FINANCIAL STATEMENTS, 410.02 to .06

**HISTORICAL OPERATIONS**, 601.91

HISTORICAL TRENDS, 601.25

**IBA.** See **INSTITUTE OF BUSINESS APPRAISERS** 

IBBOTSON ASSOCIATES' STOCKS, BONDS, BILLS, AND INFLATION YEARBOOK. See STOCKS, BONDS, BILLS, AND INFLATION YEARBOOK

**INCOME CONCEPT.** See VALUATION CONCEPTS

**INCOME INCLUSION RATES**, 1005.02

**INCOME STATEMENT ADJUSTMENTS**, Appendix 4F

**INCOME STATEMENT DATA.** See **CASE STUDY (SJM CLOTHING INC.)** 

# **INCOME TAX ACT**

- Departure tax, 1020.03
- Fair market value, 1000.02
- Value, 1000.02

### **INCOME TAX FOLIOS**

S4-F3-C1, 1055.13, Appendix 10A-2

INCOME TAX RATES. See FEDERAL CORPORATE INCOME TAX RATES

**INCOME TAX RETURNS**, 410.08 to .09, 1000.08

# **INCOME TAXES**

- Adjustments, 420.57 to .59
- Corporate, 420.60
- Determining rates, 420.60
- Partnership, 420.61
- Proprietorship, 420.61

Rates, determining, 420.37

INDEPENDENT INVESTOR TEST, 420.43 to .50

**INDUSTRY ANALYSTS/ACCOUNTANTS**, 430

**INDUSTRY CONSIDERATIONS**, 220.13

INDUSTRY DATA. See DATA

INDUSTRY GROWTH PROSPECTS. See VALUATION MULTIPLE

**INDUSTRY RISK**, 510.15

**INFLATION**, 525.11 to .12

### **INFORMATION CIRCULARS**, 220.04

- IC 89-3, 1020.56 to .57, 1055.16, Appendix 2A, Appendix 10A-5
- IC 76-19R3, 1010.04
- Valuation values, 805.09

INSIDER BID, 1200.07, 1210.04

### INSTITUTE OF BUSINESS APPRAISERS (IBA), 110.116

- Reaccreditation, 110.117
- Awards, 110.117
- Business Appraisal Standards, 105.25, Appendix 1A-7
- Expert testimony, 905.18
- Website, Appendix 4B

INSTITUTES, Appendix 4B

# **INTANGIBLE ASSETS**

- Accounting and financial reporting requirements for, 2015
- Classifications of, 2010.01
- Functional, 2010.06-.07
- • Identifiable vs. unidentifiable, 2010.02-.05
- • Identifiable, 2010.02-.03
- • Unidentifiable, 2010.04-.05
- Definitions, 2005.01-.04
- Differences between tangible assets and, 2005.05-.09
- Capacity constraints, 2005.08
- • Evidence vs. valuation, 2005.06
- High returns, 2005.09
- • Omnipresence, 2005.07
- Reasons to value, 2000
- Valuation approaches, 2020.01-.11
- • Cost approach, 2020.03-.08
- • Example, 2020.09-.11
- • Income approach, 2020.19-.32
- • Discounted future benefits method, 2020.21-.26
- • Relief from royalty method, 2020.27-.30

- • Residual (or drop out) method, 2020.31-.32
- • Market approach, 2020.12-.18
- • Guideline license method, 2020.16-.18
- • Guideline sale transaction method, 2020.14-.15

#### **INTANGIBLES**, 1036

### **INTELLECTUAL PROPERTY**, 2025

- Economic attributes, 2025.08
- • Decrease costs, 2025.10
- • Increase revenue, 2025.09
- • Preventative non-use, 2025.13
- • Reduce required investments, 2025.11
- Reduce time to market, 2025.12
- Income approach
- Direct capitalization method, 2025.32
- Discount cash flow method, 2025.29 to .31
- • Income approach, 2025.21 to .24
- Profit split method, 2025.34 to .36
- • Reasonable royalties method, 2025.37 to .47
- Relief-from-royalty method, 2025.33
- • Super profits (premium profits) method, 2025.25 to .28
- Licensing, 2025.14 to .18
- Property rights, 2025.02
- Copyrights, 2025.07
- • Patents, 2025.03 to .04
- • Service marks, 2025.05 to .06
- • Trademarks, 2025.05 to .06
- Reasons for valuation, 2025.19
- Remaining useful life analysis, 2025.48
- • Economic life, 2025.48 to .53
- • Legal life vs., 2025.54 to .56
- Valuation approaches, 2025.20

### INTEREST RATES, Appendix 5A

# INTERIM FINANCIAL STATEMENTS. See FINANCIAL STATEMENTS

# INTERNAL COMPANY INFORMATION. See FINANCIAL INFORMATION

### **INTERNAL REPORTS.** See VALUATION REPORTS

# **INTERNATIONAL VALUATION STANDARDS (IVS), 105.31**

- Membership, 105.32
- Professional requirements, 905.01
- Structure, 105.33

### **INTERNET**, 415.22

### INTERNET SEARCH TOOLS, Appendix 4B

# INTERNET WEBSITES, 410.24, Appendix 4B

# INTERPRETATION BULLETINS. See also INCOME TAX FOLIOS.

- IT-169, 1010.04, 1020.50, 1055.12 and .13
- IT-382, 1020.50, Appendix 10A-3
- IT-140R3, 1020.50, Appendix 10A-1
- IT-416R3, 1020.50, Appendix 10A-4

#### **INTER-SPOUSAL TRANSFERS**, 1005.17

**INTERVIEWS**, 410.27

**INTRINSIC VALUE**, 205.41

**INVENTORY.** See FORECAST

**INVESTMENT VALUE**, 205.40

IRS BV GUIDELINES, 105.26, Appendix 10B-8

#### IRS REVENUE RULINGS, 1020.51 to .57

- Ruling 59-60, 220.04, 1020.51, Appendix 10B, 10B-1, 10B-2
- Ruling 65-192, 1020.51, Appendix 10B-6
- Ruling 65-193, 1020.51, Appendix 10B-2
- Ruling 68-609, Appendix 7A, 1020.51, Appendix 10B
- Ruling 77-287, 1020.51, 1020.57, Appendix 10B, 10B-3, 10B-4
- Ruling 80-213, 1020.51, Appendix 10B, 10B-7
- Ruling 83-120, 1020.57, Appendix 10B, 10B-4
- Ruling 93-12, Appendix 10B, 10B-5

# IRS VALUATION GUIDE FOR INCOME, ESTATE AND GIFT TAXES, 1020.52

**KEY MAN**, 510.15

# KEY MANAGERS' EMPLOYMENT CONTRACTS. See LEGAL DOCUMENTS

KEY PERSON DISCOUNTS, 1020.71

**KNOWLEDGE OF CLIENT, 305.13** 

LABOUR FORCE, 510.15

**LEASE AGREEMENTS.** See **LEGAL DOCUMENTS** 

LEASES, RELATED-PARTY, 420.55

LEGAL DOCUMENTS, 410.22, 1105.06 to .08

LEGAL STATUS, 410.04

LETTERS. See DOCUMENT REQUEST LETTER; ENGAGE-MENT LETTERS; PRACTICE AIDS; REPRESENTATION LET-TERS

LIBRARY RESOURCES, 110.16, 1B

**LIQUIDATION**, 1420.32 to .33

**LIQUIDATION VALUE**, 205.43

Method. See VALUATION METHODS

**LIQUIDITY**, 505.32, 601.29

LITIGATION DOCUMENTS. See LEGAL DOCUMENTS

LITIGATION PROCESS, 1300, 1305. See also EXPERT TESTI-MONY

Administrative matters, 1365

• • Billing arrangements, 1365.17 to .18

• • Engagement letters, Appendix 3C, 1365.13 to .16

• • File retention, 1365.21

Admissibility of expert, 1305.46 to .47

Alternative dispute resolution

• • Arbitration, 1370.24 to .41

Combined mediation/arbitration, 1370.42

• • Mediation, 1370.03 to .25

• • Neutral valuation, 1370.43 to .53

Discovery, 1305.15 to .32

Settlement negotiations, 1305.36

• Trial, 1305.37 to .47

LITIGATION SERVICES, 905.15 to .21

**LITIGATION SUPPORT**, 105.05

Library, Appendix 1D

LOAN AGREEMENTS. See LEGAL DOCUMENTS

LOANS, RELATED-PARTY, 420.22

LOCATION, QUALITY OF. See VALUATION MULTIPLE

LONG-TERM ASSETS. See ASSETS

LONG-TERM DEBT. See DEBT, LONG-TERM

M&A MERGERS & ACQUISITIONS IN CANADA, 603.1 to .46

MANAGEMENT, 510.15

Depth, 601.31. See also VALUATION MULTIPLE

MARKET APPROACH, overview, 600.1 to .13

Comparison to, capitalize returns method, 600.5

• • Program steps common to both, Exhibit 6-1

• GAAP, 600.5

Normalized measure of operating results, 600.5

• • Value multiples, 600.5 to .6, 601.53 to .91

Measures of central tendency or dispersion, 600.7

• • Appraisal reports terms, defined, 600.7

**MARKET CAPITALIZATION**, 510.11

**MARKET CONCEPT.** See VALUATION CONCEPTS

**MARKET DOMINANCE**, 601.28

MARKET RETURN, AVERAGE. See AVERAGE MARKET RETURN

MARKET SHARE, 525.16

Guideline companies. See GUIDELINE COMPANIES

MARKET VALUE INVESTED CAPITAL PROCEDURE, 604.1 to 4

• Equity valuation, 604.4

MARKETABILITY, LACK OF, 815.20 to .272

Checklist, 815.22

Discounts, 1020.24

**MARKETABILITY DISCOUNT MODEL**, 815.231

MARKETABLE VALUE, 500.03

MEDIAN GUIDELINE COMPANY BETA. See GUIDELINE COMPANIES

MEDIAN MARKET CAPITALIZATION. See MARKET CAPITA-LIZATION

**MERGERS**, 635.05

**MERGERS & ACQUISITIONS** 

MICROSOFT, Appendix 4B

MID-YEAR DISCOUNT FACTORS, 525.59 to .63

Case study (SJM Clothing Inc.). See CASE STUDY (SJM CLOTHING INC.)

MINORITY DISCOUNTS, 815.14 to .15, 1020.63 to .64

Level of, 815.19

Necessity of, 815.18

**MINORITY INTERESTS**, 210.05, 220.15 to .16, 500.03, 530.02, 530.04 to .06, 815.05

Control, degrees of, 815.13

Marketability, lack of, 815.20

Ownership, distribution of, 815.11 to .21

Statutes, 815.09 to .10

MINUTES. See LEGAL DOCUMENTS

MONETARY POLICY VARIABLES. See DATA

**MULTIPLIER.** See CAPITALIZATION RATE

**NACVA**, 905.01

Consulting services, 910.11

Professional standards, 905.09

**NASDAQ**, 510.11

# NATIONAL ASSOCIATION OF CERTIFIED VALUATION ANALYSTS

- Educational programs, 110.118-.119
- Standards, 105.25

#### **NET ASSET VALUE METHOD.** See VALUATION METHODS

#### **NET CASH FLOW**

- Benefit streams. See BENEFIT STREAMS
- Discount rate, 505.09 to .11, 510.16
- Net earnings discount rate, converting to. See NET EARN-INGS
- • Public company, 505.15 to .16
- Formula, 505.11
- Net earnings, converting from. See NET EARNINGS
- Present value, 505.04
- Public company, 505.13 to .16

### **NET EARNINGS**

- Balance sheet transactions, 525.43
- Benefit streams. See BENEFIT STREAMS
- Cash receipts and disbursements, 525.43
- Discount rate, 505.09 to .11
- Converting net cash flow discount rate to, 505.15 to .16, 520.10
- • Public company experience, 505.13 to .16
- Dividends, 525.43
- Fixed assets, 525.43
- Long-term assets, 525.43
- Long-term debt, 525.43
- Net cash flow
- Converting to, 505.11 to .12, 525.40 to .43
- • Percentage difference, 505.17
- Non-cash charges, 525.42
- Stock value, 600.2
- Working capital, 525.43

# **NET-OF-DEBT VALUE**, 100.04, 500.03, 505.33, 530.08 to .09

- Guideline companies, 600.13
- Shareholder equity, 600.12
- Value multiples, 600.13

NEUTRAL VALUATION, 1370.43 to .53

NON-ARM'S LENGTH TRANSACTIONS, 1010

**NON-COMPETITION AGREEMENTS**, 1070

**NON-OPERATING INCOME AND EXPENSES**, 420.53

**NON-RECURRING INCOME AND EXPENSES**, 420.54

**NON-TAXABLE COMPANIES**, 520.09

**NORMALIZATION.** See ADJUSTMENTS

NORTH AMERICAN INDUSTRY CLASSIFICATION SYSTEM (NAICS), 601.15 to .19

NOTATION SYSTEM, Appendix 1C

**OBJECTIVITY**, 105.01 to .05

- Appearance of, 105.04
- Litigation support, 105.05

**ONLINE DATABASES**, 602.6

### **ONTARIO SECURITIES COMMISSION**, 1200.04

Valuation-related excerpt from rule, Appendix 12C

#### **OPERATING RESULTS**

• Time period, determining, 601.56

**OPERATING RISK**, 601.30, 1020.66

**OPERATING SEGMENT**, 1805.25

OPERATIONAL DATA, 410.23 to .28

**OPERATIONS DOCUMENTS**, 410.28

**OPTIONS.** See CALL OPTIONS/WARRANTS

OWNER'S COMPENSATION, 420.24 to .42

### **OWNERSHIP INTEREST**, 410.05

- Appropriateness of, 815.18
- Fractional, 305.06
- Shareholders' equity, 210.05
- Total invested capital, 210.05
- Type of, 220.10
- Valuation methods, 815.18

PARTIAL INTEREST, 705.04

### PARTNERSHIP, 520.09

- Agreements. See LEGAL DOCUMENTS
- Income tax provision, 420.39

PATENT DOCUMENTS. See LEGAL DOCUMENTS

PAYBACK PERIOD, 810.05 to .08

PEER COMPARISONS, 425.05

PENALTIES, 1065.01 to .06, 1065.20 to .27

Culpable conduct, 1065.09 to .10

- Exclusions, 1065.11 to .12
- False statement, 1065.07 to .08
- Guidance from CCRA, 1065.19
- Planner penalty, 1065.20, 1065.24 to .25
- Preparer penalty, 1065.20 to .23
- Reverse onus rule, 1065.13 to .18
- Third party, Appendix 10A-6

PERPETUAL BUSINESS LIFE, 505.26, 505.30

### PERPETUAL PREFERREDS. See PREFERRED SHARES

PERSONNEL, 110.15

### **POST-VALUATION DAY VALUE**, 1005.06

#### **PRACTICE AIDS**

- Case fact sheet, VAL-5c
- Professional practice valuation engagements, VAL-6a
- Forms
- Company and industry background information form, 601.14, INT-5, VAL-6
- Company and industry background information form—professional practice valuations, INT-5a
- Document tracking form, VAL-5d
- Engagement acceptance form, VAL-2
- Project feasibility assessment form, INT-2
- Sample engagement letter drafting form—business valuations, VAL-4
- • Time and resource budget form, INT-3
- • Valuation report drafting form, VAL-16a
- Valuation report drafting form for industry accountants/analysts, INT-15a
- Letters
- Document request letter, INT-4a, VAL-5a
- • Representation letter, sample, INT-16, VAL-17
- Receipt for return of company documents, INT-4b, VAL-5b
- Work programs
- Business valuation engagement, VAL-1
- • Internal business valuation engagement, INT-1

# PRATT'S STATS

- Sample page, Appendix 4C-3
- Website, Appendix 4B

### **PRE-ENGAGEMENT PROCEDURES**

- Client acceptance, 305
- Documentation, examples, 330
- Engagement acceptance form, Appendix 3A
- • Engagement letters, Appendix 3B
- • Litigation engagement letter, Appendix 3C, 1365.13 to .16
- Feasibility, determining, 305.19
- Knowledge of client, 305.13 to .16
- Nature of, 305.4
- Work program, 310

### **PREFERRED SHARES**, 1056

- Asset protection, 1056.97 to .101, 1420.31
- Attributes, 1056.23 to .54
- Adjustable (variable) dividend rate, 1056.53 to .54
- Conversion right, 1056.41 to .45
- Cumulative dividend, 1056.37 to .40
- • Exchangeable shares, 1056.50 to .52
- • Participating feature, 1056.47 to .49
- Redemption by corporation, 1056.23 to .24
- • Retraction right of shareholder, 1056.25 to .35
- Sinking fund, 1056.46
- Voting rights, 1056.36
- Bibliography, Appendix 14A
- Bonds, compared to, 1056.11 to .17, 1405.06 to .11
- Common shares, compared to, 1056.18 to .22, 1405.15 to .19
- Company-specific risk, 1056.81 to .85, 1420.25 to .33
- Convertible, 1405.02, 1410.17 to .20
- • Public-company, 1415
- • Valuing, 1420.01 to .04
- Cumulative, 1410.14 to .16, 1415.02
- Dividends. See DIVIDENDS
- Earnings protection. See DIVIDENDS
- Earnings-coverage ratio. See VALUATION RATIOS
- Exchangeable, 1405.02, 1410.25 to .27
- Features, 1056.04 to .07, 1405.02, 1410
- Fixed-income securities, 1405.01
- General, 1056.01 to .03
- Guideline, 1420.34 to .40
- Income tax aspects, 1056.08 to .10
- Issue-specific risk, 1056.08 to .10, 1420.13 to .16
- Liquidation, 1420.32 to .33
- Marketability discount, 1420.41 to .44
- Non-participating, 1420.45
- Nothing-nothing, 1415.04
- Option, 1405.02
- Other factors, 1056.117
- Participating, 1405.02, 1410.22 to .24
- • Valuing, 1420.01 to .04
- Perpetual, 1405.01
- Private-company, marketability discount, 1420.41 to .44
- · Publicly-traded,
- Guideline, 1056.102 to .110, 1424.34 to .40
- Marketability discount, 1056.111 to .116
- Valuation, basis of, 1415
- Versus private-company, 1056.55 to .59, 1415.02
- Rating definitions, 1420.40, Appendix 14B
- Redeemable, 1405.02, 1410.01 to .02
- Retractable, 1060.08 to .17, 1405.01 to .02, 1410.03 to .11
- Public-company, 1415
- Risk assessment, 1056.76, 1420.12 to .19
- Sinking fund, 1405.02, 1410.21
- Summary, 1056.118
- Valuation formula, 1420.05
- Valuation methodology, 1056.60 to .62

- Valuation models. See VALUATION METHODS
- Voting, 1410.12 to .13, 1415.02
- Voting rights, 1405.02, 1410.12 to .13
- Warrant, 1405.02

### PRELIMINARY ASSESSMENT, 405.01

# PREMIUMS, CONTROL. See CONTROL PREMIUMS

# PRESENT VALUE, 210.02, 525.34, 705.01. See also EXPECTED FUTURE EARNINGS

- Calculators, 525.55 to .56
- Computer programs, 525.57 to .58
- Factors. See **DISCOUNT RATE**
- Formula, 525.51, 525.52
- Future benefit, 525.51
- Net cash flow, 525.51
- Residual value, 525.52
- Tables. See PRESENT VALUE TABLES
- Terminal value, 525.52

PRESENT VALUE TABLES, 525.54, Appendix 7D

**PRESENT WORTH OF FUTURE BENEFITS**, 500.01

**PRESENTATION REQUIREMENTS**, 305.11

### PRICE-ADJUSTMENT CLAUSES, 1010.03, 1055

- CRA's policy, 1055.12 to .16
- Guilder News decision, 1055.03, 1055.08 to .11
- Non-arm's length transaction, 1055.04 to .06
- Purchase and sale agreement, 1055.01

# PRICE/EARNINGS RATIO. See VALUATION RATIOS

# PROCEDURAL FAIRNESS AND THE ROLE OF EXPERTS, 1520

### PROCEDURES. See VALUATION PROCEDURES

PRODUCT COMPARISON, 601.22

PRODUCT LIFE CYCLE, 525.13 to .15

PRODUCT PRICE DIFFERENCES

PROFESSIONAL DISPUTES, RESOLUTION OF, 825.05

PROFESSIONAL LIABILITY, 1220.32 to .40

**PROFESSIONAL PRACTICE REQUIREMENTS**, 205.24

## **PROFESSIONAL PRACTICES**

- Adjustments, 1110
- Buyer, 1105.43 to .48

- Buy-sell agreements, 1115.25, 1130.15
- Capitalized and discounted returns method, 1115.02 to .04
- Client base, 1105.19 to .28
- Clients, source of, 1105.26 to .27
- Compatibility of operations, 1105.44 to .45
- Competition, 1105.40 to .42
- Contractual relationships, 1105.28
- Data gathering, 1105
- Demographics, 1105.36 to .37
- Discounts, 1130.12 to .19
- Earnouts, 1115.22 to .23
- Excess earnings method, 1115.18
- Financial information, 1105.04 to .05
- Goodwill, 1120
- Guideline company method, 1115.05 to .14
- Industry data, 1105.39
- Intangible assets, Exhibit 11-3
- Key employees, 1105.46
- Location, 1105.36 to .37
- Long-term clients, 1105.22
- Owner's work habits, 1105.47 to .48
- Patient base, 1105.19 to .28
- Premiums, 1130.12 to .19
- Retention factors, 1105.25
- Rules of thumb method, 1115.20 to .21
- Sale of, 1105.23
- Sellers' discretionary cash flow method, 1115.19
- Smell tests, 1130.11
- Technology, 1105.32 to .33
- Transition, 1105.24
- Weighting of valuation methods, 1130.02 to .10
- Wrap-up procedures, 1130

# PROFESSIONAL REPORTS, 410.28

### **PROFESSIONAL STANDARDS**

- Business Valuation Experts, 1355.24
- Canadian Institute of Chartered Business Valuators, 105.09 to .10, Appendix 1A-2
- Chartered Professional Accountants, 105.11 to .13

**PROJECTION**, 525.05 to .06, 525.32 to .33. See also under **VALUATION METHODS** 

PROPERTY TRANSFERS, 1005.08 to .15

### PROPRIETORSHIP. See SOLE PROPRIETORSHIP

# **PROSPECTIVE INFORMATION**, 410.10

- Court, use in, 910.10
- Internal use, 910.11
- Presentation of, 910.08
- Reviewing, 425.06

# PUBLIC COMPANIES, 505.13 to .16

- Guideline companies, 601.11 to .13
- Liquidity, 505.32

PURCHASE AND SALE AGREEMENTS. See LEGAL DOCUMENTS

PURCHASE COST ALLOCATION, 1805.21 to .24

**PURCHASE TRANSACTION**, 420.38

**QUANTITY DISCOUNTS**, 601.24

### **QUEBEC SECURITIES COMMISSION**, 1200.04

- Attestation as to independence, 1210.03
- Background, 1210.01
- Companion policy Q-27, 1210.21 to .24, 1220.11 to .13, Appendix 12D
- Exemptions, 1210.02
- Insider bids, 1210.04
- Securities regulations, 1210.24
- Valuation
- • Exemptions, 1210.15 to .20
- • Prior, 1210.13
- • Purpose, 1210.05 to .06
- Summary, 1210.12
- Value terms, 1210.07 to .11

**RATE OF RETURN**, 510.03 to .06

RATIO ANALYSIS, 425.03 to .04

Illustration, Appendix 4G

**RATIOS.** See VALUATION RATIOS

### **REAL PROPERTY**

• Fractional interests in, 1020.87-.96

REFERRALS, 110.07

**REGIONAL DATA.** See DATA

REGISTER OF CORPORATIONS, DIRECTORS AND EXECU-TIVES. See STANDARD AND POOR'S

**RELATED-PARTY AND RELATED-PARTY TRANSACTION**, 1200.08

RELATED-PARTY LEASES. See LEASES, RELATED-PARTY

RELATED-PARTY LOANS. See LOANS, RELATED-PARTY

**RELATED PERSONS**, 1010

**REORGANIZATIONS**, 1005.07

REPLACEMENT VALUE, 205.49-.50

**REPORTING REQUIREMENTS**, 305.11

**REPORTING UNIT, 1805.26** 

Goodwill of, 1805.27 to .28

REPORTS. See PROFESSIONAL REPORTS; VALUATION REPORTS

**REPRESENTATION LETTERS**, INT-16

- Obtaining, 820
- Sample, VAL-17

RESEARCH SITES, Appendix 4B

**RESOLUTIONS OF DIRECTORS.** See LEGAL DOCUMENTS

**RESOURCES**, 110.14 to .18

RETRACTABLE PREFERREDS. See PREFERRED SHARES

**RETURN ON SALES**, 601.67 to .69

# **RETURNS**

- Average market. See AVERAGE MARKET RETURN
- Debt-free basis, 720.25

REVENUE MULTIPLIERS, 601.65 to .70

REVENUE RULINGS. See IRS REVENUE RULINGS

REVERSE ONUS RULE, 1065.13 to .18

RISK ADJUSTMENTS, 510.16. See also DISCOUNT RATE

RISK DIFFERENTIALS, 510.09 to .10, 515.14 to .16

RISK PREMIUMS. See SIZE PREMIUM

RISK-FREE INVESTMENT RATE, 510.03 to .04

RISK-FREE RATE OF RETURN. See RATE OF RETURN

ROBERT W. BAIRD & CO, STUDIES, 851.251

#### **ROLLOVER PROVISIONS**

- Section 85 rollovers, 1005.08 to .15
- Valuation of preferred shares issued, Appendix 10D

# ROYAL INSTITUTION OF CHARTERED SURVEYORS (RICS)

- Standards, 105.34
- Valuation, professional standards, "red book", 105.35
- • Contents, 105.36
- • Guidance note, 105.37

RULES OF THUMB METHOD. See VALUATION METHODS

S&P. See STANDARD AND POOR'S

**SALARIES VERSUS DIVIDENDS**, 420.25

SALE, TERMS OF. See VALUATION MULTIPLE

SALES AND PURCHASE CONTRACTS. See LEGAL DOCUMENTS

**SEARCH ENGINES.** See INTERNET SEARCH TOOLS

SEC, See SECURITIES AND EXCHANGE COMMISSION

SECTION 88 WIND-UPS. See WIND-UPS

### SECURITIES AND EXCHANGE COMMISSION (SEC)

 Electronic Data Gathering and Retrieval (EDGAR) database, 602.5

**SECURITIES COMMISSION VALUATION REPORTS**, 905.14

SECURITY COMMISSIONS, See also ALBERTA SECURITIES COMMISSION; BRITISH COLUMBIA SECURITIES COMMISSION; FAIRNESS OPINIONS; ONTARIO SECURITIES COMMISSION; QUEBEC SECURITIES COMMISSION

- Background, 1200.01
- Definitions, 1200.05 to .08
- Impact on business valuators, 1200.02 to .04
- Rule
- • Background, 1205.01
- • Conflicts of interest, 1205.07
- Disclosure requirements, 1205.16 to .19
- • Exceptions, 1205.02
- • Independence and qualifications of valuator, 1205.05 to .06
- Minority and marketability discounts, 1205.15
- Valuations, 1205.04
- • Approach, 1205.14
- • Prior, 1205.22
- • Procedures, 1205.12 to .13
- Summary, 1205.20 to .21
- Valuator, selection of, 1205.11

SEDAR, Appendix 4B

SELF-STUDY PROGRAM, SSP-1

SELLERS' DISCRETIONARY CASH FLOW METHOD. See VALUATION METHODS

SHARE DIVIDENDS, 601.95

#### **SHARE PRICE**

- Controlling interest, 605.7
- Determining, 625.3 to .5
- Marketability, 605.8

Minority interest, 605.6

SHARE SPLITS, 601.95

SHAREHOLDER AGREEMENTS/REGISTERS. See LEGAL DOCUMENTS

### SHAREHOLDER DISSENT AND OPPRESSION REMEDIES

- Fair value, 1505.25
- Remedies to the oppressed shareholder, 1505.26
- Going private, 1505.07 to .08
- Appraisal remedy for minority shareholders, 1505.10 to .16
- Caution, 1505.17
- Reasons for going private, 1505.08
- Triggering events, 1505.07
- Types of minority squeeze-outs, 1505.09
- Minority oppression applications, 1505.18 to .19
- Reasonable expectations of the minority, 1505.20 to .24
- Shareholder-dissent applications, 1505.05

#### **SHARES**

- Blockage discounts, 815.28
- Closely-held prior to IPO, 815.24
- Cumulative, 815.07 to .071
- Flotation costs, 815.26
- Gifting shares, 1020.86
- Key-person discounts, 815.29 to .38
- Letter, 815.23 to .231
- Marketability, 815.24 to .25
- Discount for lack of, 815.27 to .272
- Non-cumulative, 815.07 to .71
- Portfolio discounts, 815.28
- Preferred. See PREFERRED SHARES
- Publicly-traded, 1015
- Redemption, 1050
- Restricted
- Marketability, 815.24
- • Summary of studies, 815.231
- Robert W. Baird & Co. Studies, 815.251
- Special. See SPECIAL SHARES
- Valuation day value, 1015
- Voting rights, discount for lack of, 815.273 to .276
- Williamette Management Associates Studies, 815.252

SIC CODE, 515.061, 601.15 to .17, 601.19, 601.21

SITE VISITS, 410.25 to .26

SIZE ADJUSTMENT, 510.19

**SIZE PREMIUM**, 510.11, 510.14

SJM CLOTHING INC. See CASE STUDY (SJM CLOTHING INC.)

### **SMALL BUSINESSES, VERY**

- Characteristics of, 225.03 to .04
- Purchase and sale of, 225.05
- Valuation approaches, 225.06 to .11
- • Not useful, 225.12 to .13

SMALL STOCK PREMIUM, 510.11 to .13

### **SMELL TESTS**, 810

- Excess earnings method, 720.18
- Net asset value method, 710.18
- Professional practices, 1130.11

SOFTWARE PACKAGES, 510.57 to .58

#### **SOLE PROPRIETORSHIP**, 520.09

Income tax provision, 420.39

**SPECIAL PURCHASER CONSIDERATIONS**, 205.04

SPECIAL PURCHASER PREMIUM, THE, 205.07

#### SPECIAL SHARES

- Exclusionary dividend common shares, 1060.03 to .07
- Retractable preferred shares, 1060.08 to .17

SPECIFIC BENEFIT STREAM. See BENEFIT STREAM

SPECULATORS, 205.15

**SPREADSHEET SOFTWARE**, 510.58

**STAND ALONE VALUE**, 205.05

#### STANDARD AND POOR'S, 602.6

- 500 COMPANIES, 510.11, 510.13
- Corporation Records, 602.6
- Preferred stock ratings, 1420.40, Appendix 14C
- Register of Corporations, Directors and Executives, 601.40
- Stock reports, 515.11

STANDARD INDUSTRIAL CLASSIFICATION CODE. See SIC CODE

**STANDARD OF VALUE**, 205.11, 205.51, 1510

- Application of discounts, 1510.04 to .07
- Marital dissolution matters, 1610.01 to .10
- Minority discounts, 1510.04 to .07

STOCK. See SHARES

STOCK OPTION AGREEMENTS. See LEGAL DOCUMENTS

**STOCKS, BONDS, BILLS, AND INFLATION YEARBOOK**, 510.06, 510.11, 515.17

STRATEGIC ALLIANCE, 110.07

STRATEGIES, Appendix 4B

SUBSEQUENT-PERIOD FINANCIAL STATEMENTS. See FINANCIAL STATEMENTS

SUCCESSION DUTIES ACT, 1020.58

**SUMMARY LETTER REPORTS.** See VALUATION REPORTS

SYSTEM FOR ELECTRONIC DOCUMENT ANALYSIS AND RETRIEVAL. See SEDAR

TAX DISPUTE RESOLUTION, 1000.09 to .12

TAX PLANNING, 1000.13

TAX RULES, HIERARCHY OF, 1020.40

TAX VALUATION PRACTICE, 1000,20 to .22

TERMINAL YEAR, 525.29

- Forecast, 525.29
- Gordon model, 525.46 to .49
- Marginally positive results, 525.34 to .35
- Negative results, 525.34 to .35
- Present value of company's value in, 525.46 to .49

TERMINOLOGY, 600.4

TRADEMARK DOCUMENTS. See LEGAL DOCUMENTS

TRAINING REQUIREMENTS, 110.08 to .118

### **TRUSTS**

- · Capital interest valuation, Appendix 10H
- Discretionary trusts, Appendix 10H
- Income interest valuation, Appendix 10H

TSE 300 INDEX, 510.13

Guideline company, 510.15

UNDERLYING ASSETS APPROACH. See VALUATION APPROACHES

**UNDERLYING ASSETS METHOD.** See **VALUATION METHODS** 

UNIFORM STANDARDS OF PROFESSIONAL APPRAISAL PRACTICE OF THE APPRAISAL FOUNDATION

- Uniform Standards of Professional Appraisal Practice (US-PAP), 105.15 to .18
- • Advisory Opinions (AO), 105.17
- • Assignment Results and Scope of Work, 105.15 to .22
- Uniform Standards of Professional Appraisal Practice, Exhibit 1-1

# **UNRECORDED REVENUE**, 420.14

### **VALUATION**

- Beneficiary's interest in a trust, App. 10E
- Challenge, 600.10
- Defined, 600.1
- Due diligence, 600.2
- Example, 600.1
- Rationale, 600.1
- Share value, 600.2, 600.5, 600.12 to .13
- Valuation ratio, 600.1
- Value multiples, 600.2 to .3, 600.12 to .13, 601.24
- • Resources required, 600.11

### **VALUATION, LAW PRACTICE**, 1125

- Contingency fees, 1125.20 to .23
- Goodwill, defined, 1125.24
- Goodwill, other intangible assets, 1125.24 to .35
- Goodwill, types, Appendix 11B
- • Commercial, 1125.28 to .30
- • Individual, 1125.31 to .32
- • Personal, 1125.33 to .35
- Intangible assets, 1125.36
- • Examples, 1125.37
- Intellectual property, 1125.36 to .38
- Reasons, 1100.03, Appendix 11B
- Tangible vs intangible assets, 1125.02 to .05, Appendix 11B
- Unbilled professional time, 1125.19
- Valuation methodologies, 1125.06 to .13
- • Multiple-of-gross-fees method, 1125.11 to .18
- Work-in-Process, 1125.19

### **VALUATION, PROFESSIONAL PRACTICES**

- Differences, other businesses, 1100.07 to .16, 1135
- Reasons for valuing, 1100.02 to .06

# **VALUATION APPROACHES**

- Capitalized returns, 215.06, 215.08 to .09
- Discounted future returns, 215.06, 215.10
- Small businesses, 225
- Underlying assets, 215.06, 215.16
- • Liquidation method, 215.18
- • Nasset value method, 215.17
- Value multiples, 215.06, 215.13 to .15

### **VALUATION CONCEPTS**, 215

- Cost, 215.02, 215.05, Appendix 11B
- Income, 215.02, 215.03, Appendix 11B
- • Earnings method, Appendix 11B
- • Multiple-of-gross-fees, Appendix 11B
- Market, 215.02, 215.04, Appendix 11B

### VALUATION CONSULTANTS, 525.32 to .33

### VALUATION DATABASES, Appendix 4B

### **VALUATION DATE**, 210.04, 305.07

- Appraisers, 1515.08
- Corporation may apply to court, 1505.04
- Final order, 1515.09
- Income Tax Act, 1020.08
- Marital dissolution matters, 1610.11 to .19
- Parties, 1515.06
- Powers of the court, 1515.07
- Procedure for court application, 1515.03 to .10
- The application, 1515.10
- Valuation day, 1020.39

#### **VALUATION DAY VALUE**, 1005.07

### **VALUATION ENGAGEMENT**, 100.04-06

- Acceptance, 305.01, 305.14
- Adjustments. See ADJUSTMENTS
- Advisory engagements, 105.06 to .07
- Conflicts of interest, 305.12
- Client acceptance, 305.20 to .22
- Data. See DATA
- Deadline, 305.08
- Documents, 410.27
- Receipt for, 410.28
- External factors, identifying, 415.05 to .06
- Feasibility, determining, 305.19
- Financial statements. See FINANCIAL STATEMENTS
- Knowledge required, 100.03
- Legal requirements, 220.09
- Operational data, 410.23 to .27
- Overview, 115, Exhibit 1-2
- Ownership interest, 100.04
  Penalties, See PENALTIES
- Purpose of, 220.08
- Reasons for performing, 100.05
- Requirements of, 220.07, 305.04
- Site visits, 410.24 to .25

# VALUATION METHODS, 205.14

- Asset-based methods
- Appropriateness of, 220.15 to .16
- • Going concern, 220.19
- • Valuation methodology, Appendix 11B
- Capital asset pricing model (CAPM) method, INT-8b, 515.05 to .20, VAL-9B
- Control premiums, 520.27
- • Equity risk premium, 510.05 to .06, 515.09
- • Guideline companies. See GUIDELINE COMPANIES
- • Illustration, 515.05 to .06
- Marketability discounts, 520.27
- Minority discounts, 520.27
- Risk adjustments, 515.17

- • Risk differentials, 515.14 to .16
- • Risk-free investment rate, 515.08
- Size-related risk adjustment, 515.17
- Capitalization of earnings method, 215.12
- Capitalization of gross cash flow method, 215.12
- Capitalization of net cash flow method, 215.12
- Capitalized returns method, 215.12, 220.20, 500.05 to .06, 510.23, 520
- Appropriateness, 500.04
- Asset shortages, 520.23 to .26
- Benefit stream, 520.19
- Capitalization rate, 520.11
- Characteristics, 500.02, 530.03
- Excess assets, 520.23 to .26
- Financial statements, 520.03 to .05
- Fiscal year, 520.14
- Forecasted operations, 520.15 to .16
- • Formula, 500.05, 520.19
- • Gordon model, 525.48
- Negative cash flow, 520.20
- Net cash flow, 520.10
- Net earnings, 520.10
- Net profit margin, 520.18
- Non-taxable companies, 520.09
- • Period of operations, 520.12 to .16
- Preconditions, 500.02
- Procedures checklist, INT-8, VAL-9
- Professional practices, 1115.07
- Redundant assets, 520.23 to .26
- Representative level of operations, 520.12 to .18
- Self-study program, SSP-1
- • Smell test, 520.22
- Steps, 520.02
- Taxes, 520.06 to .09
- • Worksheet, INT-8C, VAL-9C
- Case study (SJM Clothing Inc.). See CASE STUDY (SJM CLOTHING INC.)
- Characteristics, 500.03
- Company factors, 220.14
- Operating characteristics, 220.17
- Company-specific methods, 215.23, 700.01
- Data. See DATA
- Discounted future returns method, 215.12, 220.20, 500.06, 525
- Appropriateness, 215.12, 500.04, 525.02
- Asset shortages, 525.65
- Assumptions, 525.09
- Characteristics, 500.03, 530.03
- Components of, 525.45
- Control premiums, 525.66
- Discounting methods, 525.51 to .52
- Excess assets, 525.65
- • Forecast. See FORECAST
- Formula, 525.52

- Future net cash flow, 525.40
- Illustration, 525.67
- Inflation, 525.11 to .12
- Key factors, 525.07, 525.09
- Marketability discounts, 525.66
- Mid-year discounting, 525.59 to .62
- • Minority discounts, 525.66
- Net earnings, 525.40
- Normalized net earnings, 525.40
- Normalized operations, 525.06, 525.08
- Preconditions, 500.02
- Present value calculator illustration, 525.54
- Present value table illustration, 525.54
- • Procedures checklist, INT-9, VAL-10
- Product life cycle, 525.13 to .15
- Professional practices, 1115.07
- Projection, 525.06
- Prospective information, 525.06
- Receivables, 525.06
- • Redundant assets, 525.65
- Revenue, 525.10
- Revenue factors, 525.17
- • Sales growth, 525.13
- Smell test, 525.64
- Stabilized level of operations, 525.27 to .28
- • Steps, 525.05
- Terminal year. See TERMINAL YEAR
- Discounted net cash flow method, 215.12
- Dual capitalization method, 215.19 to .20, 220.20
- • Limitations, 720.26 to .27
- Earnings-based methods, appropriateness of, 220.15 to .16
- Excess earnings method, 215.19 to .20, 220.20
- Assets, net tangible, INT-11a, VAL-12a
- • Case study, 720.21
- • Debt-free basis, 720.24 to .25
- Errors, common, 720.27
- • IRS revenue ruling 68-609, Appendix 7A
- • Limitations, 720.26
- Procedures checklist, INT-11, VAL-12
- Professional practices, 1115.18
- • Use of, 215.12, 720.01
- Variation, 720.22 to .23
- Very small businesses, 225.09
- • Worksheet, INT-11a, INT-11b, VAL-12a, VAL-12b
- Free cash flow method, 215.12
- Guideline companies. See GUIDELINE COMPANIES
- Guideline public company method, 225.10, 601.1 to .108
- Capitalized returns method, compared, 600.5, 601.4
- Case study (SJM Clothing Inc.). See CASE STUDY (SJM CLOTHING INC.)
- Characteristics, 602.3
- • Circumstances considered, 602.2
- Controlling interests, 605.2
- Financial statements, 601.5

- Identifying guideline companies. See GUIDELINE COMPANIES
- Income, Appendix 11B
- Application, Appendix 11B
- Earnings method, Appendix 11B
- Minority interests, 605.2
- Multiple-of-gross-fees, Appendix 11B
- Net-of-debt values, 635.10
- Problems, 600.9 to .10
- Procedures checklist, INT-10, VAL-11
- • Professional practices, 1115.05 to .14
- Resources required, 600.11
- Sanity check, 602.26 to .28
- • Share price, determination of, 600.12 to .13
- Steps, 601.1
- Taxes, 601.8 to .10
- • Time period, determining, 601.56
- Use of, 215.12
- Valuation methodology, Appendix 11B
- Market approach
- Caveats to, Appendix 6E
- Valuation mistakes, Appendix 6B
- Valuation methodology, Appendix 11B
- Merger and acquisition method
- Value multiples. See VALUATION MULTIPLE
- Values, characteristics of, 605.1 to .9
- Worksheets, INT-10a, INT-10b, INT-10c, VAL-11a, VAL-11b, VAL-11c
- Industry considerations, 220.13
- Liquidation value method, 215.16, 700.01, 705.02, 705.06 to .08, 715
- • Debt-free, 715.18
- • Going concern, 715.20
- • Income tax considerations, Appendix 7B
- • Procedures checklist, INT-13, VAL-14
- • Use of, 215.18, 705.06
- Multiple of discretionary earnings method, 725
- Adjustments, 725.39
- Applying, 725
- Capital reinvestment, 725.16
- Case study, 725.41
- • Characteristics, 725.03 to .08
- Discounts, 725.39
- Interest expense, 725.13
- • Interest income, 725.15
- Non-cash charges, 725.14
- Normalized pre-tax earnings, determining, 725.10 to .11
- Operating assets, 725.36
- Owner's compensation and benefits, 725.12
- • Smell test, 725.37
- Valuation multiple, 725.17 to .40
- Net asset value method, 215.16, 700.01, 705.02 to .04, 705.07, 710
- Adjustments, 710.03 to .04
- Debt-free, 710.20 to .21

- • Income tax considerations, Appendix 7B
- • Net-of-debt, 710.20 to .21
- • Procedures checklist, INT-12, VAL-13
- Professional practices, 1115.15 to .17
- • Smell test, 710.18
- • Use of, 215.17, 705.03
- Ownership interests, 815.18
- Preferred shares, 1056.63 to .67, 1420.01 to .05
- Dividend discount model, 1056.69 to .75, 1420.06 to .07
- Gordon model, 1420.08 to .11
- Simple valuation formula, 1056.68
- Rules of thumb method, 215.22, 700.01
- Limitations, 730, Appendix 7C
- Professional practices, 1115.20 to .21
- Selection of, 220
- Case study, 220.27 to .32
- • Earnings-based, 220.20 to .21
- Factors to consider in selecting, Appendix 2A
- • Preliminary, 305.17 to .18
- Selection process, 220.05 to .06
- Controlling versus minority interest, 220.13
- Operating characteristics, 220.17
- Purpose, 220.08
- Sample approach, 220.06
- Sellers' discretionary cash flow method, 215.21, 700.01
- Professional practices, 1115.19
- Very small businesses, 225.08
- Small businesses, 225
- Underlying assets method, 705
- Appraiser, 705.08 to .10
- Assets, analysis of, 705.11 to .15
- Liquidation value, 700.01, 705.02
- Net asset value, 700.01, 705.02, 705.03 to .04
- Physical inventory, 705.13
- Reporting considerations, 705.16
- Use of, 705.01
- Value multiple. See VALUATION MULTIPLE

**VALUATION MULTIPLE**, 215.13 to .15, 220.17, 220.18, 220.30, 600.5 to .6, 600.12 to .13, 601.24

- Application of, 215.14
- Approaches. See VALUATION APPROACHES
- Appropriate, determining, 725.17 to .20
- Business, type of, 725.26
- Business growth prospects, 725.25
- Business risk characteristics, 725.22 to .23
- Capital, availability of, 725.33 to .34
- Case study (SJM Clothing Inc.). See CASE STUDY (SJM CLOTHING INC.)
- Competition, 725.29
- Computing, 601.92 to .100
- Adjusted financial information, 602.26 to .28
- Diversification, 725.30
- Employees, stability and skill, 725.28

- Facilities, quality of, 725.27
- Guideline company data, 725.21
- Guideline company method
- Financial information, 601.37 to .52
- Historical earnings, 725.24
- Historical operations, 601.91
- Industry growth prospects, 725.25
- Location, quality of, 725.27
- Management, 725.32
- Net-of-debt value, 600.13
- Price per share, 601.54 to .55
- Price/dividend. See VALUATION RATIOS
- Price/earnings. See VALUATION RATIOS
- Price/gross cash flow. See VALUATION RATIOS
- Price/net asset value. See VALUATION RATIOS
- Price/revenues. See VALUATION RATIOS
- Projected operations, 601.90
- Reasonableness, 515.061
- Resources required, 600.11
- Risk characteristics, measuring, 725.35
- Sale, terms of, 725.33 to .34
- Worksheet, 725.35

# **VALUATION PRACTICE, DEVELOPMENT OF, 110.03**

#### **VALUATION PREMISES**, 210

Application of, 210.01

## **VALUATION PROCEDURES**

- Analysts, 835
- Industry accountants, 835
- Wrap-up, 835

## **VALUATION RATIOS**

- Cash flow to long-term debt, 1420.28
- Earnings before interest and taxes to total invested capital, 1420.29
- Earnings-coverage, 1420.22 to .27
- Excess of market value of assets over liabilities to aggregate liquidation preference of preferred shares, 1420.33
- Fixed-charges coverage, 1420.22 to .27
- Price/book value, 215.13, 601.72 to .77
- Price/dividend, 215.13
- Guideline companies, 601.65 to .70
- Price/earnings, 215.13, 220.17
- Case study (SJM Clothing Inc.). See CASE STUDY (SJM CLOTHING INC.)
- Guideline companies, 602.16 to .21, Exhibit 6-8
- Price/gross cash flow, 215.13
- Guideline companies, 601.59
- Price/net asset value, 215.13, 601.78 to .85
- Price/revenues, 215.13, 601.65 to .70
- Total debt to fair market value of shareholder equity, 1420.30

#### **VALUATION REPORTS**

- Addenda, 915.14, 915.20 to .21
- Assumptions, 915.17 to .18
- Calculations, 915.12
- Company background/history, 915.07
- Comparatives, 915.09
- Conclusion, 915.13
- Contents, 915.02
- Data sources, 915.19
- Drafting form, INT-15a, VAL-16a
- Economic data, 915.06
- Errors, common, 930.03 to .09
- Financial analysis, 915.07
- Financial statement data, 915.08
- Independent, 1810.10
- Industry data, 915.06
- Internal, 900.02, 925
- Introduction, 915.03
- Limiting conditions, 915.17 to .18
- Methodologies, 915.10 to .11
- Ontario Securities Commission Rule 61-101, 205.28
- Ontario Companion Policy 61-101, 205.28
- Oral, 900.02, 921
- Preparation, 205.28
- Professional requirements, 905. See also VALUATION RE-QUIREMENTS
- · Qualifications, reasons for, Exhibit 9-1
- Qualities of, 930.02
- Report checklist, INT-15, VAL-16
- Sample report, Appendix 9A
- Scope of review, 915.04
- Signatures, 915.22 to .23
- Subject matter, 205.28
- Summary letter, 900.02, 920.02 to .05, Appendix 9B
- Updating, 935
- Well-written, qualities of, 930.02
- Written, 900.02, 915.01

### VALUATION REQUIREMENTS.

- • Sample opinions, Appendix 12A-1, 12A-2
- Policy Statement No. Q-27, Appendix 12D

# **VALUATION TERMS**, 205

- Future benefits, 210.26
- Valuation defined, 205.01

## **VALUATOR**

- Capabilities, 110.02
- Estate planning, 1000.14 to .17
- Experience, 110.12 to .13
- Hiring, 110.06
- Income tax returns, 1000.08
- Independence, statement of, 915.15
- Objectivity, 105

- Professional practices, 1005.30
- Qualifications of, 915.16
- Resources, 110.14 to .18
- Role of, 305.09, 1815
- Tax dispute resolution, 1000.09 to .12
- Tax planning, 1000.13

### VALUATOR, ROLE OF, 1815

#### VALUE, 205

- Tangible assets, 705.02
- Weight of. See WEIGHTING OF VALUES

### VALUE, LEVELS OF, 1075

- "Above-the-line" issues, 1075.04-.05
- "Below-the-line" issues, 1075.06-.07
- Zeiler estate, 1075.08-.14

#### **VALUE IN USE**, 205.48

### **VALUE LINE INVESTMENT SURVEY, 515.11**

Projected operations, 601.90

VALUE RATIOS, 603.2 to .5

**VALUE TO OWNER**, 205.11 to .12, 205.46 to .47

WARRANTS. See CALL OPTIONS/WARRANTS

WEBSITES, 410.24, Appendix 4B

## **WEIGHTED AVERAGE COST OF CAPITAL**, 530.11

# WEIGHTING OF VALUES, 805.18 to .23

- Assets, nature of, 805.09
- Business, nature of, 805.09
- Controlling interest, 805.14
- Data, availability of, 805.15
- Going concern, 805.12
- Information Circular 89-3, 805.09
- Liquidation value, 805.12 to .13
- Mathematical, 805.03 to .06
- Minority interest, 805.14
- Professional practices, 1130
- Subjective, 805.03 to .06

# **WILLIAMETTE MANAGEMENT ASSOCIATES STUDIES**, 815.252

## WIND-UPS, 1040, 1045

- Embedded taxes considered in valuing holding company shares, 1040..11 to .16
- Embedded taxes, 1040.10
- Paragraph 88(1)(d) bump, 1040.03 to .09

### WORK PROGRAM, 310. See also PRACTICE AIDS

- Flexible standardized program (FSP), 310.03
- Format, 310.02
- Internal accountant, 305.03
- Pre-engagement procedures, 305.1

# **WORKING CAPITAL**, 525.43

#### **WORKING PAPERS**

- Review, 825
- Wrap-up procedures, 835.06

#### **WORKSHEETS**

- CAPM method using guideline companies, INT-8b, VAL-9b
- Capitalization and discount rate worksheet, build-up method, INT-8a, VAL-9a
- Capitalized returns worksheet, INT-8c, VAL-9c
- Determination of a single value multiple worksheet, INT-10c, VAL-11c
- Guideline company comparison worksheet, 601.35, INT-10a, VAL-11a
- Normalized net income worksheet, INT-6, VAL-7
- Ratio analysis worksheet, 601.29, INT-7, VAL-8
- Return on net tangible assets worksheet (excess earnings/ dual capitalization method), INT-11, VAL-12a
- Sample fee estimate worksheet, VAL-3
- Valuation worksheet
- Excess earnings (dual capitalization) method, INT-11b, VAL-12b
- • Sellers'discretionary cash flow method, INT-14a, VAL-12b
- Value-multiple computation worksheet, INT-10b, VAL-11b

# **WRAP-UP PROCEDURES**, 800

- Disputes, 825.05
- Engagement review, 825.01 to .04
- Final administrative procedures, 830
- Industry accountants, 835
- Premiums and/or discounts, application of, 815
- Professional practices, 1130
- Recommended, 800.03
- Representation letter, obtaining, 820.02 to .04
- Smell tests, 810
- Summary, 835.06