Index

Note: Page references in *italics* refer to exhibits.

Α

Accounting Horizons, 623, 630-631 Accounting Principles Board (APB), 82, 84 Accounting Standards Codification (ASC) ASC 350, 944 ASC 805, 939, 941, 943 ASC 820, 6, 55, 56, 57, 407, 931, 934, 935, 937, 952 (See also Fair value) business valuation standards, overview, 596-597 income method and, 154 on liquidation value, 7 overview, 6, 7, 596-597 standards of value, 33, 55, 56 Accounting & Valuation Guide, Valuation of Privately-Held-Company Equity Securities Issued as Compensation (AICPA), 246 Accounting & Valuation Guide Testing Goodwill for Impairment (AICPA) 564 Acquisition method, 940 Acquisition premium data, 404-408 Activity ratios, 110-111 Adams, Rob, 249 Adhikari, Mike, 150 Adjusted Arithmetic Average-Strike Option, 478–479 Administrative services (healthcare) compensation, 1095-1096 Advanced Communication Design, Inc. v. Follet, 48 Advanced Growth Model (AGM), 147, 150, 150-151 Affordable Care Act (ACA), 1053-1054, 1065-1066. See also Healthcare service business valuation

After-tax cash flow, 231 Alacra, 66, 70, 72 Alerding, James, 623, 627 Almanac of Business and Industrial Financial Ratios, 100 AM Best, 73 Ambulatory surgery centers, valuation of, 1076-1078 American Bar Association (ABA) Model Business Corporation Act (MBCA), 5-6 Revised Model Business Corporation Act (RMBCA), 44 47, 49, 784, 786-787 standards of value, 32, 45, 46, 47 49, 51 American Business Review, 623-624 American Hospital Association, 1056 American Institute of Certified **Public Accountants** (AICPA) Accounting & Valuation Guide, Valuation of Privately-Held-Company Equity Securities Issues as Compensation, 246 Accounting & Valuation Guide Testing Goodwill for Impairment, 964 AICPA Accounting & Valuation Guide, 954, 954 business valuation standards, overview, 594-595, 598-606, 604, 605 CPA Expert, 246 on divorce valuation, 848 on ESOPs, 816-817 on financial statements and company risk analysis, 82 glossary of terms, 26-28

on income approach, 135, 155overview, 1, 3 Statements on Standards for Valuation Services VS Section 100, 495, 595, 598-606, 604, 605, 968-970 on valuation engagements, 495 Valuation of Privately-Held-**Company Equity Securities** Issues as Compensation, 246 See also International Glossary of Business Valuation Terms American Law Institute (ALI) Principles of Corporate Governance, 44, 47 standards of value, 32, 45, 46, 47, 48, 49, 51 American Medical Association, 1055-1056 American Medical Group Association (AMGA), 1096 American Society of Appraisers (ASA) Appraisal Principles and Procedures, 7-8 business valuation standards, overview, 593 divorce valuation, 848-849 for finding real estate appraisers, 365-366 overview, 1, 3 on standards of value, 30 See also International Glossary of Business Valuation Terms American Society of Association Executives (ASAE), 63, 69 Amortization benefit, 957–959 Analysis of company/entity (written report element), 499-500

Angrist, Ezra, 449-455, 450, 451 Annual Index of Economic Freedom (Heritage Foundation), 73 Annual Statement Studies (Risk Management Association), 69 Anti-kickback laws (federal), 1062-1063, 1092 Anti-kickback laws (state), 1065 Appeals and Review Memorandum Number 34 (ARM 34), 153 Appraisal Foundation, 157, 407-408, 583, 584, 948, 953 Appraisal Institute, 365 Appraisal Practices Board, 409, 584 Appraisal Principles and Procedures (ASA), 7-8 Appraisal services, demand for, 82.6 Arbitrage pricing theory (APT), 195-196 Architecture firms, valuation of, 870-871 Arithmetic average-strike put model (AASPM), 481 Arnaud v. Stockgrowers State Bank, 799 Arneson, George S., 443-444 Aschwald, Kathryn F., 460-461 As-if-freely-traded minority interest value defined, 392, 392-393, 393 healthcare service buciness valuation, 1074-1075 Asset approach, 343-389, 385 application, 344-346 best practices, 363 built-in gains taxes, 347-352, 349-350 case study, 353-362, 354-355, 356, 360, 362 control versus minority, 346-347 defined, 343 general steps in, 352–353 healthcare service business valuation, 1073-1074 machinery and equipment appraisals, 375-389 overview, 8-9 premise of value, 346 professional practices and valuation issues, 883 real estate appraisals, 364-374, 371

small business valuation, 860 special industry valuation, 1130-1139, 1138-1139 theory, 343-344 valuation views and controversial issues (illustration), 1200-1201 Assets asset diversification, family limited partnerships (FLPs), 731-732 fair value measurement, 56 family limited partnerships (FLPs), 755–757 valuation views and controversial issues (illustration), 1204-1205 See also Financial statement Association of Business Brokers, 71 Astleford v. Commissioner, 749-750 Audit reviews, 388 Avention, 66 Average-Strike Put Option model, 477–478

В

Bajaj, Mukesh, 419-420, 436, 439, 458 - 459, 464, 465 Balanced Budget Act of 1997, *40−48*, 1051, 1058 Bankruptcy, divorce valuation and, 851 Barclay, Michael J., 447 Bars/nightclubs valuation accounting and financial presentation issues, 1164 information sources, 1161-1162 overview, 1162–1163 risk issues, 1165-1166 state of industry, 1163 types of assets, 1164–1165 valuation issues, 1165, 1166-1167 Basic Business Appraisal (Miles), 583 Basis step-up, 729 Before-and-after method, 1018 Beige Book (Federal Reserve), 68 Benchmark method, for revenues, 1018, 1196 Bergquist v. Comm., 434 Bernier v. Bernier, 620, 621, 846 Best Practices for Valuations in Financial Reporting

(Appraisal Foundation), 154, 157, 948, 953 "Best Practices: Terminal Year of a Discounted Cash Flow Model" (Hitchner), 177-183, 178 Beta criteria, 219 overview, 206-208 total beta model (TBM), 241-242 unilevering and relevering betas, 208-213 Bice, Patrick, 1168-1177 BIZCOMPS (database), 71, 300, 302 BizMiner, 100 Black-Scholes Option Pricing Model At the Money, 474, 475-476 Black; Law Dictionary (Garner), 33, 37, 39 Blended growth, computing, 334-335 Block, Stanley, 415, 419 Blockage discounts and market absorption, 488-489 Bloomberg, 65, 74 Bohme v. Bohme, 906 Bonbright, James C., 29 Book of Wisdom concept, 1032n9 Bortnick, Edward, 414-415 Bradnan, Mike, 1145 "Bringing Sanity to Marketability Discounts" (Robak, Hall), 455–456 Brinson, Gary, 281-282 Brookings Task Force, 933 Brown v. Brown, 54 Budyak, Jim, 282 Build-up model (BUM), 194-195 Built-in gains discount, 486 Built-in gains taxes, asset approach, 347-352 case study example, 362 C corporations, 348 court cases, 348, 349-350 partnerships, limited liability partnerships, limited liability companies, 352 S corporations, 351–352 Bureau of Economic Analysis, 67 Burkert, Rod, 243 Business combination accounting (case study), 970-1001 business enterprise analysis, 975-976 calculation of consideration, 970-971,971

calculation of fair value of intangible assets and goodwill, 971-973, 972, 973 discounted cash flow method, 976-979,978 discount rate, 979-982, 980-981 identifying intangible assets, 973-975,974 overview, 970 valuation of goodwill, 1001 valuation of intangible assets, 984–1001, 986, 989, 991, 993, 994, 995, 996, 997, 999, 1000, 1002–1004, 1005 valuation of tangible assets, 982-984, 984 weighted average return on assets (WACC), 1001 Business combinations, overview, 154, 943, 943-944 Business damages, 1009-1040 general considerations in damage calculations, 1009-1010 intellectual property damages, 1029-1036 legal principles governing damages, 1010-1016, 1011 lost profits compared to fair market value, 1028 measurement of damages, 1016-1028, 1017, 1021, 1022, 1024, 1026, 1027 overview, 1009 securities class action litigation, 1036-1040 Business financial information, resources, 65-66 Business Valuation, Discounts and Premiums (Mercer), 471 Business Valuation Resources, 67, 71, 72, 74 **Business Valuation Review** discounts for lack of control, 410 "Minimum Marketability Discounts" (Seaman), 472 "Qualitative Support for Discounts for Lack of Marketability" (Johnson), 459-460 "Regression Analysis and Discounts for Lack of Marketability" (Angrist, Curtis, Kerrigan), 449-455,

450, 451

on size premia, 221 "Trugman Valuation Advisors, Inc. (TVA), Restricted Stock Study" (Harris), 462-463 Business valuation standards, 583-606 Accounting Standards Codification (ASC) (Financial Accounting Standards Board), 596-597 American Institute of Certified Public Accountants (AICPA), 594-595, 598-606, 604, 605 American Society of Appraisers (ASA), 593 Canadian Institute of Chartered Business Valuators (CICBV), 594 government action, 584-585 history of, 583 Internal Revenue Service (IRS), 595-596 International Institute of Business Valuers (#BV), 395 International Society of Business Appraisers (ISBA), 595 National Association of Certified Valuators and Analysts (NACVA), 594 USPAP Business Valuation Standards (2016-2017), 586-593 USPAP standards, organization of, 585-586 Butler, Peter, 241, 243 Butler/Pinkerton Calculator (BPC), 241 Buy-sell agreements, valuation services for, 1043 Bygrave, William D., 249

С

Cable television valuation asset approach, 1138–1139 competitive delivery systems, 1134–1135 income approach, 1137–1138 industry vocabulary, 1139–1143 information sources, 1143–1144 market approach, 1138 overview, 1132 regulation, 1132–1134 state of the industry, 1135–1136

types of assets, 1136-1137 valuation approaches, overview, 1137 Canada, requirements for expert witnesses, 920-922 Canadian Institute of Chartered **Business Valuators** (CICBV), 3, 249, 594. See also International Glossary of Business Valuation Terms Capital asset pricing model (CAPM), 193-194, 206, 275 - 276Capital Ideas, 623, 624-625 Capital IQ (S&P), 69, 70 Capitalized cash flow (CCF) method income approach, 119-120, 135-138, 151-153, 152, 153 valuation views and controversial issues (illustration), 1214, 1217 Capital research, cost of, 72–73 Case studies asset approach, 353-362, 354-355, 356, 360, 362 business combination accounting, 970-1001 costs of capital/rates of return, cost of equity, 232 family limited partnerships (FLPs), 762-769, 763, 764, 766, 768 market approach, companycountry-currency-sector (CCCS) framework, 286-287 real estate appraisals, 358 "Twenty Ways to Calculate the Cost of Equity Capital: A Case Study" (Hitchner), 261-269, 263-266 See also Business combination accounting (case study); Valuation views and controversial issues (illustration) Casey v. Brennan, 46 Cash flow asset approach and, 356 ESOPs, 819-820 net cash flow, income approach, 127-128 valuation views and controversial issues (illustration), 1203-1204, 1206 See also Financial statement

Causation, for damages, 1012-1014 Cavalier Oil v. Harnet, 45 "C Corporate Versus S Corporation Transaction Pricing" (Fannon, Sellers), 623, 631-632 C corporations built-in gains taxes and asset approach, 348 C Corporation Equivalent Method, 672, 673 ESOPs, 802-803 family limited partnerships (FLPs), 725 reasonable compensation, 891 "S Corp or C Corp?" (Phillips), 623 Census of Manufacturers (U.S. Census Bureau), 68 Census of Retail Trade (U.S. Census Bureau), 68 Center for Research in Securities Pricing Data, 635 Chaffe, David B., III, 474-475 Chamberlain, Travis, 623, 627 Charitable contributions of property, 717-718 Checklist, Revenue Ruling 59-60, 10-17 Chen, Peng, 203 CIA, 73 Circular 230 (U.S. Department of Treasury), 721-722 Classic Venture Capital in the Next Millennium (Bygrave), 249 Closed-end fund data, of jamily limited partnerships, 759-761 Closely held companies, public guideline multiples and, 295n2 Closely held corporations, market approach for, 688-691 Cochrane, John C., 193 Coface Economic Studies, 73 Colgate, et al. v. The Disthene Group, Inc., 798-799 Columbia Financial Advisors, Inc., 439, 460-461 Columbia/HCA Healthcare Corporation, 1051 Common sizing, 90, 91, 92, 93, 94, 95, 96 Common stock, valuation of, 710 Community Health Systems, 1052-1053

Company-country-currencysector (CCCS) framework case study, 286-287 conducting due diligence with, 282-286, 285 overview, 277 Company-specific risk, 188–189 Company-specific risk discount, 490 Comparative analysis, financial statement and company risk analysis, 98-101, 99, 100, 101, 102 Compensation. See Compensation in healthcare industry; Reasonable compensation Compensation in healthcare industry, 1089-1097 applicable valuation standards, 1092 background on drivers of compensation assignments, 1089-1090 compensation elements, 1092-1096, 1094, 1095 data sources, 1096-1027 documentation, 1097 regulatory guidance, 1090-1092 Compulsion, defined, 42 Conditional equity risk premium, 204–205 Conference Board, 67 Consensus View—Q&A Guide to Financial Valuation, A (Hitchner, Pratt, Fishman), 244-245,405 Construction industry valuation accounting issues of, 1100-1106, 1103, 1104, 1105 contractor types, 1099-1100 contract types, 1100 cost approach, 1106 income approach, 1106-1107 income tax issues of, 1106 information sources, 1111 market approach, 1106 operational and industry issues, 1108-1111, 1110 overview, 1099 risk issues, 1108 Consumer Confidence Survey, 67 Controlling interests example, 1180 issues of marketability/ liquidity, 413-415 overview, 413

in pass-through entities, 622, 623-633 private company discount studies, 415, 415-420, 417, 418 Control premiums acquisition premium studies, 404-405 application of acquisition premium data, 405-408 overview, 404 See also Discounts for lack of control (DLOC) Control standalone value defined, 393, 393 healthcare service business valuation, 1074-1075 Copyrights, 1029 Cornell, Bradford, 405-406 "Corporate divorce," 785. See aiso Shareholder disputes Corporate Financial Ratios and IRS-CALC (IRS), 100 Corporate stock, valuation of, 683-684 Cost approach defined, 19 fair value, 946-949, 948 machine and equipment appraisals, 379-381 real estate appraisals, 369 reasonable compensation, 902-904,903 special industry valuation, 1122-1123 Cost basis, asset approach and, 343 Cost of Capital Resources (Duff & Phelps), 72 Cost of Capital Resources Center, 73 Costs, damages and, 1019 Costs of capital/rates of return, 185 - 270beta, 206-213 characteristics of cost of capital, 190 company-specific risk, 222-231, 223, 225, 226, 228, 230, 231 cost of capital, sample valuation report, 545-554, 547-548, 550, 551, 552, 553 cost of debt, 192 cost of equity, 193–197 cost of equity (case study), 232 data sources, 196-197, 249 emerging equity models, 241-244, 244

equity risk premium (ERP), 200-206 implied returns from market data, 232-241, 233-234, 235, 236, 237, 238 industry risk premium, 214-217, 215 issues in cost of capital application, 231-232 legacy valuations using Ibbotson data, 244-245, 245 overview, 185 relationship between risk and return, 186-189, 187 risk-free rate, 197-200, 198, 199 size premium, 217–222 "SPARC: Strategy/People/ Architecture/Routines/ Culture" (Miller), 250-260, 255, 256, 257, 259 "Twenty Ways to Calculate the Cost of Equity Capital: A Case Study" (Hitchner), 261-269, 263-266 value drivers, 185-186 venture capital returns, 245-249, 246, 247, 248 weighted average cost of capital (WACC), 190-192, 191 Country Credit Rating Model (CCRM), 73, 275 Country Rankings (Heritage Foundation), 73 "Country Risk" (Damodara.). 273-274 Country Risk Premia (CRPs), 73 Country Yield Spread Model, 276-277 CPA Expert (AICPA), 246 Cross-examination, of expert witnesses, 924-927 Cross-sectional analysis, overview, 97 Culpepper Compensation Market Pricing Practices Survey, 901, 901 Currency, international cost of capital, 284-286, 285 Curtis, Harry, III, 449-455, 450, 451

D

Dahill v. Dahill, 54 Damages. See Business damages Damodaran, Aswath

on discounts for lack of control, 408-409 on forward-looking premiums, 205, 243 on geometric averaging, 202 international cost of capital, 273-274, 279-280 research resources, 73, 74 on size premia, 221, 243 website of, 283 DataDive Management and Staff Compensation Survey (MGMA), 1096 Data Page (Damodaran), 73 Date, of valuation, 8, 733, 789-790 Daubert challenge, 781, 849,916-919, 1015-1016 Dawkins v. Hickman Family Corp., 773 Debt cost of, 192 debt valuation, valuation services for, 1044 income approach, dealing with debt, 171–176, 172 174, 176 interest-bearing debt and asset approach, 359-361 See also Weighted average cost of capital (WACC) De Franco, Gus, 415, 419 Delawire Open MRI Radiology Associates, P.A. v. Howard B. Kessler, 620, 621, 635-637, 636, 796-798 Denis, David J., 439, 458-459 Denominator cost of capital flows, international cost of capital, 271, 272-274 in income approach, 112-113 market approach, financial statement measures, 325-328 Dental practices, valuation of, 869 Depreciation and obsolescence, machine and equipment appraisals, 381-384 Devio v. Devio, 48 Diagnostic imaging centers, valuation of, 1082-1084, 1087 Dialysis centers, valuation of, 1084-1085, 1087 Dictionary of Real Estate Appraisal, The, 368 Differential inflation approach, 273-274

DiGabriele, James A., 623, 630-631 Direct broadcast service, 1134-1135 Direct capitalization, real estate appraisals, 370-372, 371 Direct equity method (DEM) overview, 164, 164-170, 165, 166, 167, 168, 169 valuation views and controversial issues (illustration), 1202-1203 Direct market data method (DMDM), 291, 292, 303-304 Direct unit pricing method, 380 Disclosure of gifts, 685-686 Discounted cash flow (DCF) method overview, 119–120, 138–145, 139, 140, 141, 142, 143, 144, 145 valuation views and controversial issues (illustration), 1217 See also Business combination accounting (case study) Discount for Lack of Marketability Job Aid for IRS Valuation Professionals (IRS), 414, 470-471, 483 Discounting, ESOPs and, 820-821 Discount rate damages and, 1024, 1024-1025 real estate appraisals, 370-372, 371 Discounts and premiums. See Valuation discounts and premiums "Discounts for Illiquid Stares and Warrants" (Robak), 463 Discounts for lack of control (DLOC) asset approach and, 346–347 control and market approach, 410-411 control premiums, 404–408 control premiums, alternative view, 408-409 defined, 391 divorce valuation and, 850 ESOPs and adjustments for lack of marketability, 823-824 family limited partnerships (FLPs), case study, 766-767,768

Discounts for lack (Continued) levels of noncontrolling interests, 401, 401-404, 402, 403 overview, 398-401 shareholder disputes, 793-794 summarized, 409-410 Discounts for lack of marketability (DLOM) on controlling interest, 412-420, 415, 417, 418 defined, 391 divorce valuation, 849 empirical evidence, IPO studies, 422-437, 424, 426, 428, 429, 432, 433 (See also IPO studies (DLOM)) empirical evidence, overview, 422 empirical evidence, restricted stock studies, 437-468, 438, 439, 450, 451 (See also Restricted stock studies (DLOM)) ESOPs and adjustments for lack of marketability, 822-823 factors influencing marketability, 481-484, 483 family limited partnerships (FLPs), case study, 767-769,768 healthcare service business valuation, 1075-1076, 1075-1078 overview, 411-412, 412 quantitative tools, 468-481 shareholder disputes, 793-794 tax court cases, 420-422 "Discounts for Lack of Marketability for Closely Held Business Interests" (Maher), 442 "Discounts of Restricted Stock" (Silber), 456-457 Dissenting shareholder actions, 783-784 Dissolution of Midnight Star Enterprises, In re, 44, 49 Distressed markets, real estate appraisals in, 372 "Distributions and Entity Form" (Vinso), 623, 628 Distributor method, 956 Diversification, in ESOPs, 815-816

Dividends, ESOPs, 817

Divorce valuation, 831-852 bankruptcy and, 851 data restrictions, 847 double dipping concept, 845-846,904-906 goodwill in, 834-845, 843 (See also Goodwill concept (divorce valuation)) liquidity myth in passthrough entities, 851 methodology and application of discounts, 849-851 premise of value in, 833-834 professional practices and valuation issues, 837-842, 872-875 professional standards, 847-849 range versus specificity, 847 standards of value in, 50-55, 831-833 valuation of S corporation and other pass-through entities, 846 Dodd, David, 37-38 Dohmeyer, Bob, 243 DoneDeals, 71, 301, 302 Double-counting issues, in divorce valuation, 849-850 Double dipping concept, in divorce valuation, 845-246, 904-906 Due dingence. See Companycountry-currency-sector (CCCS) framework Duff & Phelps Cost of Capital Resources, 72 equity risk premium adjustment, 205-206 International Valuation Handbook—Guide to Cost of Capital, 275, 276, 284 on tax rates, pass-through entities, 635 Valuation Handbook, 72, 73, 74, 196, 214-217, 215 Valuation Handbook—Guide to Cost of Capital, 337 Dugan v. Dugan, 53, 835, 873 Duke University, 73 DuPont Model, 105-106 Duration, calculating damages and, 1020-1022, 1021, 1022

Ε

Earnings-per-share, ESOPs, 817 Economic conditions analysis (written report element)

overview, 500 valuation views and controversial issues (illustration), 1186, 1189-1190 Economic information, resources, 66-68 Economic loss causation, for damages, 1012-1014 Economic obsolescence, machine and equipment appraisals, 383-384 "Economist-Financial Analyst's Approach to Valuing Stock of a Closely Held Company" (Gelman), 440-441 Economy.com, 67 EDGAR (Electronic Data Cathering, Analysis, and Retrieval), 70 Electronic Data Gathering, Analysis, and Retrieval (EDGAR), 306 Emanuel Balsamides, Sr., et al. v. Protameen Chemicals, Inc., et al., 794-796 Emory, John D., 423-428, 424, 426, 428-429, 436 "Empirical Research Concludes S Corporations Values Same as C Corporations" (Mattson, Shannon, Upton), 623, 626-627 Employee stock ownership plans (ESOPs), 801-829 accounting standards for ESOP companies with acquisition debt, 816-818 adequate consideration and standard of value, 805-806 demand for review appraisal services, 826 Employee Retirement Income Security Act (ERISA), 801 feasibility of formation, 807-811 need for valuation services, 804-805 ongoing operations, 812-816 overview, 801-802 regulatory environment, 825-826 requirements, 802 share ownership characteristics, 811-812 tax considerations, 802-804 valuation engagements, 818-825

Employment contracts, for selling shareholders, 810 ENERGY STAR (U.S. Department of Energy), 373 Engineering firms, valuation of, 870-871 Enterprise goodwill, standards of value, 53 Entity-level discounts, shareholder-level discounts versus, 396-398 Equity cost of equity (case study), 2.32 cost of equity, international cost of capital, 275-278 cost of equity, overview, 193-197 cost of equity, valuation views and controversial issues (illustration), 1213 emerging equity models, 241-244, 244 equity risk premium (ERP), 200-206 invested capital versus, 324-325 See also Weighted average cost of capital (WACC) "Equity Ownership Concentration and Firm Value" (Wruck), 446-447 Erickson, Merle, 623, 624-625 Estate and gift tax valuations, 681-716 appraisal penalties for undervaluation, 721-723 overview, 681 selected Internal Revenue Code provisions, 682–683 selected Revenue Rulings, 686-716 (See also Internal Revenue Service (IRS)) selected Treasury regulations, 683-686 Estate of Andrews v. Commissioner, 420, 714, 715, 716 Bennett, 421 Black v. Commissioner, 769-770 Borgatello v. Commissioner, 349-350 Bright v. United States, 714, 715,716 Davis v. Commissioner, 349-350,719 Dean v. Commissioner, 750 Dougherty, 420-421

Dunn v. Commissioner, 349-350, 720-721 Eisenberg v. Commissioner, 349-350 Ellen D. Foster, 361 Gallun v. Commissioner, 750 Giustina v. Commissioner, 776-778 Gow v. Commissioner, 750 Gray, 421-422 Heckerman v. Commissioner, 771-772 Helen P. Richmond, Amanda Zerbey v. Commissioner, 349-350 Hjersted, 750 Holman v. Commissioner, 773 Iameson v. Commissioner, 349-350 Jelke et al. v. Commissioner, 349-350,720 Jensen v. Commissioner, 349-350 John E. Wall v. Commissioner, 610 Jones v. Commissioner, 722 Kosman v. Commissioner, 750 Lee v. Commissioner, 714-716 Liljestrand v. Commissioner, 775-776 Litemield v. Commissioner, 349-350, 720, 772 Louis Paxton Gallagher v. Commissioner, 610 Luton v. Commissioner, 729 Malkin v. Commissioner, 770-771 Mueller v. Commissioner, 42 Natale B. Giustina v. Commissioner, 610 Noble v. Commissioner, 733 O'Connell v. Commissioner, 750 Piper v. Commissioner, 749 Richie C. Heck v. Commissioner, 610, 621 Richmond v. Commissioner, 721 Shurtz v. Commissioner, 771 Simplot v. Commissioner, 349-350, 719-720 Simpson, 421 Tully v. United States, 43 Turner v. Commissioner, 774-775 Watts v. Commissioner, 41 Welch v. Commissioner, 349-350

William G. Adams, Jr. v. Commissioner, 610, 621 Winkler v. Commissioner, 42 Estate tax, family limited partnerships and, 745-746 "Estimation of the Discount Associated with the Transfer of Restricted Securities" (Trout), 441-442 Event study approach, 1037-1039 Everett, Craig R., 247 Exacto Spring Corporation v. Commissioner, 898-899 Excess cash flow (ECF) method overview, 119-120, 153-162, 155, 156, 158, 159, 160, 151 professional practices and valuation issues, 885 valuation views and controversial issues (illustration), 1201 Exit Multiple Model, 147 Expert opinion, admissibility of, 1015-1016 Expert witnesses. See Valuator as expert witness Extraordinary items financial statements, 82 income approach, 123-124 Ezzell, John R., 211

F

Factiva, 63, 65, 66 FactSet Mergerstat/BVR Control Premium Study, 72 FactSet Mergerstat Control Premium Study, 404-405 FactSet Mergerstat Review, 302-303 Fair market value (FMV) divorce valuation, 832 in estate and gift tax valuations, 40-41 example, 118 fair value compared to, 35, 787 family limited partnerships (FLPs), 751-752 healthcare service business valuation, 1066-1067 lost damages compared to, 1028 (See also Business damages) overview, 3, 4-5, 33-34, 87-88, 90, 97, 101

Fair value, 931-1005 amortization benefit, 957-959 business combinations, 154, 939-944,943 case study, 970-1001 (See also Business combination accounting (case study)) cost approach, 946-949, 948 divorce valuation, 831 fair market value (FMV) compared to, 35, 787 fair value measurement, 934-939 financial reporting, overview, 4, 6, 34-35 financial reporting disclosures, 967-968 goodwill, 960-967, 967 income approach, 952–957, 954 in-process research and development, 959-960 intangibles, risk and return, 944-945 market approach, 949-951, 951 minority shareholder disagreements, 790-791 nature of intangible assets, 932-934 overview, 931-932 reasons to value intangible assets, 934 in shareholder dissent and oppression, 44-46 standards of value, in financial accounting 55 standards of value, in shareholder dissent and oppression, 44-46 Statements on Standards for Valuation Services VS Section 100 (AICPA), 495, 595, 598-606, 604, 605, 968-970 state rights, 4, 5-6 valuation approaches to intangibles, 945-946 Fair Value Measurement (ASC 820) (FASB), 55, 56, 57 Family limited partnerships (FLPs), 725-778 asset diversification, 731-732 case study, 762-769, 763, 764, 766, 768 characteristics of, 728-729 court cases, 769-778 date of valuation, 733 divorce valuation and, 851

formation of, 727-728 gifts on formation, indirect gifts, subsequent asset infusions, 731 identifying information required for, 733 overview, 725-726 partnership agreement analysis, 733-739 preliminary considerations for valuation of, overview, 732 problems of improper formation, overview, 730 process of valuation for, overview, 732, 750-762 real property reassessment, 732 resources, 758-759 state laws, property rights, and importance to valuation process, 729-730 tax advantages, 727 tax code, regulation, official guidance for, 739-750 (See also Tax code (FLPs)) uses of, 726 Fannon, Nancy J., 625 631-632, 635-637, 846 Federal Communication Commission, 1125–1126, 1132-1133 Federal Register, 806 Federal Reserve Beige Book, 68 research resources, 67, 73 Federal Rules of Civil Procedure, 914-915 Federal Rules of Evidence, 914-915 Fernandez, Pablo, 213 Fernandez formulas, 213 Ferris, Stephen P., 439, 458-459 Fiduciaries/fiduciary responsibility, ESOPs and, 807-809 Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), overview, 6, 7, 596-597 (See also Accounting Standards Codification (ASC)financial statements and company risk analysis, 83 IFRS 13 Fair Value Measurement, 934 income approach and, 154 on intangible assets, 942

standards of value, 33, 35, 55, 56, 57 See also Accounting Standards Codification (ASC) Financial Analysts Journal, 456-457 Financial control value, 393 Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA), 364, 584 Financial reporting, valuation services for, 1043 Financial statement adjustments for market approach, 320-322 analysis (written report element), 501 asset approach steps, 352-353 professional practices and valuation issues, 879–883 valuation views and controversial issues (illustration), 1192-1200, 1194, 1195, 1197, 1198, 1199 Financial statement and company risk analysis, 77-115 adjustment to financial statements, 81 changes in accounting principle, 84 common sizing normalized financial statements, 90, 91, 92, 93, 94, 95, 96 comparative analysis, 98-101, 99, 100, 101, 102 degree of ownership interest, 86 financial ratios, commonly used, 109-115 historical analysis, 77-78 length of financial history to be used, 78 macroenvironmental analysis, 108 nonconformance with GAAP, 84-85 nonoperating items, 83-84 normalization adjustments, 86-90, 87, 88, 89-90 normalization of historical financial statements, 81-82 overview, 77 ratio analysis (quantitative analysis), 97, 98 risk analysis (qualitative analysis), 101-107, 103

spreading financial statements in columnar format, 78–79, 79.80 tax-affecting earning of subchapter S corporations, 85,85-86 unusual, nonrecurring, and extraordinary items, 82-83 Financial valuation approaches to, 8-9 overview, 1, 9 premises of value, 6-7 principles of appraisal practice, 7-8 professional valuation organizations, 3 providers/users of business valuation services, 1-2 purpose of, 2-3 standards of value, overview, 3-6terminology, 18-25, 26-28 valuation checklist/ready reference, Revenue Ruling 59-60, 10-17 valuation procedures, overview, 9 Financial Valuation and Litigation Expert, 46, 74, 177-183, 178, 261-269, 263-266, 621 Finnerty, John F., 477-478, 481 "Firm Value and Marketability Discounts" (Bajaj, Ferris, Denis, Sarin), 458-459 First Research, 63, 69, 74 Fisher, Lawrence, 201–202 Fishman, Jay, 244–245, 405, 472, 785, 796, 874 FMV Opinions, Inc., 408, 455-456 FMV Opinions Model, 467-468 Foreign investment, in U.S. real estate, 373-374 Foreseeability, damages and, 1015 Forward-looking premiums, 205 Forward-Starting Put Option, 479-480 FRASER (Federal Reserve), 67 Fraud-on-the-market theory, 1036, 1037 Frazier, William, 473-474 Frazier v. Frazier, 844 FRED (Federal Reserve), 67 Frye standard, 917 Functional obsolescence, machine and equipment appraisals, 382-383 Fundamental value, defined, 5

G

Garner, Bryan A., 33n12, 37, 39 Gatekeeping function, 916 Gateway to Associations (search engine), 63 Gelman, Milton, 440-441 Generally accepted accounting principles (GAAP) adjustment for GAAP departures and extraordinary, nonrecurring, and/or unusual items, 123-124 business valuation standards, overview, 596-597 financial statements, nonconformance, 84-85 financial statements, overview, 78, 82 overview, 55 Geometric average rate put model (GARPM), 480 Geometric averaging, 202 Georgia-Pacific Corp. v. United States Plywood Corp. 1033-1036 GF Data Resources. 301, 303 Ghaidarov, Stillian, 478-480 Giaimo v. Vitele, 774 Gifts, family limited partnerships (FLPs) and, 731 Glossary, of business valuation terms, 18–25 Glossary of business valuation terms, 26-28 Going concern, defined, 39, 833-834 Going concern value, as premise of value, 6-7 Goodman, David, 243 Goodwill enterprise goodwill, defined, 53 fair value and intangible assets, 960-967, 967 Goodwill Registry, 885 personal goodwill, 52-53 professional practice assets, returns, and income, 886 professional practices and valuation issues, 871-873 reasonable compensation and personal goodwill, 906-907 See also Business combination accounting (case study); Fair value Goodwill concept (divorce valuation)

factors of goodwill, 838-842 goodwill allocation, 837-838 noncompete agreements and, 842-843 overview, 834-835 personal goodwill in commercial businesses, 842-843 state interpretations, 835-836 state versus entity, 836-837 trifurcation of goodwill and tradeable personal goodwill, 843, 843-844 Google, for searching, 63 Gordon, Myron J., 135 Gordon Growth Model (GGM), 135, 146-152, 147 Gorshunov, Igor, 243 Grabowski, Roger, 73 Grabewski model assumptions, 667 method comparisons, 673 Modified Traditional Method, 665-666, 667-673, 668-670, 672, 673 overview, 664-665 summarized, 673-676 valuation of minority interests, 665-667 Graham, Benjamin, 37-38 Graham and Dodd's Security Analysis (Graham, Dodd), 37-38 Green buildings, real estate appraisals for, 373 Greenfield method, 956-957 Grelier v. Grelier, 54 Gross v. Commissioner, 610 Growth estimates, market approach, 334 Growth rate, supporting, 1215 Guideline company transactions method adjustments to guideline and subject companies, 316-322 basic financial indicators, 312 comparing guideline and subject data, 313-316, 314-315 finding guideline companies, 298-299 healthcare service business valuation, 1073 industry classifications and, 299-300 overview, 291-292, 304-306 sample valuation report, 572-575, 573, 574

Guideline company (Continued) selecting guideline companies, 306-312 small business valuation, 862-865 summarized, 323 See also Market approach Guideline public companies, resources, 70-72 Guideline public company method discounts for lack of control, 410 healthcare service business valuation, 1072 overview, 291 sample valuation report, 554-572, 556, 557, 558-569, 571 small business valuation, 861-862 valuation views and controversial issues (illustration), 1186, 1218-1219, 1221 Guideline sales of interest in subject company, overview, 291

Н

Hall, Lance S., 408, 447-448, 455-456, 464, 465 Hamada, Robert, 209 Hamada formulas, 209-210 Hamby v. Hamby, 50-51 Hamelink v. Hamelink. 620-621 Handbook of Advanced Business Valuation (Reilly, Schweihs), 449 Harms, Travis W., 655-656 Harper, John C., Jr., 468-469 Harrington, James P., 73 Harris, William, 462-463 Harris-Pringle formulas, 212 Harvey, Campbell, 73, 275 Health Care Clinical and Professional Compensation Survey Report (Towers Watson Data Services), 1096 Healthcare service business valuation, 1047-1087 aging population and cost containment trends, 1056-1059 background, 1051-1054 considerations for valuing healthcare entities, 1067-1068

control premiums and minority discounts, 1074-1075 discounts for lack of marketability, 1075-1076 fragmentation, 1055, 1055-1056 healthcare regulatory environment, 1061-1066 market size, 1054-1055 medical practices, valuation of, 868-869 overview, 1047 physician reliance, 1059-1061.1061 standard of value, 1066-1067 terminology, 1047-1050 valuation issues for specific niches, 1076-1086, 1087-1088 valuation process, 1068-1074 See also Compensation in healthcare industry Health Insurance Portability and Accountability Act (HIPAA), 880 Health maintenance organizations (HMOs), 1057-1058 Held v. Held, 53, 875 Heller v. Heller, 845, 906 Heritage Foundation, 73 Herzel, Michael, 448-449 Historical analysis financial statement and company risk analysis, 77-78, 81-82 income approach and, 128-135 valuation views and controversial issues (illustration), 1193, 1205 Hitchner, James R. "Best Practices: Terminal Year of a Discounted Cash Flow Model," 177-183, 178 Consensus View—Q&A Guide to Financial Valuation, A, 244-245, 405 A Consensus View—Q&A Guide to Financial Valuation, A, 405 IPO studies, 424-425, 429-431 on QMDM, 472 "Twenty Ways to Calculate the Cost of Equity Capital: A Case Study," 261-269, 263-266

Valuation Products and Services, LLC, 74 H Model, 147, 148 Holbrook v. Holbrook, 905 Holderness, Clifford G., 447 Holterman v. Holterman, 905 Hooke, Jeffrey C., 5 Hoover's, 63, 71 Hospital and Healthcare **Compensation Service** (HCS), 1096 Hospitals and health systems, valuation of, 1079-1080, 1087-1088 Houlihan Valuation Advisors, 249 Howell v. Howell, 54, 836 Huff, In re, 55

Ibbotson, Roger, 203 Ibbotson Stocks, Bonds, Bills, and Inflation (SBBI) Valuation Yearbook (Morningstar), 203, 217, 234, 244 IBISWorld, 63, 69 IFRS 13 Fair Value Measurement (FASB), 934 Ikarian Reefer decision, 919-920 Impairment, 934, 958, 963-967, 967. See also Business damages Implied Private Company Pricing Model (IPCPM), 243-244, 244 Income approach, 111-184 adjustment for GAAP departures and extraordinary, nonrecurring, and/or unusual items, 123-124 adjustment for market approach, 317-320 adjustment for nonoperating assets and liabilities and related income and expenses, 124-125 adjustment for ownership characteristics, 120-123 adjustment for taxes, 125-126, 126 best practices, overview, 162 "Best Practices: Terminal Year of a Discounted Cash Flow Model" (Hitchner), 177-183, 178

capitalized cash flow (CCF) method, 135-138, 151-153, 152, 153 dealing with debt, 171-176, 172, 174, 176 defining benefit stream, 127 defining net cash flow, 127-128 denominator, 112-113 direct equity method (DEM) and invested capital method (ICM), 164, 164-170, 165, 166, 167, 168, 169 discounted cash flow (DCF) method, 138-145, 139, 140, 141, 142, 143, 144, 145 excess cash flow method, 153-162, 155, 156, 158, 159, 160, 161 fair value, 952-957 fundamental theory, 111-112 future benefit stream determination, 127 healthcare service business valuation, 1069–1072 machine and equipment appraisal, 384-385 market approach reconciliation, 336 methodologies, overview, 113-114 normalization process, 120 numerator, 112 overview, 8-9, 111 professional practices and valuation issues, 883-824 real estate appraisals, 369-370 reasonable compensation, 904 sample valuation report, 534-545, 536, 537-538, 539, 542–543, 544, 545 small business valuation, 860-861 special industry valuation, 1115-1119, 1128-1129, 1137-1138 synergistic adjustment for mergers and acquisitions, 12.6 terminal value, 145-151, 146, 147, 148, 150 total beta model, 242 using historical information, 128 - 135valuation views and controversial issues (illustration), 1201-1217, 1215, 1218

valuing family limited partnerships (FLPs), 757-758 Income tax valuation appraisal penalties for undervaluation of income tax returns, 721-723 charitable contributions of property, 717-718 conversion of property, 718-721 overview, 681, 716-717 reasonable compensation, 890-893 Independent investor test, compensation and, 898-899,899 Indirect method, machine and equipment appraisals, 380 Industry classifications, 299-300 Industry conditions analysis valuation views and controversial issues (illustration), 1190-1192 as written report element 501 Industry conduct (McKinsey 7-S Model), 104-105 Industry information, resources, 68–69 Industry risk premium, 214-217, 215 Industry structure analysis (Porter Model), 103–104, 107 Industry Surveys (S&P), 63, 68, 69-70 Inflation, 272, 273-274 Information access and reliability discount, 485-486 Input levels, fair value measurement, 57 In re Dissolution of Midnight Star Enterprises, 44, 49 Huff, 55 Marriage of Lopez, 53 Zells, 874 Insights, 75 Institute of Business Appraisers (IBA), 1, 3, 71, 300, 301-302. See also International Glossary of Business Valuation Terms Institutional Investor (SEC), 440 Intangible assets identification and classification of, 942-944, 943

valuation approaches, 945-946 See also Fair value Integra Data Product, 69 Integra Information Benchmarking Data, 69 Integrated theory of business valuation (ITBV), 658-661, 659,660 Intellectual property damages, 1029-1036 Interagency Land Acquisition Conference, 364–365 Internal Revenue Code business valuation as "qualified appraisal," 728 estate and gift tax valuations, selected Internal Revenue Code provisions, 682–683 family limited partnerships Jand chapter 11, 745–746 family limited partnerships and chapter 14, 739-745, 746-748 financial statements and company risk analysis, 85 on pass-through entities, 735 on publicly held corporations and reasonable compensation, 892 Section 1014 (basis step-up), 72.9 special valuation deadlines, 683 valuation date, 682 valuation of closely held companies, 682 See also Internal Revenue Service (IRS) Internal Revenue Service (IRS) Actions on Decisions (AOD), 779-780 business valuation standards, overview, 584, 595-596 compensation in healthcare industry, 1090-1091 Discount for Lack of Marketability Job Aid for IRS Valuation Professionals (IRS), 414, 470-471, 483 on external sources of data, 60 healthcare regulatory environment, 1061-1062, 1065 "IRS S Corp Job Aid," 615-619

Internal Revenue (Continued) "New IRS S Corp Job Aid" (Financial Valuation and Litigation Expert), 621 pass-through entities, tax court decisions, 610-614, 611-612 on pass-through entities, overview, 607 (See also Pass-through entities (PTEs)) Reasonable Compensation Job Aid for IRS Valuation Professionals, 900-901, 907-910 Revenue Ruling 59-60 (See Revenue Ruling 59-60 (IRS)) Revenue Ruling 68-609, 153, 154, 155 Revenue Ruling 77-287, 412, 437, 700-708 "Revenue Ruling 77-287 Revisited" (Stryker, Pittock), 445–446 Revenue Ruling 83-120, 708-713 Revenue Ruling 93-12, 713-716 Section 2053, 361 Technical Advice Memorandum (TAM) 9150001, 348 Uniform Issue List Code (UILC), 806 See also Employee stock ownership plans (ESQPs): Estate and gift tax valuations; Income tax valuation International Account Standards (IAS), 377-379 International CAPM (ICAPM), 277-278 International cost of capital, 271-289 analysis of multinational corporations, 280-282 background, 271 case study, 286-287 conducting due diligence with company-country-currencysector method (CCCS), 282-286, 285 denominator (cost of capital), 272-274 developing weighted average cost of capital (WACC), 278-280, 280

estimating the cost of equity, 274-278 numerator (cash flows), 272 technique for large portfolio of countries, 288, 288-289 "International Equities" (Merk), 284 International Equity Risk Premia Report (Morningstar/Ibbotson), 275 International Financial **Reporting Standards** (IFRS), 377-379 International Glossary of **Business Valuation Terms** on normalization, 81 overview, 4-5 on premise of value, 6-7 terminology, 18-25 on valuation date, 8 International Institute of Business Valuers (iiBV), 3,595 International Society of Business Appraisers (ISBA), 3, 595 International Valuation Handbook - Guide to Cost of Capital (Duff & Phelps), 275, 276, 234 Internet Protocol Television (PTV), 1135 Interview, with business brokervaluator, 1168-1177 Intrinsic value, 3, 5, 37–38, 833 Introduction (written report element), 498 Invested capital, equity versus, 324-325 Invested capital method (ICM), 164, 164–170, 165, 166, 167, 168, 169 Investment, Financing and Valuation of the Corporation, The (Gordon), 135 Investment, limited partnership investors, 752-754 Investment companies, build-in gains of, 348 Investment company discount, 487-488 Investment value divorce valuation and, 832-833 healthcare service business valuation, 1067 overview, 3, 5, 35-36 IPO studies (DLOM), 422-437

criticism, 434–437 Emory, 423–428, 424, 426, 428–429 Hitchner and Morris, 424–425, 429–431 overview, 422–423 Valuation Advisors, 425, 431–433, 432, 433 Willamette Management Associates, 424, 428–429, 429 See also Discounts for lack of marketability (DLOM)

J

Jalbert, Terrance, 623–624 Johnson, Bruce A., 439, 459–460 Journel of Corporate Finance, 417 Journal of Corporation Law, 458–459 Journal of Finance, 448–449 Journal of Financial Economics, 446–447 Journal of Taxation, 440–441

Κ

Karan, Yassir, 623, 627
Katsanis, Marc S., 475–476 *Keller v. United States*, 769
Kerrigan, Daniel, 449–455, 450, 451
Key person/thin management discounts, 486–487
Koeplin, John, 415, 416–417, 417
Kooli, Maher, 415, 417–418, 418 *Kumbo Tire*, 916

L

Lack-of-diversification discount, 489 Lanham Act, 1029 Law practices, valuation of, 869–870 Lawson Mardon Wheaton, Inc. v. Smith, 794 Leadership in Energy and Environmental Design (LEED) (USGBC), 373 LeBeau v. M. G. Bancorporation, Inc., 788 Legacy valuations, using Ibbotson data, 244–245, 245

Legal liability, for damages, 1012-1014 Lerner, Josh, 249 Lev, Baruch, 933, 944 Level of value ESOPs, 819 in market approach, 295-296 valuation discounts, 392-395, 393, 394 Leverage ratios, 111-112 Lexis-Nexis, 63, 65, 72 Liabilities, fair value measurement, 56. See also Financial statement Limited liability companies built-in gains taxes and asset approach, 352 divorce valuation and, 851 as pass-through entities, 609 (See also Pass-through entities (PTEs)) Limited liability partnerships built-in gains taxes and asset approach, 352 divorce valuation and, 851 as pass-through entities, 609 (See also Pass-through entities (PTEs)) Linden, Eric Vander, 232 Lindquist, J. Peter, 468 Liquidation divorce valuation, 834 liquidation concern value, 6-7 liquidation costs discount, 486 liquidation value, overview, 7,39-40 rights of general and limited partners, 751 Liquidity defined, 412 liquidity and marketability risk, 189 liquidity ratio, 109 marketability versus, 395-396 in pass-through entities, divorce valuation, 851 LiquiStat, 439, 463 Litigant, hypothetical buyer/ seller versus, 1027. See also **Business** damages Loans, ESOP, 809-810 Longstaff, Francis A., 476-477 Longstaff Upper Bound Lookback Put Option Model, 476-477 Long-term equity anticipation securities (LEAPS), 472-473

Lopez v. Lopez, 837 Lorie, James, 201–202 Lost profits. See Business damages

М

Machine and equipment appraisals approaches to value, 379-385 assumed earning, 385, 385-386 audit reviews, 388 classifying and reporting appraised assets, 379 construction in progress account, 386 finding an appraiser, 375–376 International Account Standards (IAS) and International Financial **Reporting Standards** (IFRS), 377-379 overview, 375 purpose, 375 specialty assets, 386-38 standard of value and premises of value, 376-377 Macroenvironmental analysis financial statement and company risk analysis, 108 Macroenvironmental Analysis Model, 66 Maher, Michael J., 442 Maio, Tim, 249 Managed care organizations (MCOs), 1057-1058 Management Planning, Inc. (MPI), 449-455, 450, 451 Mandelbaum v. Commissioner, 42, 481-483 Manual of Industrial and Miscellaneous Securities (Moody), 70 Marital dissolution. See Divorce valuation Marketability defined, 411 factors affecting, 412 liquidity versus, 395-396, 412 See also Discounts for lack of marketability (DLOM) Market approach, 291-342 adjusting guideline multiples for size, 337-342 adjusting pricing multiples for differences in growth, 333-336, 335

adjustments to guideline and subject companies, 316-322 advantages and disadvantages of, 296-298 applying valuation multiples, 331, 331-333 basic financial indicators, 312 basic implementation, 293-294 calculating standard pricing multiples, 323-324 choosing methodology for, 292-293 comparing guideline and subject data, 313-316, 314-315 computing multiples, 328 direct market data method (DMDM), 303-304 discounts for lack of control (DLOC), 410-411 dispersion of pricing multiples, 329, 330 equity versus invested capital, 324-325 fair value, 949-951, 951 financial statement measures, 325-328 finding guideline companies for, 298–299 as forward looking, 294-295 guideline company transactions method, 304-306 healthcare service business valuation, 1072-1073 industry classifications and, 299-300 level of value, 295-296 matching price to parameter, 328-329 overview, 8-9, 291-292 professional practices and valuation issues, 884-885 quantitative and qualitative factors, 292 real estate appraisals, 369 reasonable compensation, 900-902, 901, 902 sample valuation report, 534, 554 selecting guideline public companies, 306-312, 323 small business valuation, 861 sources of transaction data, 300-303 special industry valuation, 1119-1122, 1129-1130, 1138

Market approach (Continued) total beta model, 242 understanding subject company for, 298 valuation views and controversial issues (illustration), 1217-1223, 1221 for valuing closely held corporations, 688-691 Market data, implied returns from, 232-241, 233-234, 235, 236, 237, 238 Market-derived price-earning multiples, 237-238, 238 "Market Discounts and Shareholder Gains for Placing Equity Privately" (Hertzel, Smith), 448-449 Marketing/managing/making money, by valuation services groups, 1007-1108 MarketResearch.com, 69 Market risk (systemic risk), 188 Market share method, 1018 Market value of invested capital (MVIC), 323, 324-325, 328-329 Market volatility adjustment, 467 Markowitz, Harry, 193, 281 Marriage of Lopez, In re, 53 Martinez, Robert L., 461 Martin Ice Cream v. Commissioner, 844-845 Matthews, Gilbert E., 46 Mattson, Michael J., 623, 626-627 Maturity risk, 188 May v. May, 53 McCord v. Comm., 434 McKinsey 7-S Model, 66, 104-105 McLelland, Malcolm, 243 McReath case, 843-844 Measurement of business damages, 1016-1028, 1017, 1021, 1022, 1024, 1026, 1027 measurement principle, 941 standards of value, 56-57 Measurement and Application of Market Participant Acquisition Premiums (Appraisal Foundation), 407-408 Medicaid, 1049, 1062 Medical Group Compensation and Financial Survey (American Medical Group Association), 1096

Medical Group Management Association (MGMA), 1089, 1096 Medical practices, valuation of, 868-869. See also Healthcare service business valuation Medicare on compensation, 1089, 1094 healthcare service valuation, 1049, 1049-1050, 1054, 1058-1059, 1062 See also Compensation in healthcare industry; Healthcare service business valuation Mercer, Christopher, 44, 469, 471-472,655-656 Mercer Capital Management, 67,74 Mercer model integrated theory of business valuation (ITBV), 658-661, 659,660 overview, 655-657 quantitative marketability discount model (QMDM) assumptions, 661-663, 662,663 summarized, 663-664, 674-676 Trehame and Van Vleet compared to, 658 value versus proceeds, 657-658 Mergent Online, 70 Mergers and acquisitions, income approach and, 12.6 Mergerstat, 72, 302-303 Merk, Axel G., 284 Metrick, Andrew, 249 Midnight Star Enterprises, L.P. (Midnight Star), 44 Miles, Raymond, 303, 583 Miles-Ezzell formulas, 211 Miller, Warren, 189, 229, 250-260 "Minimum Marketability Discounts" (Seaman), 472 Minority interest discount (MID), 391n1. See also Discounts for lack of control (DLOC) Minority oppression (dissolution) actions, 785-786 Mitigation, damages and, 1015 Model Business Corporation Act (MBCA) (ABA), 5-6

"Moderating Effects of Acquisition Premiums in Private Corporations" (DiGabriele), 623, 630-631 Modified capital asset pricing model (MCAPM) overview, 194 valuation views and controversial issues (illustration), 1207-1208 Modified Gross Method, 672, 673 Modified Traditional Method (Grabowski model), 665-666, 667-673, 668-670, 672, 673 Moody's, 66, 67, 70 Moretti v. Moretti, 837 Morningstar Ibbotson Stocks, Bonds, Bills, and Inflation (SBBI) Valuation Yearbook, 203, 217, 234, 244 research resources, 71, 73 Moroney, Robert E., 442–443 Morris, Katherine E., 424-425, 429-431 Morrison, William J., 785, 796, 874 "Most Courts Overvalue Closely Held Stocks" (Moroney), 442-443 Mueller v. Commissioner, 42 Multi-Factor Test, 896-897, 897 Multinational corporations (MNC) company-country-currencysector (CCCS) framework, 277, 282-287, 285 international cost of capital, overview, 280-282 technique for considering large portfolio of countries, 288, 288-289 See also International cost of capital Multiperiod excess earnings method (MPEEM), 153, 154,953 Murphy v. U.S., 773–774 Musing on Markets (blog), 74

Ν

National Association of Certified Valuators and Analysts (NACVA), 1, 3, 594, 848. See also International Glossary of Business Valuation Terms National Association of Real Estate Investment Trusts (NAREIT), 761 National Business Valuation Standards, 30 National Council of Real Estate Investment Fiduciaries (NCREIF), 374 National Restaurant Association, 1151 NAV method, 1122-1123, 1144 Net cash flow, income approach, 127-128 Net operating profit less applicable taxes (NOPLAT), defined, 149 "New IRS S Corp Job Aid" (Financial Valuation and Litigation Expert), 621 New Venture Creation: Entrepreneurship in the 21st Century (Spinelli, Adams), 249 NICE (Nonmarketable Investment Company Evaluation) method, 473-474 Niculita, Alina V., 457-458 Noncompete agreements, divorce valuation and, 842-843 Noncontrolling interests in passthrough entities (PTEs) Grabowski model, 664-674, 667, 668-670, 672, 673 Mercer model, 655-664, 659 660, 662, 663 overview, 639-640 summarized, 674-676 Treharne model, 640-646, 641, 642-643, 645 Van Vleet model, 646-655, 647, 651, 652, 654 Nonhomogeneous assets discount, 489 "Nonmarketability Discounts Should Exceed Fifty Percent" (Arneson), 443-444 Nonmarketable minority value defined, 392, 392-393 healthcare service business valuation, 1074-1075 Nonoperating items, financial statements, 83-84 Nonprofit entities, reasonable compensation, 892 Nonrecurring items financial statements, 82 income approach, 123-124

Normalization adjustments for market approach, 316-322 adjustments to financial statement, 86-90, 87, 88, 89-90 common sizing normalized financial statements, 90, 91, 92, 93, 94, 95, 96 of historical financial statements, 81-82 income approach, 120 small business valuation, 857 valuation views and controversial issues (illustration), 1205-1206 North American Industry **Classification System** (NAICS), 62, 299, 1099-1100 Numerator cash flows, international cost of capital, 271, 272 in income approach, 112

0

Obama, Barack, 1053, 1065–1066 Obsolescence, machine and equipment appraisals, 382-384 Officer, Micah, 415, 418 Oil and gas exploration and production valuations classification of reserves, 1115, 1115 commodity price decks, 1116-1117, 1122 cost approach, 1122-1123 income approach, 1115-1119 information sources, 1123 market approach, 1119–1122 overview, 1111-1112 trends, 1112-1113 types of assets, 1113 valuation approaches, overview, 1114 value chain, 1112 **Omnibus Budget Reconciliation** Act of 1989 (OBRA), 1063 Operating companies, build-in gains of, 347 Option pricing models, 474-481 Ownership interest DLOM on controlling interest, 412 (See also Discounts for lack of marketability (DLOM)) on financial statements and company risk analysis, 86

income approach, adjustment for ownership characteristics, 120–123 levels of noncontrolling interest, 401, 401–404, 402, 403 (See also Discounts for lack of control (DLOC)) valuation views and controversial issues (illustration), 1183–1184

Ρ

Paglia, John, 415, 419 Partnerships analyzing agreements of, for family limited partnership valuation, 733-739 (See also Family limited partnerships (FLPs)) built-in gains taxes and asset approach, 352 divorce valuation and, 851 See also Limited liability partnerships Pass-through entities (PTEs), 607-679 applicable tax rates, 635–639, 636 background, 608-619, 611-612 controlling interests in, overview, 622 controlling interests in, studies, 623-634 divorce valuation, 846, 851 Grabowski model, 664–674, 667, 668-670, 672, 673 Mercer model, 655-664, 659, 660, 662, 663 noncontrolling interests in, overview, 639-640 noncontrolling interests in, summarized, 674-676 overview, 607-608 S Corporation Economic Adjustment (SEA) factor, 648-651, 649, 650 S Corporation Equity Adjustment Multiple (SEAM), 651-655 standard of value, 620-621 Treharne model, 640-646, 641, 642-643, 645 Van Vleet model, 646-655, 647, 651, 652, 654 See also Family limited partnerships (FLPs)

"Pass-Through Taxation and the Value of the Firm" (Jalbert), 623-624 Patents, 1030 Patient Protection and Affordable Care Act (PPACA), 1053-1054, 1065–1066. See also Healthcare service business valuation Pearson, Brian, 431, 435 Pension and Welfare Benefits Administration (Department of Labor), 806 Pension Protection Act of 2006 (PPA), 722-723 Pepperdine Private Capital Markets Project, 247-249, 248 Personal goodwill, standards of value, 52-53 Peters, Jerry O., 239-240 Phillips, John R., 623, 629-630 Phycor, 105 Physical depreciation, machine and equipment appraisals, 381-382 Physician Compensation and Productivity Survey (Sullivan, Cotter & Associates, Inc.), 1096 Physician Practice Management (PPM) industry, 1051 Physician practices, valuation of, 1081-1082, 1087 Physician Salary & Benefits Report (Hospital and Healthcare Compensation Service), 1096 Pinkerton, Keith, 241 PitchBook, 303 Pittock, William F., 249, 445-446 Pittsburgh Terminal Corporation v. The Baltimore and Ohio Railroad, 47 Pluris Valuation Advisors (LiquiStat), 439, 463 Polacek, Timothy G., 447-448 Porter, Michael E., 103, 189, 216 Porter Model, 66, 103-104, 107 Portfolio Selection (Markowitz), 281 Pratt, Shannon P. A Consensus View-Q&A Guide to Financial Valuation, 244-245, 405

on IPO studies, 435 notation system of, 1 on QMDM, 472 Shannon Pratt's Business Valuation Update, 460-461, 623, 626-627, 629-630 Standards of Value, 785, 796, 874 Valuing a Business, 457–458, 583 Pratt's Stats, 71, 74, 301, 302 Preferred provider organizations (PPOs), 1050, 1057–1058 Preferred stock valuation of, 709 valuation services for, 1044 Prejudgment interest, 1025 Premise of value asset approach, 346 divorce valuation and, 833-834 machine and equipment appraisals, 376-377 overview, 6-7 real estate appraisal 366-368 Premiums accorded voting, nonvoting took versus, 491-493 492, 493 Pretax Discount Rate Method, 672 Price fair value measurement, 56 as standard of value, 41 Price-earning (P/E) method adjustments to P/E ratio, 239 - 241market-derived price-earning multiples, 237-238, 238 overview, 232-237 Pricing multiples adjusting, for differences in growth, 333-336 adjusting guideline multiples for size, 337-341 applying valuation multiples, 331-333 calculating standard pricing multiples, 323-324 computing multiples, 328 defined, 323 dispersion of, 329, 330 financial statement measures, 325-328 matching price to parameter, 328-329 See also Market approach Pricing of Successful Venture Capital-Backed High-

Tech and Life Sciences Companies, The (Houlihan Valuation Advisors), 249 Principal market, fair value measurement, 56 Principles of Corporate Governance (ALI), 44 Private company discount studies Block, 419 criticism of, 419-420 De Franco, 419 Koeplin, 416-417, 417 Kooli, 417–418, 418 Officer, 418 overview, 415-416 Paglia, 419 Private equity discount (PED), 467 Private investment in public equity (PIPE), 463 "Private Placements and Managerial Entrenchment" (Barclay, Holderness, Sheehan), 447 Procedures for valuation, overview, 9 Professional practices and valuation issues, 867-887 divorce valuation, 837-842, 872-875 factors affecting value, 875-879 financial statement adjustments, 879-883 overview, 867-868 professional goodwill and practice goodwill, 871-873 purpose of valuation, 871 types of practices, 868-871 valuation methods, 883-887, 886 "Professional" revenue, in health care services, 1068 Professional valuation organizations, overview, 3. See also American Institute of Certified Public Accountants (AICPA); American Society of Appraisers (ASA); Institute of Business Appraisers (IBA); National Association of Certified Valuators and Analysts (NACVA) Profitability ratios, 112-113 Property rights, family limited partnerships (FLPs), 729-730

ProQuest Dialog, 63, 65 Protagonist, hypothetical buyer/ seller versus, 1027. See also Business damages Protective Put Analyses, 480-481 PRS Group, 74, 283 Publicly traded companies advantages/disadvantages of public company data, 309 data periods, 308 financial characteristics and other factors, 309-312 major exchanges of, 306 restatement of data, 308 sources of, 306-307 standardization of data, 307 - 308stock prices and shares outstanding, 308-309 valuation services for, 1043 "Put right," ESOPs and, 813-814

Q

QED Research, Inc., 246–247, 247 "Qualitative Support for Discounts for Lack of Marketability" (Johnson), 459–460 Quantitative marketability discount model (QMDM), 74, 469, 469–472, 661–663, 662, 663 Quantitative tools (DLOM), 468–481

R

Radiation therapy centers, valuation of, 1085-1086, 1087 Radio station valuation asset approach, 1130-1131 financial metrics, 1127 income approach, 1128-1129 information sources, 1131-1132 market approach, 1129-1130 overview, 1124 regulation, 1124-1126 state of the industry, 1126-1127 types of assets, 1127 valuation approaches, overview, 1128 Rate of return ratios, 113-115 Ratio analysis (quantitative analysis)

commonly used ratios, 109-115 cross-sectional analysis, overview, 97 financial statement and company risk analysis, 97, 98 time-series analysis, overview, 97 Real estate appraisals approaches to value, 368-370 case study example, 358 direct capitalization and discount rate analysis, 370-372, 371 in distressed markets, 372 finding an appraiser, 365-366 for foreign investment in U.S. real estate, 373-374 for green buildings, 373 highest and best use, 368 overview, 364 standard of value and premises of value, 366-368 timberlands and, 374 types of interests, 366 valuation standards and regulations, 364-365 See also Real property assessment Real option voluations, valuation services for, 1045 Real property assessment family limited partnerships (FLPs) and, 731, 732 real estate investment trusts (REITs), 760-761 Reasonable certainty, damages and, 1014–1015 Reasonable compensation, 889-910 Accounting & Valuation Guide, Valuation of Privately-Held-Company Equity Securities Issued as Compensation (AICPA), 246 assessing compensation, 896-900, 897, 899 checklist, 902 divorce and double dipping concept, 904-906 income tax, 890-893 methods of calculation, 900-904, 901, 903 overview, 889-890 personal goodwill, 906-907 Reasonable Compensation Job Aid for IRS Valuation Professionals (IRS), 900-901, 907-910

reasonable compensation sources for professional practices, 876 sources for professional practices, 876 types of compensation, 893-895,895 See also Compensation in healthcare industry Reasonable knowledge, defined, 43 Reasonableness tests, for small business valuation, 865-866 Reasonable royalty damages, 1031-1036 Recognition principle, 940-941 "Regression Analysis and Discounts for Lack of Marketability" (Angrist, Curtis, Kerrigan), 449–455, 450, 451 Reilly, Robert F., 449–455 Relative Standard Deviation Model, 278 Remedies, for damages, 1010-1012, 1011 Report writing, 495–582 on analysis of risk, 502-505 elements of detailed valuation reports, 497-502 ESOPs and written valuation, 824-825 overview, 495 presenting research in, 72 (See also Research/presentation) sample, 507-582 (See also Sample valuation report) types of valuation engagements and related reports, 496 USPAP engagements, 496 valuation engagements, 495-496 Research and development (R&D), 959-960 Research/presentation, 59-76 business financial databases, 65-66 cost of capital research, 72-73 economic information, selected sources, 67-68 economic research, 66-67 external sources of data, 60-61 guideline company transactions, databases, 71-72 guideline public company data, selected sources, 70-71

Research/presentation (Continued) guideline public company data research, 70 industry information, selected sources, 68-69 industry research, 68 internal information, 59 miscellaneous resources, 74-75 overview, 59 presenting research in reports, 72 research techniques and planning the search, 61-64 Valuation Products and Services, LLC, 73 See also Report writing Restaurant valuation accounting/financial presentation issues, 1151-1152 industry considerations, 1145-1151 industry issues, 1156-1157 information sources, 1161-1162 overview, 1144-1145 risk issues, 1155-1156 types of assets, 1152-1153 valuation approaches, overview, 1154-1155 valuation issues, 1158-1161 Restricted Appraisal Report, USPAP on, 496 "Restricted Stock Discounts Decline as Result of 1-Year Holding Period (Aschwald), 460-461 Restricted stock equivalent (RSED), 467 Restricted stock studies (DLOM), 437-468 applying study data, 466-467 Arneson, 443-444 Bajaj, Ferris, Denis, and Sarin, 458-459 Barclay et al., 447 Columbia Financial Advisors, Inc., 460-461 criticism, 463-465 FMV Opinions (study), 455-456 FMV Opinions Model, 467-468 Gelman, 440-441 Hall and Polacek, 447-448 Hertzel and Smith, 448-449 Johnson, 459-460

Maher, 442 Management Planning, Inc. (MPI), 449-455, 450, 451 Moroney, 442-443 observation of, 465-466 Pluris Valuation Advisors (LiquiStat), 463 SEC Institutional Investor, 440 SEC Rule 144, 437-438, 438 Silber, 456-457 SRR, 461 Stryker and Pittock, 445-446 summary of, 439 Trout, 441-442 Trugman Valuation Advisors, Inc. (TVA), 462-463 Willamette Management Associates, 457-458 Wruck, 446–447 See also Discounts for lack of marketability (DLOM) Restricted stock valuation, valuation services for, 1044 Restriction, on valuation, 1182 Restrictive agreement discounts, 485 Return on invested capital (ROIC), 149 Revenue Ruling 5>-60 (IRS) approach to valuation, 686 on asset approach, 344–355 checklist, 10-17 estate and gift taxes, 686-700 on fair market value, 4 family limited partnerships (FLPs), 751-752 future financial performance, 687 information to be considered, 687 market approach for valuing closely held corporations, 688-691 overview, 4 on risk analysis, 502 risk and value, 687 selected text, 693-700 standard of value, 686-687 weight accorded to factors, 691-693 "Revenue Ruling 77-287 Revisited" (Stryker, Pittock), 445-446 Revenues, assessing lost profits, 1018-1019 Revenue types, in healthcare services, 1068 Revised Model Business Corporation Act (RMBCA)

(ABA), 44, 47, 49, 784, 786-787 Ridgely v. U.S., 43 **Risk** analysis analysis of, in written reports, 502-505 company-specific risk, 222-231, 223, 225, 226, 228, 230, 231 (See also Costs of capital/rates of return) DuPont Model, 105-106 industry conduct (McKinsey 7-S Model), 104–105 industry structure analysis (Porter Model), 103-104 limiting risk of minority position, 399-401 (See also Discounts for lack of control (DLOC)) mis el aneous considerations, 107 qualitative analysis, overview, 102-103 relationship between risk and return, 186-189, 187 risk-free rate, 197-200, 198, 199 small business risks, 229 S.W.O.T. (Strengths, Weaknesses, Opportunities, Threats) Analysis, 106-107 valuation views and controversial issues (illustration), 1209, 1210, 1212 See also Financial statement and company risk analysis **Risk Management Association** (RMA) financial statements and company risk analysis, 97,100 Robak, Espen, 455-456, 463 Robbins v. Beatty, 38 ROE Model (return on shareholders' equity model), 106 Ross, Stephen, 195 Royal Institution of Chartered Surveyors, 365 Rule 144 (SEC), 437–438, 438. See also Restricted stock studies (DLOM) Ryan v. Tad's Enterprises, Inc., 790

S

Sales comparison (market) approach machine and equipment appraisal, 384

real estate appraisal, 369 Sales projection method, 1018 Sample valuation report, 507-582 approaches to value, 532-534, 533 asset approach, 534 assumptions and limiting conditions, 576-580 book value and financial position, 523-532, 524, 526-527, 528-529, 530-531 conclusion of value, 576 cost of capital, 545-554, 547-548, 550, 551, 552, 553 economic and industry outlook, 516-523 exhibits, 582 guideline company transactions method, 572-575, 573, 574 guideline public company method, 554-572, 556, 557, 558-569, 571 history and nature of business, 513-516 income approach, 534-545, 536, 537-538, 539, 542-543, 544, 545 introduction, 508-513 market approach, 534, 554 overview of report writing, 495-506 professional qualifications of appraiser, 581-582 projections, 532 reconciliation of valuation methods, 575, 575 sources consulted (note), 582 valuation representation/ certification, 580-581 See also Report writing; Valuation views and controversial issues (illustration) Sanders, Jack R., 71 Sarin, Atulya, 439, 458-459 Schweihs, Robert P., 449 S corporations built-in gains, 348, 351-352, 72.1 divorce valuation, 846 ESOPs, 802, 803 family limited partnerships (FLPs), 725-726 history of, 608-609

"IRS S Corp Job Aid" (IRS), 615-619 reasonable compensation, 891 **S** Corporation Economic Adjustment (SEA) factor, 648-651, 649, 650 S Corporation Equity Adjustment Multiple (SEAM), 651-655 (See also Van Vleet model) "S Corporation Premiums Revisited" (Alerding, Karam, Chamberlain), 623, 62.7 "S Corp or C Corp?" (Phillips), 623, 629-630 tax-affecting earnings, 85, 85-86 valuation views and controversial issues (illustration), 1183 See also Pass-through entities (PTEs) Scrutiny level, business damages and, 1028 SDC Platinum (Thomson Reuters), 71, 303 Seaman, Ronald M., 472 Securities and Exchange Commission (SEC) ESOPs, 825 🖬 fair value, 55, 931 Institutional Investor, 440 overview. 6 research resources, 69, 70 restricted securities, 437 Rule 144, 437-438, 438 (See also Restricted stock studies (DLOM)) standardization of electronic financial data of public companies, 313n8 valuing restricted securities, 701-702 (See also Estate and gift tax valuations) Securities class action litigation, 1036-1040 Security Analysis on Wall Street (Hooke), 5 Sellers, Keith F., 623, 631-632, 635-637,846 Shannon, Donald S., 623, 626-627 Shannon Pratt's Business Valuation Update "Empirical Research Concludes S Corporations Values Same as C

Corporations" (Mattson, Shannon, Upton), 623, 626-627 "Restricted Stock Discounts Decline as Result of 1-Year Holding Period" (Aschwald), 460-461 "S Corporation Premiums Revisited" (Alerdin, Karam, Chamberlain), 623, 627 "S Corp or C Corp?" (Phillips), 623, 629-630 Shareholder agreements, standards of value, 54-55 Shareholder disputes, 783-800 Arnaud v. Stockgrowers State Bank, 799 Colgate, et al.v. The Disthene Group, Inc., 798-799 court case caveats, 799-800 date of valuation, 789-790 Delaware Open MRI Radiology Associates, P.A. v. Howard B. Kessler, et al., 796-798 dissenting shareholder actions, 783-784 entire fairness, 790-791 history of, 783-784 minority oppression (dissolution) actions, 785-786 overview, 783 standard of value, 786-789, 787 valuation adjustments, 793-796 valuation methodology, 791-793 Shareholder-level discounts entity-level discounts versus, 396-398 standards of value, 53-54 Shareholders shareholder dissent and oppression, standards of value, 44-46 valuation services for, 1045 Sharpe, William, 193 Sheehan, Dennis P., 447 Shout DLOM Put Model (Katsanis), 475-476 Silber, William L., 456-457 Single period earning. See Capitalized cash flow (CCF) method Size premium overview, 217-222 valuation views and controversial issues (illustration), 1210-1211

Slant/Fin. Corp. v. the Chicago Corp., 788 Small Business Jobs Act of 2010, 1149 Small business valuation, 853-866 common characteristics, 853-855 financial statement adjustments, 855-859 qualitative factors affecting value, 859-860 small business risks and, 229 valuation methods, 860-866 See also Professional practices and valuation issues Small-company risk discount, 489-490 Smith, Richard L., 448-449 Sources of information (written report element), 499 "SPARC: Strategy/People/ Architecture/Routines/ Culture" (Miller), 250-260 Special industry valuations, 1099-1177 bars and nightclubs, 1162-1167 business broker-valuator (interview), 1168-1177 cable television, 1132-1144 construction industry, 1103, 1104, 1105, 1110, 1110-1111 information sources for, 1111, 1123, 1131-1132, 1143-1144, 1161-1162 oil and gas exploration and production valuation. 1111-1124, 1112, 1115 operational and industry issues, 1108-1111, 1110 radio stations, 1124-1132 restaurants, 1144-1162 See also Compensation in healthcare industry; Healthcare service business valuation; Reasonable compensation Spinelli, Stephen, 249 Spreadsheets, for financial statement and company risk analysis, 78-79, 79, 80 SRC Quarterly Reports, 445-446 SRR Restricted Stock Study, The (Stumpf, Martinez), 439, 461 Standard Industrial Classification (SIC), 62, 299

Standard & Poor's Capital IQ, 69, 70 Industry Surveys, 63, 68, 69-70 Standards of value, 29-59 application of specific standards of value, 40-44 common operational premises, 39-40 common standards of value, 33-38 (See also Fair market value (FMV)) control premiums, 46 current and customary techniques, 48-50 divorce valuation, 50-55, 831-833 effect on final valuation, 31-32 extraordinary circumstances and, 48 fair value in financial accounting, 55 fair value in shareholder dissent and oppression, 44-46 healthcare service business valuation, 1066-1067 machine and equipment appraisals, 575-377 measurement, 56-57 overview, 3-6, 29-31 pass-through entities, 620-621 premises of value, defined, 32 real estate appraisals, 366-368 selected Treasury regulation, 683 shareholder disputes, 786-789,787 "unless exclusion would be inequitable," 47-48 valuation date and, 46-47 Standards of Value (Fishman, Pratt, Morrison), 785, 796, 874 Standby ESOPs, 810-811 Stark law, 1050, 1063-1064, 1066 State law anti-kickback and self-referral laws, 1065 fair value, state rights, 4 (See also Fair value) family limited partnerships (FLPs), 729–730 shareholder disputes, 783n1 Statements of Financial Accounting Standards (SFAS), 55

Statements on Standards for Valuation Services VS Section 100 (AICPA), 495, 595, 598-606, 604, 605, 968-970 Statistical Abstract of the United States (U.S. Census Bureau), 68 Steneken v. Steneken, 905 Stock exchanges, for publicly traded companies, 306 Stock options/share-based compensation, valuation services for, 1044 Stock options/stock appreciation rights (SARs), as compensation, 892 Strategic control value, 393 "Strategies for Obtaining the Largest Valuation Discounts" (Hall, Polacek), 447-448 Stryker, Charles, 445–446 Studies, of controlling interests in pass-through entities, 623-633 Alerding et al., 627 DiGabriele, 630-631 Erickson et al., 624–625 Fannon and Sellers, 631-632 Jalbert, 623-624 Mattson et al., 626-627 overview, 622 Phillips, 629-630 summarized, 633 Vinso, 628 Stumpf, Aaron M., 461 Subject companies adjustments for normalization, for market approach, 316-322 comparing guideline and subject data, for market approach, 313-317, 314-315 understanding, for market approach, 298 See also Market approach Subsequent asset infusion, family limited partnerships (FLPs) and, 731 Subsequent events, defined, 43-44 Sullivan, Cotter & Associates, Inc., 1096 Summary of Commentary on Current Economic Conditions (Federal Reserve), 67 Supply-side risk premium, 203-204

Supreme Court of South Dakota, 44 Survey of Current Business, The (Bureau of Economic Analysis), 67 Sustainable Growth Rate (SGR), 1089–1090 S.W.O.T. (Strengths, Weaknesses, Opportunities, Threats) Analysis, 106–107 Synergistic value defined, 393, 393 healthcare service business valuation, 1074–1075

Т

Tatum, Toby, 243 Tax code (FLPs) family limited partnerships, tax advantages, 727 Internal Revenue Code chapter 11, estate tax, 745–746 Internal Revenue Code chapter 14, new developments, 746-748 Internal Revenue Code chapter 14 considerations, 739-745 tiered (multilevel) discounts, 748-750 Taxes amortization benefit, 957-959 applicable tax rates, passthrough entities, 635-639 built-in gains taxes and asser approach, 347 business damages and, 1026, 1026-1027, 1027 employee stock ownership plans (ESOPs) and tax considerations, 802-804 financial statements and company risk analysis, 85, 85-86 income approach, adjustment for taxes, 125-126, 126 tax court case valuation issues, summarized, 779-781 valuation views and controversial issues (illustration), 1183, 1206 See also Estate and gift tax valuations; Income tax valuation; Internal Revenue Code; Internal Revenue Service (IRS); Tax code (FLPs)

Taxes (journal), 441-444 Taxes and Value (Fannon, Sellers), 623, 631-632, 635-639,846 Tax Reform Act of 1986, 347 Technical Advice Memorandum (TAM) 9150001 (TAM), 348 "Technical" revenue, in health care services, 1068 Telecommunications Act of 1996, 1125 10-K (10-Q) forms, 309n4 Terry, Brown, 44 "Testing for an Implied Minority Discount in Guideline Company Prices" (Matthews), 46 Thin management discounts, 486-487 Thompson v. Commissioner, 842 Thompson v. Thompson, 53, 874 Thomson Reuters, 66, 70, 303 Timberlands, real estate appraisals and, 374 Time-series analysis, overview, 97 "To Elect or Nor to Elect" (Erickson), 623, 624–625 Tofte Tofte, 53-54 Total beta model (TBM), 241-242 Towers Watson Data Services (TW), 1096 Trade names/trademarks, 1029 Trade secrets, 1029-1030 Transaction data, sources for, 300-304, 1222, 1223 Trapped-in capital gains tax, 718-721 Treharne model Grabowskil model compared to, 666 Mercer model compared to, 658 overview, 640-645, 641, 642-643, 645 shareholder basis, 645 summarized, 646, 674-676 Trending approach, machine and equipment appraisals, 380 **TRICARE**, 1050 Tri-continental Corp. v. Battye, 45 Trout, Robert R., 441-442 Trugman, Gary, 793

"Trugman Valuation Advisors, Inc. (TVA), Restricted Stock Study" (Harris), 439, 462–463 *Tully v. United States*, 43 "Twenty Ways to Calculate the Cost of Equity Capital: A Case Study" (Hitchner), 261–269, 263–266 Two-ratio approach, 105

U

Unconditional equity risk premium, 201-202 Uniform Appraisal Standards for Federal Land Acquisitions (Yellow Book) (Interagency Land Acquisition Conference), 364-365 Uniform Standards of Professional Appraisal Practice (USPAP) **Business Valuation Standards** (2016-2017), 586-593 business valuation standards, overview, 583 divorce valuation, 847-848 on fair market value, 4 organization of USPAP standards, 585-586 real estate appraisals, 364-365 on standards of value, 30 on written reports, 496 Unincorporated interests in businesses, valuation of, 684-685 United Kingdom, expert witnesses and, 918, 919-920 United States Green Building Council (USGBC), 373 United States Tax Court, overview, 779-781 Unrecorded assets, of small businesses, 857 Unrecorded liabilities, of small businesses, 857 Unusual items financial statements, 82 income approach, 123-124 Upton, David E., 623, 626-627 U.S. Census Bureau, 67-68, 1056-1057 U.S. Department of Energy, 373 U.S. Department of Labor, 805-806,826

U.S. Department of Treasury Appeals and Review Memorandum Number 34 (ARM 34), 153 appraisal penalties for undervaluation of tax returns, 721-722 Circular 230, 721–722 estate and gift tax valuations, 683-686 fair market value regulation, 4 standards of value, 35 U.S. Financial Data (Federal Reserve Bank of St. Louis, 73 U.S. Government Accountability Office, 1059

V

ValTips, overview, 1, 9 Valuation Advisors Lack of Marketability Discount Study (VADLOM), 425, 431-433, 432, 433 Valuation approaches and methods considered/used (written report element), 502 Valuation discounts and premiums, 391-493 blockage discounts and market absorption, 488-489 built-in gains discount, 486 company-specific risk discount, 490 controversial issues of, 358 discounts for lack of control (DLOC), 391, 398-411 (See also Discounts for lack of control (DLOC)) discounts for lack of marketability (DLOM), 391, 411-484 (See also Discounts for lack of marketability (DLOM)) entity versus shareholder level discounts, 396-398 information access and reliability discount, 485-486 investment company discount, 487-488 key person/thin management discounts, 486-487 lack-of-diversification discount, 489 levels of value, 392, 392-395, 393

liquidation costs discount, 486 liquidity versus marketability, 395-396 nonhomogeneous assets discount, 489 overview, 391-392 premiums accorded voting versus nonvoting stock, 491-493, 492, 493 restrictive agreement discounts, 485 small-company risk discount, 489-490 summarized, 493 Valuation engagements AICPA on, 495 detailed valuation report and (See Report writing) types of, 496 USPAP on, 496 Valuation Handbook (Duff & Phelps), 72, 73, 74, 196, 214-217, 215 Valuation Handbook—Guide to Cost of Capital (Dutt & Phelps), 337 Valuation Handbook Industry Cost of Capital (Grabowski, Harrington), 73 Valuation of family limited partnerships (FLPs) process tests and financial components of partnership, 755-757 closed-end fund data, 759-761 importance of, 729-730 income approach, 757-758 preparing valuation approaches and applying adjustments, 761-762 research data sources, 758-759 understanding key factors of, 750-755 See also Family limited partnerships (FLPs) Valuation of pass-through entities. See Pass-through entities (PTEs) Valuation of Privately-Held-Company Equity Securities Issues as Compensation (AICPA), 246 Valuation of Property, The (Bonbright), 29 Valuation Products and Services, LLC, 73

Valuation services groups marketing/managing/making money by, 1007-1008 variety of valuation service areas, 1043-1045 See also Valuator as expert witness Valuation Strategies (journal), 455-456, 623, 628 Valuation Strategies (Bortnick), 414-415 Valuation summary (written report element), 497-498 Valuation Trends (Trugman), 793 Valuation views and controversial issues (illustration), 1179-1224 asset approach, 1200-1201 conclusion, 1224 economic analysis, 1189-1190 financial analysis, 1192-1200, 1194, 1195, 1197, 1198, 1199 income approach, 1201-1217, 1215, 1218 industry conditions analysis, 1190-1192 introduction, 1182-1188 market approach, 1217-1223, 1221 reconciliation of valuation methods, 1223-1224 report letter, 1179-1182 "Valuation Views," explained, 9 Valuator as expert witness, 911-929 Canadian requirements, 920-922 damages and admissibility of expert opinion, 1015-1016 Daubert motion, 916–919 Ikarian Reefer decision, 919-920 overview, 911-913 pre-engagement considerations, 913-914 "rules" for the testifying expert when on witness stand, 922-929 U.S. requirements and procedures, 914-915 Value Driver Model, 147, 148, 149, 150 Value drivers, costs of capital/ rates of return, 185-186 Value in exchange, defined, 32 ValueLine, 74

Values, reconciling, 1224 Valuing a Business (Pratt, Niculita), 457-458, 583 "Valuing Early Stage Life Sciences and Biotechnology" (Maio, Pittock), 249 Valuing Enterprise and Shareholder Cash Flows (Mercer), 471-472 ValuSource, 67, 75 Van Vleet model analytic considerations, 651-652 business valuation approaches, 647, 647-648 fundamental concepts, 648 Mercer model compared to, 658 overview, 646-647 S Corporation Economic Adjustment (SEA) factor, 648-650, 649, 650, 651 S Corporation Equity Adjustment Multiple (SEAM), 651, 651–654, 652,654 summarized, 654-655, 674-676 tax rates and, 636-637

Venture Capital and the Finance of Innovation (Metrick, Yasuda), 249 Venture capital (VC) financing, 245–249, 246, 247, 248 Vianello, Marc, 477 Vinso, Joseph, 623, 628

W

Walkaway doctrine, 874 Walter v. Duffy, 41, 42 Watts v. Commissioner, 41 Weighted average cost of capital (WACC) costs of capital/rates of return, 186, 190-192, 191 fair value, 955 income approach and, 148, 149, 155 international cost of capital, 278-280, 280 valuation views and controversial issues (illustration), 1214 weighted average rate of return (WARA), 955, 985 See also Business combination accounting (case study) Weinberger v. UOP, Inc., 48 http://www

Weinstock v. Weinstock, 874-875 Welch v. Helvering, 890-891 Willamette Management Associates, 75, 424, 428-429, 436, 439, 457-458 William Daubert, et us, etc., et al., Petitioners v. Merrell Dow Pharmaceuticals, Inc. See Daubert challenge Willing buyers/willing sellers, 41-42 Winkler v. Commissioner, 42 Wisehart, Don, 242 With and without method, 957 Work relative value units (wRVU), 1093-1094, 1094 World Factbook (CIA), 73 Wruck, Karen H., 446–447

Yardstick method, 1018 Yasuda, Ayako, 249 *Yoon* decision, 837

Ζ

Y

Zells, In re Marriage of, 874 Zweig Group, 871