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VALUATION NEWS

QUOTE FOR THE QUARTER

"The man who graduates today and stops learning tomorrow, is uneducated the day after."
-Newton D[iehl] Baker (US Politician [Secretary of War 1916-1921], 1871-1937)

Over the many years I have been valuing companies, there have been tremendous changes in methods, topics, laws and regulations. My first valuation of a software company was for a listing on a now defunct stock exchange. The person in charge of technology was a mining engineer. He knew his metiér and was a salt-of-the-earth type but had no idea how to deal with this very new field. Many fax exchanges (before e-mail!) and telephone calls (at far higher rates than today!) persuaded him that a software program was not that different from a mine, requiring substantial development expenditures before producing a dime of revenue. He accepted that such intangibles really were ok and approved the prospectus; all worked out well for everyone concerned.

That experience came to mind while reading a recent story in The Economist about what happens to digital property after the owner's death. Few of us understand the value of such know-how during our lifetime, much less our estates. When valuing many entities, I often encounter extensive personal digital property. It is simply something owners take for granted like their six pm Scotch – it's there, but we don't need to talk about it, do we?

On the contrary. Lawyers and accountants should make every effort to convince their clients not to overlook items that are abstract, considering them an unappreciated (valueless) given. That is foolish and may ignore a frequently substantial portion of a company's or an individual's legacy. Disregarding intangibles such as digital property, can lead to disagreements among heirs and partners and possibly surprises from the taxman.

We take for granted the air we breathe and, in many regions, the water that is readily available to us. Alas, neither of those elements may be free forever but intellectual and digital property has, in the scheme of things, its own value. We all owe it to our clients to at least point out the advantages of taking such items into account, as well as the pitfalls if they are ignored.

THE TERM VALUE

There are many definitions of value, with the differences not being merely semantics. FASB adopted the "fair value" for financial reporting in 2002. The phrase took on at least two meanings in US GAAP and several more for IFRS. Last year, nearly all were finally amalgamated into one.

In the US, the AICPA has redefined industry terminology. Phrases such as estimate, conclusion, and calculation of value now differ in the US and Canada; other countries march to their own drummer. Various courts adhere to their individual definitions. Taxing authorities continue to insist on their own views of value. Professional acumen is essential.

With otherwise identical facts, interpretation may vary. If in doubt, call CVS to appraise your clients' situation and activities correctly.

James P. Catty, MA, CA•CBV, CPA/ABV, CFA, CVA, CGMA, CFE Principal Valuator of CVS, is Chair of the International Association of Consultants, Valuators and Analysts (IACVA), a 10,000 member organization with designation granting authority in 54 countries. With contributors from 13 nations, Jim compiled "Guide to Fair Value under IFRS", published by Wiley, NY, in 2010, which deals with international requirements concerning all aspects of valuation. He is leader of a joint IASB/FASB review committee established by IACVA, the National Association of Certified Valuation Analysts (IACVA's US charter), and the (US) Institute of Business Appraisers. Completely current with the requirements of changing standards, he would be delighted to assist with any professional question you may encounter and can be reached at 416.865.9766, www.corporatevaluation.ca or jcatty@corporatevaluation.ca.