

CANDON TODD & SEABOLT_{LLC}

Importance of the Discount Rate in Present Value Calculations

4%, 8% or 12% - does it really matter?

Discount rates are used for, among other things, calculating the value of future income streams to the present day. Does it really matter what the discount rate is? It does if one wants the discount rate to reflect the risk associated with generating the future income stream. In a lost wages analysis, for instance, where the income stream is reasonably dependable, the discount rate generally should be a rate that reflects the ‘risk free’ nature of the income stream. In a lost profits analysis, where the income stream may be less certain, the discount rate will vary depending on the degree of risk associated with the income stream. Some may think that the difference between 4%, 8% and 12% is not so great, so what’s the big deal? Well, it actually can amount to a big deal. Let’s assume a lost future income stream of \$100,000 each year for the next 10 years. The present values of the lost future income stream using 4%, 8%, and 12% results in significantly different amounts. A 4% discount rate results in a present value estimate of \$811,090. An 8% discount rate results in a present value estimate of \$671,008. And a 12% discount rate results in a present value estimate of \$565,022. There are several methods used to estimate the discount rate, so attorneys will benefit from understanding how a particular discount rate was estimated. Give us a call. We’d be happy to discuss it with you.

Hawaii Visitor Arrivals by Air

Four consecutive months of positive year-over-year growth.

Tourists appear to be returning to Hawaii. November 2009 showed the last monthly year-over-year decline in tourist arrivals by air (a decline of 7,000 visitors from November 2008). Since then, Hawaii has experienced positive monthly year-over-year growth. During the first four months of 2010, tourist arrivals increased by 3.66% overall.

	2009	2010	Change
January	\$512,139	\$523,544	+ \$11,405
February	\$513,279	\$517,554	+ \$ 4,275
March	\$541,714	\$596,969	+ \$55,255
April	\$530,316	\$536,194	+ \$ 5,878

Some Companies’ Shareholders Get “A Say” On Officers’ Compensation

Shareholders are not “rubber stamping” board recommendations.

It may not yet be a trend, but according to a recent article in the May 15th – 21st, 2010 edition of The Economist, shareholders of American companies are gaining voting rights over executive pay. “This year around 300 big companies are giving shareholders a vote.” This is “...unprecedented in America, not least because until recently no one bothered to ask shareholders to approve executive pay.” Within one week in May, the shareholders of both Motorola and Occidental Petroleum rejected their boss’s pay. The article points out that the votes by the shareholders are not binding on the boards, but under current reforms being considered by Congress, shareholders may gain more power to “...force out recalcitrant directors.” It should be noted that many of the companies who have given shareholders these voting rights have done so due to conditions of the recent government bailout.

About CTS's People

Duane Seabolt, JD, MBA, CPA/CFF/ABV, CFE, is the firm's Director of Forensic Services. Recently, Duane provided business valuation services for a macadamia nut farm located on the Big Island. Duane also testified in three arbitration hearings. One hearing involved a dispute among partners relating to partnership accounting for costs and reimbursements. One hearing involved lost earning capacity in a personal injury case. One hearing involved a construction contract termination clause and related to the validation of costs claimed by the terminated party.

Kimo Todd, JD, CPA/ABV/CFF, CVA, is the firm's Director of Business Valuation Services. Recently, Kimo provided business valuation services for a company that licenses technology patents and other intellectual property. Additionally, Kimo has recently provided economic damages calculations for litigation related to a dispute between partners of a real property development company.

Who We Are: CTS is an independent consulting firm, dedicated to providing the highest quality of independent, objective and confidential services. We have provided forensic accounting and business valuation services to clients in Hawaii and elsewhere for over 15 years. Our professionals have extraordinary backgrounds and a wealth of experience. We specialize in:

Business Valuation	Forensic Accounting	Litigation Support
Lost Profits & Earnings	Corporate Recovery Services	Fraud Investigations
Intangible Asset Valuations	Business Acquisitions	Profit Improvement

Our Clients: Our clients are located throughout Hawaii and include many of Hawaii's largest businesses and law firms. We have also consulted with clients located in the U.S. Mainland, Japan, China, and Taiwan.

Talk to us: We hope this has been informative. If you would like a friend or colleague to get a copy, just let us know. If something in this newsletter caught your interest or you have a question, call us at (808) 533-1270 or email us from our website: www.candontoddseabolt.com.



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