

VALUATION OF PREFERRED STOCK

Typically, the preferred stock (PS) valuation begins with an overall analysis of the total business enterprise (BE). Thus, the PS value is that portion of the future BE income stream discounted at its required rate of return or yield. The reason for at least a cursory valuation of the BE is to establish a reference point within which the PS fits.

The other critical factors affecting the PS value are the following:

1. Rights and privileges attached to shares (aka "bells and whistles" or characteristics)
 - Coupon rate
 - Cumulative dividends
 - Conversion price/timing to common stock
 - Liquidation preference
 - Collateral support, such as defined assets
 - Other special characteristics
2. Number of times the above terms are altered
3. Availability of investment alternatives with comparable yields