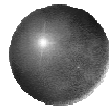


What You Need to Know to Prepare an Acceptable Business Valuation Report



*Valuation, Forensic Accounting
& Litigation Services
Conference*

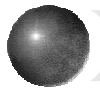
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Fort Lauderdale, FL

Presented by:

Sheri F. Schultz, CPA/ABV/CFF

Fiske & Company



Objectives of the Presentation

- ◆ Discuss various standards that CPA's need to comply with when writing business valuation reports
- ◆ Discuss different types of reports
- ◆ Components of the written engagement report
- ◆ Tips on How to write a good report



Applicable Standards

- ⊕ AICPA
 - ▣ Statement on Standards for Valuation Services (SSVS) No. 1
- ⊕ ASA
- ⊕ USPAP (Uniform Standards of Professional Appraisal Practice)
- ⊕ NACVA
- ⊕ IBA



AICPA Standards – SSVS No. 1

- ⊕ SSVS No. 1 – Statement on Standards for Valuation Services No. 1, “Valuation of a Business, Business Ownership Interest, Security or Intangible Asset”

- ⊕ Effective January 1, 2008 for CPAs performing valuation services



When does SSVS No. 1 Apply?

- Applies to an engagement or part of an engagement that estimates value when the AICPA member applies valuation approaches and methods and uses professional judgment in that application



When does SSVS No. 1 NOT Apply?

- SSVS No. 1 does NOT apply where:
 - The value of the subject interest is provided to the member by the client or a third party and the member does not apply valuation methods and does not report on the value of the subject interest;
 - The member estimates the value as part of an audit, review or compilation engagement;
 - Internal use assignments from employers to employee members who are not in the practice of public accounting;
 - Engagements are for purposes of determining economic damages for litigation support purposes (unless such determination is used to estimate the value of a subject interest);
 - Mechanical computations do not rise to the level of engagement to estimate value;
 - There is a jurisdictional exemption where SSVS No. 1 differs from published governmental judicial or accounting authority (paragraph 10, page 9 of SSVS No. 1).



SSVS No. 1 – Litigation Exception

- If a CPA is acting as a finder of fact or a trier of fact, then SSVS NO. 1 does not apply
 - Where the CPA has been assigned/appointed by the court or retained by both parties in the dispute
 - Where the CPA does not develop his/her own evidence for a conclusion of value but instead relies on and interprets the evidence presented to him/her
 - This holds true even if the CPA finder of fact's interpretation includes correcting erroneous valuation data inputs and the CPA finder of fact's value conclusion is materially different from the value conclusion of either of the expert valuation analysts
- If the CPA has been retained by the court to come up with an independent valuation, then the development provisions of SSVS No. 1 would apply.
- In the event that the CPA finder of fact disregards both expert valuation analyst conclusions and produces a de novo valuation, then SSVS No. 1 development provisions would apply.



SSVS No. 1 – The Valuation Report

- A valuation report is a written or oral communication to the client containing the conclusion of value or the calculated value of the subject interest.
- Reports issued for purposes of certain controversy proceedings are exempt (*Paragraph 50, page 23*).
 - Valuations performed for a matter before a court, an arbitrator, a mediator or other facilitator, or a matter in a governmental or administrative proceeding, are exempt from the reporting provisions of SSVS No. 1.
 - *Reporting provisions include paragraphs 47-49 and 51-78.*
 - Developmental provisions of SSVS No. 1 still apply.
 - *Developmental provisions include paragraphs 21-46.*
 - Applies whether the matter proceeds to trial or settles.



SSVS No. 1 – Restrictions on Use of Reports

- The valuation analyst should indicate in the valuation report any restrictions on the use of the report.
 - Restrictions on users
 - Restrictions on use by such users

- The valuation analyst is not responsible for controlling a client's distribution of a valuation report that has been restricted as to use.



SSVS No. 1 – Written Reports

- Three types of written reports:
 - Detailed Report (valuation engagement)
 - Summary Report (valuation engagement)
 - Calculation Report (calculation engagement)



SSVS No. 1

⊕ Detailed v. Summary Report

- A detailed report provides all sufficient information to permit report users to understand the data, reasoning and analyses underlying the value conclusion.
- A summary report provides a summary of the information that would be provided in a detailed report.
- Determination of which report to use is based on the level of reporting detail agreed to by the valuation analyst and the client.



Basic Structure of Written Report

- ⊕ Description of the Engagement
- ⊕ History and Business
- ⊕ Financial Analysis
- ⊕ Economic and Industry Analysis
- ⊕ Valuation Analysis
- ⊕ Reconciliation
- ⊕ Conclusion



SSVS No. 1 – The Detailed Report

- The detailed report should include:
 - Letter of transmittal
 - Table of contents
 - Introduction
 - Sources of information used
 - Analysis of the subject entity and related nonfinancial information
 - Financial statement / information analysis
 - Valuation approaches and methods considered
 - Valuation approaches and methods used
 - Valuation adjustments
 - Nonoperating assets and liabilities; excess/deficient operating assets
 - Representation of the valuation analyst
 - Reconciliation of value estimates and conclusion of value
 - Professional qualifications of the valuation analyst
 - Appendices and exhibits



SSVS No. 1 – The Detailed Report (cont'd)

- Introduction may include:
 - Identity of the client
 - Purpose and intended use of the valuation
 - Intended users of the valuation
 - Identity of the subject entity
 - Description of the subject interest
 - Control characteristics and degree of marketability
 - Valuation date
 - Report date
 - Type of report issued (i.e., detailed report)
 - Premise of value
 - Standard of value
 - Assumptions and limiting conditions (can alternatively appear in appendix)
 - Restrictions or limitations in the scope of work or data available
 - Hypothetical conditions used and basis for their use
 - Description of specialist's work relied upon (where applicable)
 - Disclosure of subsequent events
 - Any applicable jurisdictional exception
 - Any additional information deemed useful to understand work performed



SSVS No. 1 – The Detailed Report (cont'd)

- Sources of Information may include:
 - For valuation of a business, whether and to what extent the subject entity's facilities were visited
 - For valuation of an intangible asset, whether the legal registration, contractual documentation, or other tangible evidence of the asset was inspected
 - Names, positions, and titles of persons interviewed and their relationships to subject interest
 - Financial information
 - Tax information
 - Industry data
 - Market data
 - Economic data
 - Other empirical information
 - Relevant documents and other sources of information provided by or related to the entity



SSVS No. 1 – The Detailed Report

- Analysis of Subject Entity and Nonfinancial Information
 - Report should include a description of certain nonfinancial information of subject entity, including:
 - Nature, background, and history
 - Facilities
 - Organizational structure
 - Management team (which may include officers, directors and key employees)
 - Classes of equity ownership interests and rights
 - Products or services, or both
 - Economic environment
 - Geographic markets
 - Industry markets
 - Key customers and suppliers
 - Competition
 - Business risks
 - Strategy and future plans
 - Governmental or regulatory environment



SSVS No. 1 – The Detailed Report

- Financial Statement / Information Analysis
 - May include a description of relevant financial information, including:
 - Historical financial information (financial statements and income tax returns) for an appropriate number of years
 - Prospective financial information
 - Comparative common size financial statements
 - Comparative common size industry financial information
 - Information on compensation for owners including benefits and personal expenses
 - Information on key man or officers' life insurance
 - Management's response to inquiry regarding:
 - Advantageous or disadvantageous contracts
 - Contingent or off-balance-sheet assets or liabilities
 - Information on prior sales of company stock
 - Rationale underlying any normalization or control adjustments to financial information
 - Comparison of current performance with historical performance
 - Comparison of performance with industry trends



SSVS No. 1 – The Detailed Report

- Valuation Approaches and Methods Considered
 - State that the valuation analyst has considered the three most common valuation approaches:
 - Income approach
 - Asset approach or cost approach
 - Market approach



SSVS No. 1 – The Detailed Report

- Valuation Approaches and Methods Used
 - Identify the valuation methods used under each approach and the rationale for their use

 - Income approach – include discussion of:
 - Composition of the representative benefit stream
 - Method(s) used, and a summary of the most relevant risk factors considered in selecting the appropriate discount rate, the capitalization rate, or both

 - Asset-based or cost approach – include discussion of:
 - *Asset based approach*: Any adjustments made by the valuation analyst relevant to the balance sheet data
 - *Cost approach*: The type of cost used, how this cost was estimated, forms of and costs associated with depreciation and obsolescence used and how those costs were estimated (if applicable)



SSVS No. 1 – The Detailed Report

- Valuation Approaches and Methods Used (cont'd)
 - Market approach – include discussion of:
 - Guideline public company / guideline company transactions method:
 - Selected guideline companies and the process used in their selection.
 - Pricing multiples used, how they were used, and rationale for their selection. If pricing multiples were adjusted, the rationale for such adjustments.
 - Guideline sales of interest in the subject entity method:
 - Sales transactions used, how they were used, and the rationale for determining that these sales are representative of arm's length transactions
 - Rule of thumb
 - When a rule of thumb is used in combination with other methods, disclose the source(s) of data used and how the rule of thumb was applied.



SSVS No. 1 – The Detailed Report

- Valuation Adjustments (discounts or premiums)
 - Describe the rationale for applying the discounts or premiums and the factors considered in selecting the amount or percentage used.

- Nonoperating Assets and Excess Operating Assets
 - Identify any related nonoperating assets, nonoperating liabilities, or excess or deficient operating assets and their effect on the valuation.



SSVS No. 1 – The Detailed Report

- Representation of the Valuation Analyst
 - Summarize the factors that guided valuation analyst's work during engagement, including:
 - Analyses, opinions and conclusion of value are subject to specified assumptions and limiting conditions, and they are the personal analyses, opinions and conclusion of the analyst.
 - Economic and industry data included have been obtained from various printed or electronic reference sources that the analyst believes to be reliable, but has not performed any corroborating procedures to substantiate the data.
 - Engagement was performed in accordance with AICPA's SSVS No. 1.
 - Parties for which the information and use of the report is restricted are identified; report should not be used by anyone other than such parties.
 - Analyst's compensation is fee-based.
 - Analyst used the work of one or more outside specialists to assist. Also identify the level of responsibility, if any, the analyst is assuming for the specialist's work.
 - Analyst has no obligation to update the report or opinion of value for information that comes to his/her attention after date of the report.
 - Valuation analyst should sign the report and names of those providing significant professional assistance should be identified.



SSVS No. 1 – The Detailed Report

- Conclusion of Value
 - Present a reconciliation of the various estimates of the value
 - Discuss rationale underlying the conclusion of value

- Appendices and Exhibits
 - Information that supplements the detailed report
 - Often, assumptions and limiting conditions and the valuation analyst's representations are provided in appendices.



SSVS No. 1 – Summary Report

- Summary Reports should, at a minimum, include:
 - Identity of the client
 - Purpose and intended use of the valuation
 - Intended users of the valuation
 - Identity of the subject interest
 - Description of the subject interest
 - Control characteristics and degree of marketability
 - Valuation date
 - Report date
 - Type of report issued (i.e., a summary report)
 - Definition of standard of value
 - Identification of premise of value
 - Sources of information
 - Identification of assumptions and limiting conditions and scope limitations
 - Any hypothetical conditions used
 - Reliance on a specialist and level of responsibility, if any, analyst assumes for specialist's work
 - Valuation approaches and methods used
 - Disclosure of subsequent events
 - Jurisdictional exceptions
 - Representation of analyst
 - Responsible member signature
 - Reconciliation of estimates and conclusion of value
 - Statement that member is not obligated to update the report



SSVS No. 1 – Calculation Report

- Calculation reports should include:
 - Statement that the report is a calculation report
 - Representation of the valuation analyst similar to that for a detailed report, but adapted for a calculation engagement
 - Identification of any hypothetical conditions used in the engagement
 - Any application of the jurisdictional exception
 - Any assumptions and limiting conditions applicable
 - If used, how a specialist's work was used and level of responsibility, if any, the analyst assumes for specialist's work
 - Disclosure of subsequent events in certain circumstances
 - Appendices or exhibits
 - Section summarizing the calculated value



SSVS No. 1 – Other types of Reports

- Oral Report
 - May be used in either a valuation engagement or a calculation engagement.
 - Should include all information necessary to relate the scope, assumptions, limitations and results of the engagement.
 - Should limit any misunderstanding between the valuation analyst and the oral report recipient.
 - Valuation analyst should document in the engagement workpapers the substance of the oral report communicated to the client.



ASA Standards – Comprehensive Written Business Valuation Report

- Appraisal reports should contain the following:
 - Appraiser's signature and certification
 - Statement of assumptions and limiting conditions
 - Definition of the valuation assignment
 - Description of subject property
 - Financial analysis
 - Description and explanation of valuation methodology
 - Confidentiality of the report



USPAP

- Uniform Standards of Professional Appraisal Practice (USPAP)
 - First developed in the 1980s by a joint committee representing major U.S. and Canadian appraisal organizations.
 - Consists of 10 Standards which cover the development and reporting of valuation.
 - The Appraisal Standards Board promulgates USPAP for both appraisers and users of appraisal services.
 - USPAP does not establish who or which assignments must comply.
 - Compliance with USPAP is required when either the service or the appraiser is obligated to comply by law or regulation, or by agreement with the client or intended users.
 - When not obligated, individuals may still choose to comply with USPAP.



USPAP – Reporting Standards

- **Standard 10: Business Appraisal, Reporting**
 - In reporting the results of an appraisal of an interest in a business enterprise or intangible asset, an appraiser must communicate each analysis, opinion, and conclusion in a manner that is not misleading.
 - Does not dictate the form, format, or style of reports.
 - See Standards Rules 10-1 through 10-4.



NACVA Reporting Standards

- Similar to SSVS No. 1, NACVA has three types of written reports: Summary or Detailed Report (for expressing a conclusion of value) or a Calculation Report (for calculation engagements). The NACVA requirements for these types of reports are essentially the same as the requirements of SSVS No. 1.
- Also similar to SSVS No. 1, valuations performed for a matter before a court, an arbitrator, a mediator or other facilitator, or a matter in a governmental or administrative proceeding, are exempt from NACVA reporting provisions.



IBA Standards

- Provides for two types of reports:
 - Valuation Report
 - Comprehensive Written Business Appraisal Report
 - Letter Form Written Report (similar to summary report, often referred to as short-form report)
 - Oral Report
 - Limited Opinion Report
 - Preliminary Report (identified as "Limited")
 - Oral Report



Top 10 Report Writing Tips

NUMBER 10

Start with a template

- Develop a report template for your firm, including all possible methods, scenarios, language, models, etc. that you can utilize without having to spend time searching through past reports searching for certain wording.



Top 10 Report Writing Tips

NUMBER 9

Cater to your reader

- For example, if reader is a small business owner who doesn't know a WACC from a MVIC, then make an effort to define your terms. If the primary reader is the IRS, you may be able to leave in some of the more difficult material without defining everything in detail.



Top 10 Report Writing Tips

NUMBER 8

Write a complete story

- Remember that most third party users don't have the benefit of your management interview and site visit.
- Company history/background should include who, what, when, where, why and how of what the company is and does.
- Relate required report content to the actual valuation (e.g., how does economic overview and industry analysis impact the valuation).



Top 10 Report Writing Tips

NUMBER 7

Check for inconsistencies

- Ensure there are no inconsistent valuation variables used in alternative analyses or presented on different pages of the report.



Top 10 Report Writing Tips

NUMBER 6

Include adequate explanation

- Avoid vague or ambiguous statements.
- Avoid presenting analytical conclusions without any supporting logic.
- Include explanation for any adjustments made to historical statements or data.



Top 10 Report Writing Tips

NUMBER 5

Walk the reader through your schedules

- Don't make readers rifle through your report to find numbers.
- If you do a calculation and it is supported by a schedule or an appendix, guide the reader to the backup.
- Add more explanatory footnotes to your excel schedules so that schedules can stand on their own, if possible.



Top 10 Report Writing Tips

NUMBER 4

Utilize appropriate grammar and structure

- Use active verbs (I wrote it), not passive (It was written by me).
- Vary sentence structure and vocabulary.
- Use transitions between paragraphs and/or subheadings where needed.



Top 10 Report Writing Tips

NUMBER 3

Do not just cut and paste economic and industry reports into your report

- Make sure content is relevant
- Cite specific sources



Top 10 Report Writing Tips

NUMBER 2

Be concise

- Simplify – do what you say, say what you did.
- Make your report long enough to convey the necessary material, and not one page longer.
- Do not repeat the same material in five different places.
- Cut unnecessary words.



Top 10 Report Writing Tips

NUMBER 1

Get to the point

- Your reader wants to know a number or range of numbers. Give it to them right away – on page one of your cover letter or executive summary.



Report Checklist

- Introduction and Sources of Information
 - List of all sources of information used to value the company.
 - Where information is received from management, provide a list of documents supplied and reviewed.
 - Where information is utilized from other resources, provide the proper footnote or endnotes indicating source, date, etc.
 - Describe who engaged you and any restrictions in Letter of Engagement.
 - Transmittal letter – addressed to person who engaged valuator, purpose of valuation, description of subject, total and per unit values.
 - Identify premise and define standard of value.
 - State sources and nature (audited, reviewed, compiled, tax, etc.) of financial information.
 - Ensure descriptions of item being valued are correct.
 - Discuss control characteristics and degree of marketability.
 - Identify type of report issued.



Report Checklist

- Introduction and Sources of Information – cont'd
 - Is the report understandable to the anticipated reader?
 - Is there appropriate detail in the table of contents?
 - Has the report been reviewed for any obvious errors and/or omissions?
 - Does the report lead to a logical conclusion?
 - Is the report signed by the valuation analyst or persons responsible for issuing it?
 - Have all calculations been checked for mathematical errors?
 - Is the Company and its operating units properly identified?
 - Is the purpose and intended user of the report properly identified?
 - Is the subject, asset, liability, security, technology, or entity properly identified?
 - Are the valuation and report dates clearly set out?



Report Checklist

- Analysis of Subject Entity and Non-Financial Information
 - Provide an overview of the industry.
 - Description of subject to be valued. If security, add number of shares/units and percentage of ownership interest.
 - Dividend and voting characteristics of the shares/units being valued.
 - Related parties and any identified transactions.
 - Site visits—discuss the circumstances and observations of the site visit, including date(s) and names of persons interviewed.
 - History and background of the entity or company (include such items as legal name, form of organization, tax status, the state of incorporation, etc.).
 - Previous transactions of company assets or stock.
 - Restrictions on the sale or transfer of company stock, and details of any buy/sell agreements in place.
 - Dividend payments, historical and current.
 - Subsidiaries and affiliates.
 - Management and staffing—list number of employees by function. Discuss the succession to existing management.



Report Checklist

- Analysis of Subject Entity and Non-Financial Information – cont'd
 - Products and services—discuss the various product and services provided indicating the revenue and gross profit by major function.
 - Sales and marketing—discuss how the entity generates sales and markets its products or services.
 - Discuss issues affecting the industry and geographical area served.
 - Customer concentration— discuss the largest customers.
 - Size and competition—discuss how the absolute and relative size of the entity affects its value, how the company determines pricing, who the competitors are and how they compete.
 - Physical facilities—discuss the adequacy and condition of the property, plant, and equipment, if applicable.
 - Employee benefits—discuss the various employee benefits and the related costs.
 - Proprietary content and technology—discuss any proprietary content, patents, copyrights, trade secrets etc.
 - Discuss favorable access to raw materials, locations, government subsidies, or experience curve.



Report Checklist

- Analysis of Subject Entity and Non-Financial Information – cont'd
 - Discuss long-term lease arrangements (including real estate).
 - Product/Service differentiation.
 - Relative product/service quality.
 - Discuss terms of any covenants not to compete.
 - Discuss how the company handles its relationships and contracts with customers.
 - Family involvement—discuss the family members and related parties working in the entity, their job functions, compensation, etc.
 - Quality of books and records—discuss the internal controls that are in place and how their compliance may affect the value of the company.
 - Employee turnover—discuss the turnover and address how the turnover affects the risk associated with the company.
 - Environmental issues—discuss any known environmental issues and how they affect the value of the company.
 - Future prospects—discuss the future prospects of the company.



Report Checklist

- **Economic Analysis**
 - National economy—discuss consumer spending, services, manufacturing, capital spending, real estate and construction, agriculture, natural resource industries, financial services and credit, employment and wages, etc., of the national economy and how they affect the company.
 - State/provincial economy—discuss consumer spending, services, manufacturing, capital spending, real estate and construction, agriculture, natural resource industries, financial services and credit, employment and wages, etc., of the state economy and how they affect the company.
 - Regional/Local economy—discuss how the company is affected by the regional or local economy.
 - Summary and conclusion of economic outlook—provide a recap of how the entity is affected by the national, state, and local economic conditions.



Report Checklist

- **Industry Analysis**
 - List the various NAICS or SIC codes for the industry and a brief description of the businesses covered.
 - Provide an adequate overview of the industry, explaining trends, current status, and the future prospects in the industry. Also, discuss any regulatory agency that has a voice in the industry the company operates in and how the regulations affect the company.
 - Market share—discuss the company's positioning relative to the industry and competition.
 - Provide a summary of the barriers to entry and how they affect the company.
 - Economies of scale—discuss the economies of scale including product differentiation, capital requirements, switching costs, access to distribution channels, cost disadvantages independent of scale.
 - Threat of new entrants—discuss the bargaining power of suppliers, the bargaining power of customers, the threat of substitute products, and the rivalry between incumbents. Provide a summary of how the threats of new entrants affect the value of the company.



Report Checklist

- **Financial Statement Analysis – Entity/Company**
 - Discuss how the financial information was prepared, audited, reviewed, compiled, internally prepared, tax returns, who prepared the financial information, etc.
 - Provide a summary description of the financial performance of the company over the years of the analysis.
 - Financial statement review—provide the company's historical financial statements in the report or as exhibits with adequate detail to review for possible normalizing entries.
 - Years analyzed—provide a discussion of the years used for the valuation analysis. Justify why the beginning years were used and why the number of years of analysis was selected.
 - Inventory—discuss the method of costing the inventory, FIFO, LIFO, etc., and provide analysis and calculations for LIFO adjustment if appropriate.



Report Checklist

- **Financial Statement Analysis – Industry Comparison**
 - Comparative ratio analysis—provides the company's comparative ratio analysis in the report or as exhibits with adequate detail.
 - Consider discussing liquidity ratios, turnover ratios, leverage ratios and solvency ratios.
 - Peer comparison. Have the Company financial statements been compared to industry data? Was the proper year of industry data used? Are the selected industry ratios the most appropriate for the comparison?



Report Checklist

- **Financial Statement Analysis – Normalizing Adjustments**
 - Have the historical earnings been normalized? Have all balance sheet and income statement items been properly adjusted to reflect the standard of value and the entity's earnings capacity?
 - Are the normalizing entries appropriate and reasonable relative to the level of value? (Control vs. lack of control interest.)
 - Leasehold interest—discuss the leasehold arrangements. Consider the net present value of any favorable leases.
 - Officers compensation—discuss and justify adjustment to officer's compensation.
 - Depreciation—discuss how the future depreciation expense was calculated. Discussion should include section 179, economic useful life of existing assets and projected capital expenditures.
 - Were non-operating or excess assets identified and adjustments made when appropriate?



Report Checklist

- **Asset Approach**
 - Are all of the tangible assets and liabilities adjusted that should be adjusted?
 - Are intangible assets properly adjusted?
 - Are there any off balance sheet items not recorded on the balance sheets?
 - Is there adequate support for any built-in capital gains tax?
 - If approach is not used, did valuation report address why?
 - Rationale and support for valuation methods used.



Report Checklist

- **Market Approach – Public Companies**
 - Document a reasonable attempt to search for public companies—describing search criteria, number of companies identified, and specific reasons these companies were not considered.
 - Adequately disclose the population from which the comparable companies were selected and disclose criteria for selection of public companies. Indicate how the public company transactions were selected for comparability.
 - Are the public company transactions close enough to the valuation date to be relevant? If the public companies data is somewhat removed from the valuation date, discuss the reason for its use.
 - Discuss which market multiples were used and why they are or are not appropriate.
 - Disclose and discuss any adjustments made to the public companies.



Report Checklist

- **Market Approach – Transaction Databases**
 - Discuss criteria for selection of transactions and disclose population from which transactions were selected.
 - Discuss which market multiples were used and why they are or are not appropriate.
 - Are the transactions close enough to the valuation date to be relevant? If the transaction data is somewhat removed from the valuation date, discuss the reason for its use.
 - Discuss what type of assets are included in a typical sale, how to rank the transactions, and dealing with outliers.
 - Provide discussion of when to use or not use premiums or discounts when using the direct market data method.



Report Checklist

- **Market Approach – Industry Specific Multiples**
 - Discuss the criteria for selection, which industry-specific multiples were used, and why they are or are not appropriate.
 - Are the transactions appropriate as of the valuation date? If the transaction data is somewhat removed from the valuation date: discuss the reason for its use.
 - Discuss which multiple was used and why it was used.
 - Discuss when to use or not use premiums or discounts when using the industry-specific multiples.



Report Checklist

- **Income Approach**
 - Clearly define the type of income (i.e., net income, operating income, net cash flow to equity, net cash flow to invested capital, etc.).
 - Provide adequate support for determining the earnings capacity of the company.
 - Provide support for the discount rate. Also provide a discussion of the relationship of discount rate to capitalization rate.
 - If approach was not used, address the reasons.



Report Checklist

- **Weighted Average Cost of Capital (WACC)**
 - Discuss the WACC and when it is used.
 - Disclose the sources of equity and debt. (Cite publications, online, etc.)
 - Provide support for weighting the debt and equity.
- **Build-Up Methods**
 - Identify the risk free rate of return, common stock equity risk premium, small cap equity risk premium, industry risk premium and size premium. Identify the sources.
 - Describe in detail how the company specific risk was determined.
 - Provide a discussion of the expected long-term earnings growth rate and the justification for the long-term growth rate selected.



Report Checklist

- **Intangible Asset Valuation**

Consider and explain in the valuation:

 - Remaining useful life.
 - Current and anticipated future use of the intangible asset.
 - Rights attributable to the intangible asset.
 - Position of intangible asset in its life cycle.
 - Appropriate discount rate for the intangible asset.
 - Appropriate capital or contributory asset charge, if any.
 - Research and development or marketing expense needed to support the intangible asset in its existing state.
 - Allocation of income (for example, incremental income, residual income, or profit split income) to intangible asset.
 - Whether any tax amortization benefit would be included in the analysis.
 - Discounted multi-year excess earnings.
 - Market royalties.
 - Relief from royalty.



Report Checklist

- Discounts and Premiums
 - Discuss the adequacy of including a control premium to the final value.
 - Discuss the adequacy of including a minority interest discount to the final value.
 - Discuss the adequacy of including a marketability discount to the final value.
 - Summarize the various marketability discount studies.
 - Discuss the adequacy of including other premiums and/or discounts (e.g., key man, stock restrictions, one-time loss, built-in gains, etc.) to the final value if appropriate.
 - Discuss the application of all discounts or premiums as applied to both a control and minority shareholder.
 - Discuss the degree of control or lack of control characteristics.
 - Discuss and provide rationale and calculations for control premium or lack of control discounts.



Report Checklist

- Conclusion of Value
 - Provide a reconciliation of the values.
 - If necessary, address mathematical versus subjective weighting.
 - Provide an adequate justification of the methods of valuation selected.
 - Is the final determination of value consistent with the analysis performed?



Federal Reports

- Federal Rules of Civil Procedure – Rule 26
 - Expert report must contain:
 - A complete statement of all opinions the witness will express and the basis and reasons for them;
 - The facts or data considered by the witness in forming them;
 - Any exhibits that will be used to summarize or support them;
 - The witness's qualifications, including a list of all publications authored in the previous 10 years;
 - A list of all other cases in which, during the previous 4 years, the witness testified as an expert at trial or by deposition; and
 - A statement of the compensation to be paid for the study and testimony in the case.



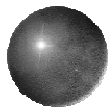
Federal Reports

- Federal Rules of Civil Procedure – Rule 26
 - Amendments effective 12/1/10 to Rule 26 provide protection from discovery for:
 - Drafts of expert reports, regardless of the form in which the draft is recorded;
 - Communications between the party's attorney and the expert witness, regardless of the form of communications, with three exceptions:
 - Communications relating to compensation for the expert's study or testimony;
 - Communications identifying facts or data that the party's attorney provided and that the expert considered in forming the opinions to be expressed; or
 - Communications identifying assumptions that the party's attorney provided and that the expert relied on in forming the opinions to be expressed.



In Conclusion:

- A well written report is:
 - Thorough
 - Balanced
 - Readable
 - Coherent
 - Well-supported



Thank You

Contact Information

Sheri F. Schultz, CPA/ABV/CFF
Fiske & Company
1000 S Pine Island Road Suite 440
Plantation, FL 33324
954-236-8600
sheri@fiskeco.com