Business Valuation Update

Lafayette Bar Association CLE by the Hour
December 13, 2012

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Jason MacMorran, CPA/ABV/CFF, CVA, MS, is a Director at Postlethwaite & Netterville. Jason joined the firm in 2000 and became a Director in 2010. Prior to joining Postlethwaite & Netterville, Jason served as a Senior Accountant at a local accounting firm.

Jason's practice focuses heavily on business valuation, and his professional experience includes business valuations for estate and gift matters, litigation, mergers and acquisitions, and financial reporting. In addition to his valuation practice, Jason provides litigation support in economic damage issues, assists clients in complex financial forecasting and modeling, and performs general financial consulting.

Jason has prepared, overseen, or contributed to hundreds of valuations of businesses, interests in businesses, intellectual property, and intangible assets. He is a frequent lecturer on valuation topics, and he brings considerable training and experience to business valuation projects through his study to obtain the American Institute of Certified Public Accountants' Accredited in Business Valuation credential and the National Association of Certified Valuation Analyst's Certified Valuation Analyst credential.

EDUCATION & CREDENTIALS

Certified Public Accountant (certified February 1999)
Accredited in Business Valuation (certified December 2003)
Certified in Financial Forensics (certified July 2008)
Certified Valuation Analyst (certified September 2001)
Bachelor of Business Administration, Millsaps College
Master of Science, Finance, Louisiana State University

PROFESSIONAL AFFILIATIONS

Member, American Institute of Certified Public Accountants (AICPA)
Member, AICPA Forensic and Valuation Services Section
Member, National Association of Certified Valuation Analysts (NACVA)
Member, Louisiana Society of Certified Public Accountants (LCPA)
AICPA Business Valuation Committee, 2011-2012
AICPA ABV Champion, State of Louisiana
LCPA Board of Directors, 2011-2012
LCPA Young CPA Board of Directors, 2007-2009
LCPA Business Consulting Committee, 2004-2012; chair 2007-2008
LCPA Forensic and Valuation Services Committee, 2009-present
CPA Ambassador, State of Louisiana
Baton Rouge Chapter of LCPA, Board of Directors 2007-present
Estate and Business Planning Council, Baton Rouge Chapter, 2010-present

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COMMUNITY INVOLVEMENT

Board of Directors of Baton Rouge Green, 2003-2007; Treasurer 2004; President 2005-2006
Board of Directors of Volunteers in Public Schools, 2011-present
Board of Directors of Louisiana Arts and Sciences Museum, 2012-present
St. George School Finance Committee, 2010-present

TESTIMONY EXPERIENCE

Darryl S. Laddin, as Trustee for the Liquidating Trust of the Estates of Verilink Corporation and Larscom, Inc., vs. Powell Goldstein, LLP

- United States District Court, Northern District of Alabama
- Deposition testimony on valuation and economic damages, October 2012

Kearns & Associates Company d/b/a Steam & Process Repairs and S&P Specialties Company, LLC versus Ricky S. Carter and Ricky Carter & Associates, Inc.

- United States District Court, Middle District of Louisiana
- Trial testimony on lost profits and trademark valuation, August 2012
- Deposition testimony on lost profits, August 2012
- Deposition testimony on lost profits, trademark valuation, and business valuation, June 2012
- Deposition testimony on business valuation, May 2011

James Dill vs. State Farm Mutual Automobile Insurance Company

- United States District Court, Western District of Louisiana
- Deposition testimony on lost profits, May 2012

Verso Technologies, Inc. and Darryl Laddin, Liquidating Trustee, vs. Steven Odom, et al

- United States District Court, Northern District of Georgia
- Deposition testimony on valuation and intangible asset impairment, November 2011

LeBeouf Real Estate Company vs. Barbara Q. LeBeouf, et al

- 23rd Judicial District Court, State of Louisiana
- Deposition testimony on business valuation, July 2011

David vs. David

- 16th Judicial District Court, State of Louisiana, Judge Charles Porter
- Trial testimony on business valuation, June 2011
- Qualified as an expert in business valuation

In the Matter of the Succession of William E. Davis, Sr.

- 19th Judicial District Court, State of Louisiana, Judge Kay Bates
- Trial and deposition testimony on business valuation, January 2011
- Qualified as an expert in public accounting

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Eger vs. Eger

- Family Court, East Baton Rouge Parish, Louisiana, Judge Toni Higginbotham
- Trial testimony on valuation of a pension benefit, November 2009
- Qualified as an expert in pension valuation

Verna Jones vs. Valero Energy Corporation

- American Arbitration Association
- Deposition testimony on lost wages, March 2009

Neighborhood Shipping, Inc. vs. A&B Industries of Morgan City, Inc., and Chubb Group Insurance Companies

- 16th Judicial District Court, State of Louisiana, Judge William Hunter
- Trial testimony on economic damages and business valuation, October 2008
- Qualified as expert in public accounting, forensic accounting, and business valuation

Lampe Berger, USA, Inc. and Produits Berger, S.A. vs. Scentier, Inc., Michelle Carman, and Carman's Candlery, Etc., Inc.

- United States District Court, Middle District of Louisiana
- Deposition testimony on economic damages related to copyright infringement, June 2008

Archer vs. Archer

- 14th Judicial District Court, State of Louisiana, Special Master Henry Liles
- Trial testimony on business valuation, November 2007
- Qualified as expert in public accounting and business valuation

Paul A. Kadair, Inc., et al vs. Westinghouse Credit Corporation, et al

- 19th Judicial District Court, State of Louisiana
- Deposition testimony on business valuation and lost profits, September 2007

PUBLICATIONS AUTHORED

"Smart Sell, Good Buy: Ensuring a Smooth Business Transaction." Lagniappe (a publication for Louisiana Certified Public Accountants). November, 2011.

"Revisiting Fair Value Accounting and Its Impact on CPAs." Lagniappe (a publication for Louisiana Certified Public Accountants). June, 2009.

"Internal Controls: An Everyday Guide to Putting a Lock on Fraud." Lagniappe (a publication for Louisiana Certified Public Accountants). November, 2005.

JASON MACMORRAN, continued

PRESENTATIONS DELIVERED

"Effective Valuation Management Interviews." The American Institute of CPAs *Forensic and Valuation Services Conference*. Delivered on November 12, 2012.

"Hot Topics in Business Valuation." The Louisiana Society of CPAs *Business Valuation Workshop*. Delivered on October 25, 2012.

"Discounts for Lack of Control." The Louisiana Society of CPAs *Business Valuation Workshop*. Delivered on October 25, 2012.

"Business Interruption Basics". The Louisiana Society of CPAs *Controllers Workshop*. Delivered on March 23, 2012.

"Valuation Basics for Early Stage Companies". New Orleans Entrepreneurs Week. Delivered on March 13, 2012.

"Business Valuation Update". The Baton Rouge Bar Association's CLE by the Hour. Delivered on December 16, 2011.

"Hot Topics in Forensic Accounting". The Baton Rouge Bar Association's CLE by the Hour. Delivered on December 15, 2011.

"Buying and Selling a Business". The Baton Rouge Chapter of CPAs Brown Bag CPE Seminar. Delivered on December 13, 2011.

"The Process of Buying and Selling a Business." The Baton Rouge Chapter of the Project Management Institute. Delivered on November 17, 2011.

"Hot Topics in Business Valuation." The Louisiana Society of CPAs *Business Valuation Workshop*. Delivered on October 27, 2011.

"Business Valuations: What's It Worth." Financial Planners Association, New Orleans Chapter. Delivered on March 21, 2011.

"Social Networking – Policies of Operation in a Tech Savvy World". The Baton Rouge Chapter of CPAs Brown Bag CPE Seminar. Delivered on December 7, 2010.

"Business Valuations: Overview and Update." Council of Petroleum Accountants Societies, Acadiana Chapter. Delivered on November 18, 2010.

"Cost of Capital: Trends, Tools, and Applications." The Mississippi Society of CPAs *Business Valuation and Litigation Services Seminar*. Delivered on November 5, 2010.

JASON MACMORRAN, continued

"Cost of Capital: Trends, Tools, and Applications." The Louisiana Society of CPAs *Business Valuation Workshop*. Delivered on October 21, 2010.

"Valuation in Recession." The Louisiana Society of CPAs *Business Valuation Workshop*. Delivered on November 6, 2009.

"Financial Forecasting and Projections." The Louisiana Society of CPAs *Louisiana Accounting and Auditing Conference.* Delivered in New Orleans, LA on August 20, 2009.

"Business Succession – Strategies for Securing the Future". The Baton Rouge Chapter of CPAs Brown Bag CPE Seminar. Delivered on December 10, 2008.

"Fair Value Measurement." The Baton Rouge Chapter of CPAs Business & Industry Day. Delivered in Baton Rouge, LA on May 20, 2008.

"Alternative Dispute Resolution". The Baton Rouge Chapter of CPAs *Brown Bag CPE Seminar*. Delivered in Baton Rouge, LA on December 11, 2007.

"Business Valuations: A Crash Course". The University of New Orleans' *Energy Accounting and Technology Conference*. Delivered in New Orleans, LA on May 17, 2007.

"Valuing the Closely-held Company Post Disaster". The Louisiana Society of CPAs *Business Valuation Workshop*. Delivered on October 20, 2006.

Business Valuation Overview

- **First Steps**
  - Before valuing a company, one must know the purpose and expected use of the valuation.
  - Purpose will affect assumptions and methodologies, as there are many reasons to have a closely held business valued.
  - Different valuation purposes call for different 'standards of value'.
  - Different valuation purposes consider different regulatory requirements.

- **Reasons for Valuation**
  - Mergers and acquisitions
  - Sales and divestitures
  - Buy / sell agreements
  - Fairness opinions
  - Shareholder transactions
  - Capital infusions
  - Estate planning and taxation
  - Gift taxes
  - Solvency opinions
  - Insolvency opinions
  - Employee Stock Ownership Plans (ESOPs)
  - Employee benefit plans
  - Expert testimony/litigation support
  - Collateral valuations
  - Purchase price allocations
  - Charitable contributions
  - Determination of net operating loss in bankruptcy
  - Eminent domain proceedings

- **Valuations as a Management Tool**
  - There are a number of 'management planning' reasons to have a valuation done
    - Measure management's effectiveness:
      - Audits can measure operating effectiveness
      - Valuations can measure strategic effectiveness
    - Ownership transfers
      - Value the business periodically to avoid a 'buy/sell showdown'
    - Estate planning
      - Value the business to be aware of estate concerns
      - Value the business to support life insurance needs

- **Compliance Concerns**
  - More and more 'required' reasons for a valuation:
    - Taxes / Internal Revenue Service
      - Estate and gift taxes
      - S-corporation elections
    - Financial Reporting (to name a few)
      - ASC 350 – Intangibles
      - ASC 718 – Compensation
      - ASC 805 –Business Combinations
      - ASC 815 – Derivatives and Hedging

            - ASC 820 – Fair Value Measurements
        - Compensation
            - ESOPs
            - Share-based compensation – ASC 718 and IRC 409(A)
        - Litigation
        - Regulation

- **Standards of Value**
    - Fair Market Value
    - Investment Value
    - Fair Value (financial reporting)
    - Fair Value (litigation)
        - Always work with your valuation expert to establish appropriate standard of value at the outset of the engagement!

- **Standards of Value – Fair Market Value**
    - The IRS has defined Fair Market Value in Revenue Ruling 59-60:
        - "The price at which the property would change hands between a willing buyer and a willing seller, when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts."
    - The International Glossary of Business Valuation Terms has defined Fair Market Value as:
        - "The price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arms length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts."

- **Standards of Value – Investment Value**
    - The *International Glossary of Business Valuation Terms* defines the Investment Value Standard as:
        - "The value to a particular investor based on individual requirements and expectations."
    - Investment Value is:
        - Value to a specific buyer, usually synergistic or strategic.
        - Typically commands higher value than Fair Market Value standard, because specific buyer is acquiring market share, products, processes, etc.
        - Most common in mergers and acquisitions.

- **Standards of Value – Fair Value**
    - ASC 350/805 define Fair Value as:
        - "The amount at which an asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale."
    - ASC 820 defines Fair Value as:
        - "The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

- **Standards of Value – Fair Value**
  - Commonly used in litigation.
  - Definition based on state case law.
  - Fair Value standard used when there is not a 'willing seller' and the court wishes to instill fairness by arriving at an 'equitable' value.
  - Often computed as Fair Market Value without discounts for lack of control or marketability.

- **Statement on Standards for Valuation Services (SSVS) No. 1**
  - The Standards apply to ALL AICPA members providing services to value a business, an interest in a business, a security or an intangible asset

- **Types of Valuation Reports**
  - For a valuation engagement with a conclusion of value:
    - Detailed Report – structured to provide intended users the ability to understand the data, reasoning, and analyses underlying the valuation analyst's conclusion.
    - Summary Report – intended to provide only an abridged version of the information that would be provided in a Detailed Report.
  - For a calculation engagement with a calculated value:
    - Calculation Report – a limited scope report based on agreed upon assumptions, conditions, and valuation approaches / methods
  - The valuation analyst should indicate in the valuation report any restrictions on the use of the report (restrictions may be related to uses or users)

- **Reporting Exemption in Litigation Services:**
  - This statement is not applicable to engagements exclusively for the purpose of determination of economic damages or lost profits
  - If litigation services include reaching a conclusion of value or a calculated value, the statement does apply
  - A valuation performed only for use in certain controversy proceedings to be decided by a court, arbitrator, mediator, or in a governmental or administrative proceeding is exempt from the reporting provisions of this statement
  - Other Exceptions:
    - This statement is not applicable to mechanical calculations where such computations do not rise to the level of a valuation engagement

- **Engagement Considerations**
  - The valuation analyst should consider:
    - Subject entity and its industry
    - Subject interest
    - Valuation date
    - Scope of the valuation engagement
      - Purpose of the valuation engagement
      - Assumptions and limiting conditions
      - Applicable standard of value
      - Type of report to be issued
    - Applicable laws, regulations and standards
    - Nature of the interest (controlling, minority, non-marketable, etc.)

- **Valuation Considerations**
  1. The nature of the business and the history of the enterprise from its inception.
  2. The economic outlook in general and the condition and outlook of the specific industry in particular.
  3. The book value of the stock and the financial condition of the business.
  4. The earning capacity of the company.
  5. The dividend-paying capacity.
  6. Whether or not the enterprise has goodwill or other intangible value.
  7. Sales of the stock and the size of the block of stock to be valued.
  8. The market price of stocks of corporations engaged in the same or a similar line of business having their stocks actively traded in a free and open market, either on an exchange or over-the-counter.

- **Nature of the Business**
  - Much of the data will come from the subject company / acquisition target:
    - Company background and 'demographic' information
    - Key competitors, suppliers, customers
    - Key management and personnel issues
    - Financial statements and historical performance measures
    - Forecasts and projected financial statements
    - Prior sales of company stock / assets
  - Company specific data will help identify risks and opportunities, and will influence specific company risks in the discount rate

- **Economic and Industry Data**
  - Why is it important? Where is it available?
    - Economic and industry data available from a variety of sources, including:
      - Federal Reserve Board *Beige Books* (www.federalreserve.gov/FOMC/BeigeBook/)
      - BV Library's *Economic Outlook Update* ™ (www.bvlibrary.com)
      - Standard and Poor's Industry Surveys (www2.standardandpoors.com)
      - First Research Industry Surveys (www.firstresearch.com)
  - Financial benchmarking data:
    - Integra Information (www.integrainfo.com)
    - RMA Statement Studies (www.statementstudies.org)
  - Cost of Capital Estimates:
    - Ibbotson's / Morningstar's Stocks, Bonds, Bills, and Inflation Yearbook (corporate.morningstar.com)
    - Duff & Phelps, LLC Risk Premium Report (www.bvmarketdata.com)

- **Financial Condition of the Business**
  - In valuing a business or asset, an understanding of what the numbers mean is critical. Financial analysis tools and techniques can:
    - Isolate trends (positive and negative)
    - Help identify strengths and weaknesses
  - Basic financial analysis tools include:
    - Common size financial statements
    - Ratio analysis
    - Trend analysis of common size statements and ratios

- **Valuation Approaches**
  - Businesses / assets are typically valued using one of three approaches:
    - Income Approach
    - Asset / Cost Approach
    - Market Approach

- **Income Approach**
  - The Income Approach determines value by converting anticipated economic benefits into a present single amount,
  - Value = $\frac{\text{Benefit stream}}{\text{ROI}}$
  - Where Return on Investment (ROI) is the risk adjusted rate of return an investor requires to justify investment in an asset.

- **Asset Approach**
  - Method used to value a business based on the difference between the fair market value of assets and liabilities.
    - Method is sound for estimating the value of a non-operating business (i.e., holding or investment companies).
    - Good method for estimating the value of a business which is continuing to generate losses, or which is to be liquidated.
    - Method sets a "floor value" for determining total entity value, because it does not address the operating earnings of the business.

- **Market Approach**
  - Theoretical application of the market approach is to allow the analyst to use a group of similar companies to determine relationships that will be applied to the subject company. The similar companies will not be identical to the subject company, but are intended to provide guidance during the valuation process.
  - Comparability traits include:
    - Same or similar line of business
    - Similar competitive positions within the industry
    - Similar historical rates of growth
    - Similar historical and current levels of profitability
    - Similar capital structures
    - Similar product lines
    - Similar size, relative to sales volume and total assets

- **Conclusion of Value**
  - In arriving at the conclusion:
    - Correlate and reconcile the results from the approaches and methods used
    - Assess the reliability of the results obtained under the different methods
    - Determine whether the conclusion of value should reflect the results of
      - One approach or method or a combination of the results of one or more approaches and methods

- **Discounts and Premiums**
  - The final value reached in the valuation may be more or less than the value that was calculated as a result of fundamental discounts and premiums.
  - Some of the common discounts and premiums are:
    - Control premium
    - Minority discount
    - Discount for lack of marketability
  - Valuation discounts and premiums are supported by empirical market studies.

- **Discounts and Premiums**
  - Control Premium – An amount or percentage by which the pro-rata value of a controlling interest exceeds the pro-rata value of a non-controlling interest in a business enterprise, to reflect the power of control.
  - Minority Interest Discount – A discount for lack of control applicable to an ownership interest of less than 50 percent of the voting interest in a business enterprise.
  - Discount for Lack of Marketability – An amount or percentage deducted from the value of an ownership interest to reflect the relative absence of marketability, or the ability to quickly convert property to cash at minimal cost.

- **Post-Valuation Subsequent Events**
  - Two types to consider:
    1. Events known or knowable at the valuation date should be taken into consideration
    2. Events not known or knowable should not be taken into consideration
  - In situations where the valuation is meaningful to the intended user beyond the valuation date
    - Post valuation events may be of such a nature and significance as to warrant disclosure (at analyst's option) to keep users from being misled
    - Such disclosures are for information only

- **Do the Results Make Sense?**
  - Test the Conclusion
    - After you reach your conclusion, do not forget to test it for reasonableness!
    - Ask yourself two key questions:
      - If I were the buyer, would I pay this much for the business?
      - If I were the seller, would I sell it for that much?
    - If the answer to either of these questions is "no", go back to the drawing board and see where you went wrong!

Views from Tax Court

- BVR's 4th Annual Tax Summit
- Session with Tax Court judges
- Covered a variety of topics

- **Views from Tax Court: Daubert**
  - Red Flags of Reliability, Relevance
    - Common sense – does the proposed value make sense to you? Your client?
    - Advocacy – expert is there to aid the court, not advocate a position
    - Unsupported assumptions – show analysis and detail
    - Relying on filler – completeness is good, filler can lose relevance
    - Transparency – connect the conclusion to the data

- **Views from Tax Court 'Difficult Issues'**
  - Discounted Cash Flow (DCF) vs. Guideline Public Company Method (GPCM)
    - DCF generally considered more reliable
    - Potential for "abundant amount of dissimilarity" in GPCM
    - GPCM should still be used, at least as a reasonableness check
  - Discounts for Lack of Marketability
    - Should 'artificial restrictions' in subject company stock be honored?
  - Tax-affecting
    - Judges polled yet to preside over a tax-affecting case
    - The issue "bears further review" according to Judge Laro
  - Subsequent events
    - Generally, anything after date of death "has no bearing"
    - Others will admit only those events that were known or knowable
    - Various rulings from various circuits still make this an "it depends" issue

Court Digest

- **FLPs Gone Right…**
  - Estate of Kelly v. Commissioner, T.C. Memo 2012-73
    - Followed formalities of FLP, and had legitimate business purposes
    - Estate plan expressly provided for matriarch to receive income and retain assets for living expenses
    - Taxpayer's position upheld
  - Keller v. United States, 2012 U.S. Dist.
    - 5th Circuit case
    - Decedent originally failed to fund FLP, but court found that she fully intended to create and fund the FLP before her death
      - State partnership law in Texas – "intent determines property ownership"
    - FLP (and discounts) ratified

- **FLPs Gone Wrong…**
  - Estate of Liljestrand v. Commissioner, T.C. Memo 2011-259
    - Ignored 'formalities' of the FLP and its operations; ignored formal appraisal
    - Disproportionate distributions to pay patriarch's living expenses
    - 'Business purposes' for the FLP didn't make sense
    - IRS prevailed on a 2036 challenge, and entire FMV of underlying assets included in estate

- **Marital Dissolution**
  - Wood v. Wood, 2011 Mo. App.
    - Husband and business partners had an existing buy-sell; husband and wife retained expert to compute value under the buy-sell
    - Buy-sell was based on older appraisal, plus earnings, less dividends (*not fair market value at date of divorce*)
    - Trial court found wife's expert more credible, but appellate court reversed and remanded, as neither expert complied with state statute to seek "fair value or fair market value" as of the date of the divorce

Qualified Appraisers and Penalties

- **Qualified Appraiser**
  - Pension Protection Act of 2006 (PPA) restated the definition of a *qualified appraiser* as an individual who:
    - Has earned an appraisal designation from a recognized professional appraisal organization or has otherwise met minimum education and experience requirements set forth in regulations prescribed by the Secretary
    - Regularly performs appraisals for which the individual receives compensation
    - Meets other such requirements as may be prescribed by the Secretary in regulations or other guidance

- **IRC 6695A Penalties**
  - PPA amended IRC 6695A to provide for monetary penalties if the following criteria were met
    - Appraiser knew, or reasonably should have known, that the appraisal would be used in connection with a return or a claim for refund
    - The claimed value of the property which is based on such appraisal results in a substantial valuation misstatement or a gross valuation misstatement

- **IRC 6695A Penalties**
  - Substantial valuation misstatement
    - Income tax – value claimed ≥ 150% of correct amount
    - Estate and gift tax – value claimed is ≤ 65% of correct amount
  - Gross valuation misstatement
    - Income tax – value claimed ≥ 200% of correct amount
    - Estate and gift tax – value claimed is ≤ 40% of correct amount
  - Penalty is lesser of:
    - The greater of
      - 10% of the amount of the underpayment or
      - $1,000
    - 125% of appraisal fee
  - No penalty imposed if appraiser establishes to the satisfaction of the Secretary that the value established in the appraisal was more likely than not the proper value
  - Administrative issues:
    - Separate and distinct from tax examination, but considered during tax examination
    - Not proposed in the presence of taxpayer
    - Not proposed until tax examination completed

SAMPLE QUESTIONS TO ASK VALUATION EXPERTS

Qualifications

- What business valuation professional accreditations do you hold?
- In what business valuation professional associations do you hold memberships?
- What formal business valuation professional courses have you completed?
- What business valuation seminars or professional forums have you attended?
- What writing, teaching, or speaking have you done in the area of business valuation?
- What other professional involvement have you had in the field of business valuation?
- Summarize your business valuation experience.

Valuation Standards and Scope

- What professional standards did you follow in the preparation of this valuation?
- What type of report did you issue under your professional standards (conclusion of value, calculation of value, complete report, summary report, etc.)?
- Were there any scope limitations or hypothetical conditions considered in your valuation report?

Standard and Premise of Value

- Exactly what standard and premise of value did you use in this case?
- What is the definition of this standard and premise of value?
- Why is this standard and premise of value appropriate to this case?

Selection of Valuation Approaches and Methods

- What valuation approaches or methods did you utilize in this case?
- Why were these approaches or methods most appropriate for this case?

Income Approach – Discounted Future Benefits Method

- What economic income variable (net cash flow, net income, etc) did you use in your projections?

- Why did you consider that the best measure of expected economic income in this case?
- What was the source of your projected income (management provided, management with modifications, self-developed)?
- What steps did you take to assure yourself that these projections and projection assumptions are realistic?
- What is a discount rate?
- What method did you use to develop your discount rate in this case?
- Why was that the best method in this case?
- What sources of information did you use to develop your discount rate?

Income Approach – Capitalization Method

- What economic income variable (net cash flow, net income, etc) did you capitalize?
- What time period does it represent (last year, average of several prior years, next year's expectation, etc.)?
- What was the source of the figure your capitalized?
- What steps did you take to assure yourself that this number is most representative of the company's income expectations?
- What is a capitalization rate?
- What is the relationship between a capitalization rate and a discount rate?
- What method did you use to develop your capitalization rate in this case?
- Why was that the best method in this case?
- What assumption did you make about future growth or decline in the income variable that you capitalized?
- What steps did you take to assure yourself that this growth rate is the most realistic expectation for this company over the long term?
- What sources of information did you use to develop your capitalization rate?

Market Approach

- What were the criteria that you used for selection of your comparable companies?

- What was the universe or data set from which you made your comparable company selections (all public companies, all companies in a particular database, etc)?
- What steps did you take to assure yourself that you did not omit any comparable companies that may have been appropriate to use?
- What adjustments did you make to your subject company for comparison with the comparable companies?
- What adjustments did you make to the comparable company financial statements to make them comparable to your subject company? Why or why not?
- What valuation ratios did you use (price to earnings, price to sales, etc.)?
- Why did you consider these the most appropriate valuation ratios to use in this case?
- Once you had compiled all the valuation ratios for the comparable companies, how did you decide where within the range for each ratio your subject company should fall?
- What analytical steps did you take in comparing your company with the comparable companies in order to decide where in the range of valuation ratios your company belonged?

Asset Approach

- What asset and / or liability items did you adjust?
- For each item,
    - Why did you adjust that item?
    - What was your source of information for making the adjustment?

Minority or Controlling Interests

- Did you apply any minority discount or control premium?
- Why or why not?
- If yes, what sources of information did you utilize to help quantify the amount of the discount or premium?
- Having started with that source, how did you then decide what the amount of the discount or premium should be for the subject business interest?

Marketability

- Did you apply a marketability discount?

- Why or why not?
- If yes, what sources of information did you utilize to help quantify the amount of the discount?
- Having started with that source, how did you then decide what the amount of the discount should be for the subject business interest?