Comprehensive Business Valuation Reporting Checklist for Valuation Engagements

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"The principal goal of education is to create men who are capable of doing new things, not simply of repeating what other generations have done."
— Jean Piaget

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Comprehensive Business Valuation
—— Reporting Checklist for Valuation Engagements ——

This document is intended to provide guidance for the communication of information to be included in a valuation report to effectively communicate the results of your analysis. The purpose is to help assure you are in compliance with the Reporting Standards of the National Association of Certified Valuators and Analysts™ (NACVA®) and the American Institute of Certified Public Accountants (AICPA) in their Statement on Standards for Valuation Services No. 1 (SSVS).

Disclaimers:

1) **Though this document is quite comprehensive, one should not construe it to suggest that every item noted herein is required to be reported in a business valuation report. Each engagement and each business is different. Thus, some or many items noted herein may not be necessary for consideration in the given circumstances.**

2) This document is not intended to replace a User's responsibility for having read and being fully conversant with both NACVA's and the AICPA's standards. The authors are fallible and items may have been overlooked. Thereby, we disclaim any and all liability for one's use of this document should it turn out that a valuation report produced while using this Checklist is not in compliance with the aforementioned standards.

3) This comprehensive checklist is designed for use in a valuation engagement to prepare either a Detailed or Summary Report determining a "Conclusion of Value." Thus, depending on which type of report the engagement calls for, will determine which items in this checklist are applicable or not applicable.

4) SSVS #22 states that: Hypothetical conditions affecting the subject interest may be required in some circumstances. When a valuation analyst uses hypothetical conditions during a valuation or calculation engagement, he or she should indicate the purpose for including the hypothetical conditions and disclose these conditions in the valuation or calculation report (paragraphs 52(n), 71(o), and 74).

5) SSVS #49 states all reports should indicate any restrictions on its use, which is elaborated on in SSVS #65(d).

6) SSVS #67 states reports should contain information on the analyst's qualifications.

7) SSVS #71 states a Summary Report is an abridged version of a Detailed Report, and lists its minimum requirements.

8) SSVS #73 through SSVS #76 refer to Calculation Reports and lists their minimum requirements.

9) SSVS #78 provides for Detailed or Summary Oral Reports in a valuation engagement as follows: An oral report may be used in a valuation engagement or a calculation engagement. An oral report should include all information the valuation analyst believes necessary to relate the scope, assumptions, limitations, and the results of the engagement so as to limit any misunderstandings between the analyst and the recipient of the oral report. The member should document in the working papers the substance of the oral report communicated to the client.

10) This document is a work in process and will be updated and improved on an ongoing basis. We appreciate any suggestions you may have. Please e-mail them to NACVA1@NACVA.com.

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Continued

—— Critical Elements Summary ——

1. SUMMARY AND DATES:

- ❑ The effective date of the valuation (and alternative valuation date if appropriate)
- ❑ The date and type of report
- ❑ The business, business ownership interest, security, or intangible assets
- ❑ Identity of the subject entity
- ❑ Description of the subject interest
- ❑ An overview of the Company and its Management
- ❑ Analyses of historical operating performance and financial position
- ❑ A conclusion of value stated in total and per share/unit or in ownership interest as appropriate

Comments: ____

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The above addresses: SSVS 51, 52

2. LIMITING CONDITIONS AND ASSUMPTIONS:

- ❑ A statement of disinterestedness in the Company and the report
- ❑ A statement that the report complies with various organizations applicable standards
- ❑ A statement of the specific purpose for which the report is prepared and that it applies only as at the stated valuation date
- ❑ Any restrictions or limitations in the scope of work or data available for analysis
- ❑ If the work of a specialist was used, a description of how the specialist's work was relied upon
- ❑ Any application of the jurisdictional exception
- ❑ A statement that the data received has been relied on with/without independent verification
- ❑ Limiting conditions (including hypothetical assumptions)
- ❑ Qualifications of the valuation analyst

Comments: ____

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The above addresses: SSVS 51, 52, 65

3. PURPOSE AND FUNCTION OF THE VALUATION:

- ❑ Statement as to why the asset, liability or security is being valued
- ❑ Purpose of the valuation
- ❑ Intended users of the Valuation Report
- ❑ The type (financial reporting, estate tax, gifting, ESOP, divorce, etc.) of the valuation
- ❑ The premises of value (going concern, in-use, liquidation, etc.)

Comments: ____

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The above addresses: SSVS 51, 52

4. STANDARD OF VALUE:

- ❑ A definition of the standard of value selected
- ❑ The rationale (e.g., the statute or buy/sell agreement or other reason which may dictate its use) as to why this standard of value is appropriate

Comments: ____

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The above addresses: SSVS 51, 52

—— Critical Elements Summary ——

Continued

5. METHODS OF VALUATION:

- ❑ Application of the three valuation approaches (asset, market, income) must be considered
- ❑ Reason why one or more were rejected
- ❑ Methods selected and why (for example a capitalization rather than a discounting technique)
- ❑ Analysis of subject entity and related non-financial information
- ❑ Financial statements/projections analysis
- ❑ Financial statement valuation adjustments

Comments: ____

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The above addresses: SSVS 59, 60, 67

6. WORKPAPERS:

- ❑ All workpapers must be included but only in final form. (Developmental Standards)

Comments: ____

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7. REPORT WRITING:

- ❑ Letter of transmittal
- ❑ Table of contents
- ❑ Introduction
- ❑ Sources of information, including whether and to what extent the subject entity's facilities were visited
- ❑ Appendices and exhibits
- ❑ Identity of client
- ❑ Restrictions or limitations
- ❑ Subsequent events
- ❑ Jurisdiction exception
- ❑ Non-operating assets, non-operating liabilities, and excess or deficient operating assets (if any)
- ❑ Representation of the valuation analyst
- ❑ Reconciliation of estimates and Conclusion of Value
- ❑ Industry and economic data
- ❑ Identification of financial statements used

Comments: ____

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The above addresses: SSVS 51, 52

	Initials	Date
Prepared By		
Approved By		

REPORT ELEMENTS IN DETAIL

Insert Page Ref. in Report, N/A, or ✓

SECTION I—REPORT FUNDAMENTALS

___________ **1. Introduction and Sources of Information**

___________ a. List all of the sources of information used to value the company.

___________ b. Where information is received from management, provide a list of documents supplied and reviewed.

___________ c. Where information is utilized from other resources, provide the proper footnote or endnotes indication source, date etc.

___________ d. Describe who engaged you and any restrictions in Letter of Engagement.

___________ e. Transmittal letter—addressed to person who engaged valuator, purpose of valuation, description of subject, total and per unit values.

___________ f. Is the report understandable to the anticipated reader?

___________ g. Is there appropriate detail in the table of contents?

___________ h. Has the report been reviewed for any obvious errors?

___________ i. Has the report been reviewed for any obvious omissions?

___________ j. Does the report lead to a logical conclusion?

___________ k. Is the report signed by the valuation analyst or persons responsible for issuing it?

___________ l. Have all calculations been checked for mathematical errors?

___________ m. Has the report been read, rather than computer checked, for spelling errors?

___________ n. Is the Company and its operating units properly identified?

___________ o. Is the purpose and intended user of the report properly identified?

___________ p. Is the subject, asset, liability, security, technology, or entity properly identified?

___________ q. Are the valuation and report dates clearly set out?

___________ r. Identify premise and define standard of value.

___________ s. State sources and nature (audited, reviewed, compiled, tax, etc.) of financial information.

___________ t. Ensure descriptions of item being valued are correct.

___________ u. Discuss control characteristics and degree of marketability.

___________ v. Identify type of report issued.

Comments: ____

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The above addresses: SSVS 51, 52, 53

Insert Page Ref. in Report, N/A, or ✓

SECTION II—QUALITATIVE FOUNDATIONS

___________ **2. Analysis of Subject Entity and Non-Financial Information**

___________ a. Provide an overview of the industry in which the Company operates.

___________ b. Description of asset, liability, security or technology to be valued. If security, add number of shares/units and percentage of ownership interest.

___________ c. Discuss the dividend and voting characteristics of the shares/units being valued. If there is more than one class of stock/units issued—discuss the characteristics of each.

___________ d. Discuss all related parties and any identified transactions.

___________ e. Site visits—discuss the circumstances and observations of the site visit, including date(s) and names of persons interviewed.

___________ f. History and background of the entity or company (include such items as legal name, form of organization, tax status, the state of incorporation, etc.).

___________ g. Previous transactions of company assets or stock.

___________ h. Restrictions on the sale or transfer of company stock, and details of any buy/sell agreements in place. Discuss impact of any restrictions on the value of the subject shares/units.

___________ i. Dividend payments, historical and current.

___________ j. Subsidiaries and affiliates.

___________ k. Management and staffing—list number of employees by function. Discuss the succession to existing management.

___________ l. Products and services—discuss the various product and services provided indicating the revenue and gross profit by major function.

___________ m. Sales and marketing—discuss how the entity generates sales and markets its products or services.

___________ n. Discuss issues affecting the industry and geographical area served.

___________ o. Customer concentration—analyze transactions with the largest customers for the past five years.

___________ p. 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.

___________ q. Physical facilities—discuss the adequacy and condition of the property, plant, and equipment, if applicable.

___________ r. Employee benefits—discuss the various employee benefits and the related costs.

___________ s. Proprietary content and technology—discuss any proprietary content, patents, copyrights, trade secrets etc.

___________ t. Discuss favorable access to raw materials, locations, government subsidies, or experience curve.

___________ u. Discuss long-term lease arrangements (including real estate) and their impact on value.

___________ v. Product/Service differentiation—discuss how the company's products and/or services differ from its competitors.

___________ w. Relative product/service quality—discuss the quality of the products and/or services provided by the company.

___________ x. Covenant not to compete—discuss the terms of any covenants not to compete.

___________ y. Contracts—discuss how the company handles its relationships and contracts with customers.

___________ z. Family involvement—discuss the family members and related parties working in the entity, their job functions, compensation, etc.

___________ aa. Quality of books and records—discuss the internal controls that are in place and how their compliance may affect the value of the company.

___________ bb. Employee turnover—discuss the turnover and address how the turnover affects the risk associated with the company.

SECTION II—QUALITATIVE FOUNDATIONS

— Continued —

Insert Page Ref. in Report, N/A, or ✓

__________ **2. Analysis of Subject Entity and Non-Financial Information**—*Continued*

__________ cc. Environmental issues—discuss any known environmental issues and how they affect the value of the company.

__________ dd. Future prospects—discuss the future prospects of the company.

__________ ee. Summary of positive and negative company-specific factors and how they impact the risk associated with the company.

Comments: ____

The above addresses: SSVS 57

__________ **3. Economic Condition**

__________ a. 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.

__________ b. 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.

__________ c. Regional/Local economy—discuss how the company is affected by the regional or local economy.

__________ d. Summary and conclusion of economic outlook—provide a recap of how the entity is affected by the national, state, and local economic conditions.

Comments: ____

The above addresses: SSVS 53h

SECTION III—ANALYTICAL FOUNDATIONS

__________ **4. Information Analysis**

__________ a. List the various NAICS or SIC codes for the industry and a brief description of the businesses covered.

__________ b. 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.

__________ c. Market share—discuss the company's positioning relative to the industry and competition.

__________ d. Ease of market entry, threat of market entry, barriers to market entry—discuss the ease, barriers, and obstacles of entering the market. Provide a summary of the barriers to entry and how they affect the company.

__________ e. Economies of scale—discuss the economies of scale including product differentiation, capital requirements, switching costs, access to distribution channels, cost disadvantages independent of scale.

	Initials	Date
Prepared By		
Approved By		

SECTION III—ANALYTICAL FOUNDATIONS

— Continued —

Insert Page Ref. in Report, N/A, or ✓

___________ **4. Information Analysis**—*Continued*

___________ f. 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.

___________ **5. Financial Statement Analysis—Entity/Company**

___________ a. Financial information provided—discuss how the financial information was prepared, audited, reviewed, compiled, internally prepared, tax returns, who prepared the financial information, etc.

___________ b. Results of operations and comparison to the industry—provide a summary description of the financial performance of the company over the years of the analysis.

___________ c. Balance sheet review—provide the company's historical balance sheets in the report or as exhibits with adequate detail to review for possible normalizing entries. Provide adequate support for all balance sheet adjustments.

___________ d. Income statement review—provide the company's income statements in the report or as exhibits with adequate detail to review for possible normalizing entries.

___________ e. Statement of cash flows—provide the company's historical statement of cash flows in the report or as exhibits with adequate detail to review for possible normalizing entries.

___________ f. 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.

___________ g. Inventory—discuss the method of costing the inventory, FIFO, LIFO, etc., and provide analysis and calculations for LIFO adjustment if appropriate.

Comments: ____

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The above addresses: SSVS 54, 55, 56, 58b, 58c

___________ **6. Financial Statement Analysis—Industry Comparison**

___________ a. Comparative ratio analysis—provides the company's comparative ratio analysis in the report or as exhibits with adequate detail.

___________ b. Liquidity ratios—provide a discussion and trend comparison of the liquidity ratios. Consider discussing the current ratio, the quick ratio, and the working capital turnover.

___________ c. Turnover ratios—provide a discussion and trend comparison of the turnover ratios. Consider discuss the receivables, inventory, and payables turnover ratios, and the operating cycle.

___________ d. Leverage ratios—provide a discussion and trend comparison. Consider discussing net fixed assets, current and total liabilities to tangible net worth, total assets to equity, total debt to total assets, and long-term debt to equity.

___________ e. Solvency ratios—provide a discussion and trend comparison of the company's ability to meet its debts. Consider discussing the interest coverage ratio, Z-Score, among other measures of solvency.

SECTION III—ANALYTICAL FOUNDATIONS

— Continued —

Insert Page Ref. in Report, N/A, or ✓

__________ **6. Financial Statement Analysis—Industry Comparison**—*Continued*

__________ f. Income statement review—provide a discussion and trend comparison of the turnover ratios. At a minimum, consider discussing the revenues and net operating profit; provide a discussion and comparison of the revenues and operating profit ratios. Consider discussing the sales growth rate, the gross profit, the operating profit, the net income before tax, return on equity, the return on assets, the net sales to net worth, the operating earnings growth rate, the earnings standard deviation, and the Z-score.

__________ g. 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?

Comments: ____

The above addresses: SSVS 58c

__________ **7. Financial Statement Analysis—Ratios**

__________ a. Summary of Financial and Industry Comparison Analysis—discuss how the ratios listed above affect the value of the company.

Comments: ____

The above addresses: SSVS 58c

__________ **8. Financial Statement Analysis—Ratios—Normalizing Adjustments**

__________ a. 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?

__________ b. Are the normalizing entries appropriate and reasonable relative to the level of value? (Control vs. lack of control interest.)

__________ c. Leasehold interest—discuss the leasehold arrangements. Consider the net present value of any favorable leases.

__________ d. Officers compensation—discuss and justify adjustment to officer's compensation. Show calculations for tax affecting (payroll) the officer's compensation adjustment.

__________ e. Depreciation—discuss how the future depreciation expense was calculated. Discussion should include section 179, economic useful life of existing assets and projected capital expenditures.

__________ f. Were non-operating or excess assets identified and adjustments made when appropriate?

Comments: ____

The above addresses: SSVS 64

SECTION IV—VALUATION APPROACHES AND METHODS CONSIDERED AND USED

METHODS OF VALUATION—ASSET

Insert Page Ref. in Report, N/A, or ✓

_________ **9. Asset Approach**

_________ a. Are all of the tangible assets and liabilities adjusted that should be adjusted?

_________ b. Are intangible assets properly adjusted?

_________ c. Are there any off balance sheet items not recorded on the balance sheets?

_________ d. Is there adequate support for any built-in capital gains tax?

_________ e. If approach is not used, did valuation report address why?

_________ f. Rationale and support for valuation methods used.

Comments: ____

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The above addresses: SSVS 61b

_________ **10. Excess Earnings Method**

_________ a. Is the earnings capacity supportable? Discuss and provide calculations for ongoing earnings capacity. Specifically discuss the use of the un-weighted average method, the weighted average method, the trend line–static method, the trend line–projected method and the projected growth rate in earnings. Explain each method and discuss how the ongoing earnings capacity was selected.

_________ b. Have the net tangible assets been properly determined?

_________ c. Have non-operating assets and/or liabilities been excluded? Was the income/expense from the non-operating assets removed from the company's adjusted earnings?

_________ d. Is the rate of return on net tangible assets adequately discussed and supported?

_________ e. Is the rate of return on intangible assets adequately discussed and supported?

_________ f. Is there some type of sanity check performed for reasonableness of the method used?

_________ g. Have any non-operating assets been added back and/or non-operating liabilities reduced from total value?

Comments: ____

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The above addresses: SSVS 59

METHODS OF VALUATION—MARKET APPROACH

_________ **11. Market Data Analysis—Public Companies**

_________ a. Does the analyst document a reasonable attempt to search for public companies—describing search criteria, number of companies identified, and specific reasons these companies were not considered?

_________ b. Is the population from which the comparable companies selected adequately disclosed?

_________ c. Is it clear that all qualified companies from the population have been considered?

_________ d. 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.

	Initials	Date
Prepared By		
Approved By		

SECTION IV—VALUATION APPROACHES AND METHODS CONSIDERED AND USED

— Continued —

Insert Page Ref. in Report, N/A, or ✓

METHODS OF VALUATION—MARKET APPROACH—*Continued*

___________ **11. Market Data Analysis—Public Companies**—*Continued*

___________ e. Specify the sources of the earnings growth rates for the public companies.

___________ f. Are the criteria for selection of public companies adequately discussed? Indicate how the public company transactions were selected for comparability. Specifically address the size, sales, employees, management and business form, geographic location, growth, one year sales growth percentage, three year sales growth percentage, current ratio, quick ratio, average collection period, profitability, return on total assets, return on equity, gross profit, operating profit, net profit, EBITDA percentage, accounts receivable turnover, inventory turnover, fixed asset turnover, total asset turnover, working capital turnover, total debt to total assets, long-term debt to equity. Provide all sources of information used.

___________ g. Does the report clearly discuss which market multiples were used and why they are or are not appropriate? Are the market prices for the public companies appropriate as of the valuation date?

___________ h. If adjustments were made to the public companies, were they adequately disclosed and discussed?

Comments: ____

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The above addresses: SSVS 60, 61c

___________ **12. Direct Market Data Method—Mid Market**

___________ a. Is the population from which the comparable companies selected adequately disclosed?

___________ b. Is it clear that all qualified companies from the population have been considered?

___________ c. Are the criteria for selection of mid-market companies adequately discussed? Indicate how the mid-market company transactions were selected for comparability. Specifically address the size, sale, employees, management and business form, geographic location, growth, one-year sales growth percentage, three-year sales growth percentage, current ratio, quick ratio, average collection period, profitability, return on total assets, return on equity, gross profit, operating profit, net profit, EBITDA percentage, accounts receivable turnover, inventory turnover, fixed asset turnover, total asset turnover, working capital turnover, total debt to total assets, long-term debt to equity. Provide all sources of information used.

___________ d. Does the report clearly discuss which market multiples were used and why they are or are not appropriate?

___________ e. Are the market prices for the public companies appropriate as of the valuation date?

___________ f. Are the public company transactions close enough to the valuation date to be relevant?

___________ g. If the public companies data is somewhat removed from the valuation date: discuss the reason for its use.

Comments: ____

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The above addresses: SSVS 61c

SECTION IV—VALUATION APPROACHES AND METHODS CONSIDERED AND USED

— Continued —

Insert Page Ref. in Report, N/A, or ✓

METHODS OF VALUATION—MARKET APPROACH—*Continued*

___________ **13. Direct Market Data Method—Transaction Databases (BIZCOMPS®, IBA, Pratt's Stats™, etc.)**

___________ a. Are the criteria for selection of transactions adequately discussed?

___________ b. Is the population from which the transactions selected adequately disclosed?

___________ c. Is it clear that all qualified companies from the population have been considered?

___________ d. Does the report clearly discuss which market multiples were used and why they are or are not appropriate?

___________ e. Are the transactions appropriate as of the valuation date?

___________ f. Are the transactions close enough to the valuation date to be relevant?

___________ g. If the transaction data is somewhat removed from the valuation date: discuss the reason for its use.

___________ h. Is there an adequate discussion of what type of assets are included in a typical sale, what a typical sale is, how to rank the transactions, and dealing with outliers? (Provide appropriate footnotes.)

___________ i. Is there an adequate discussion of when and how to use the mean multiple?

___________ j. Is there adequate analysis of the sales price to earnings and the sales price to gross sales ratios?

___________ k. Is there an adequate explanation as to why a multiple was or was not selected?

___________ l. Is there a discussion of when to use or not use premium or discounts when using the direct market data method?

Comments: ____

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The above addresses: SSVS 61c

___________ **14. Industry-Specific Multiples**

___________ a. Does the report clearly discuss the criteria for selection, which industry-specific multiples were used, and why they are or are not appropriate?

___________ b. 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.

___________ c. Is there an adequate discussion of which multiple was used and why it was used?

___________ d. Is there a discussion of when to use or not use premium or discounts when using the industry-specific multiples?

Comments: ____

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The above addresses: SSVS 61c

	Initials	Date
Prepared By		
Approved By		

SECTION IV—VALUATION APPROACHES AND METHODS CONSIDERED AND USED

— Continued —

Insert Page Ref. in Report, N/A, or ✓

METHODS OF VALUATION—INCOME APPROACH

__________ **15. Income Approach**

__________ a. Is the type of income clearly defined? (Net income, operating income, net cash flow to equity, net cash flow to invested capital, etc.)

__________ b. Is there adequate support for determining the earnings capacity of the company?

__________ c. Is the discount rate adequately supported?

__________ d. Discuss and provide calculations for ongoing earnings capacity. Specifically, discuss the use of the un-weighted average method, the weighted average method, the trend line—static method, the trend line—projected method and the projected growth rate in earnings. Explain each method and discuss how the ongoing earnings capacity was selected.

__________ e. Is there an adequate discussion of the principles of cost of capital components?

__________ f. Is the selection of a safe rate explained and justified?

__________ g. Is there an adequate discussion of the relationship of discount rate to capitalization rate?

__________ h. If approach was not used, does the report address reasons why?

Comments: ____

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The above addresses: SSVS 60, 61a

__________ **16. Capitalization of Earnings Method**

__________ a. Is the capitalization rate reasonable for the company?

__________ b. Is the earnings capacity reasonable for the company?

__________ c. Is the final value reasonable for the company?

__________ d. Were the non-operating assets included in the final value?

__________ e. Was the income/expense from the non-operating assets removed from the company's adjusted earnings?

Comments: ____

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The above addresses: SSVS 61a

__________ **17. Discounted Cash Flow Method**

__________ a. Does the report adequately address the "type" of cash flow used and why?

__________ b. Is there adequate disclosure of who made the cash flow projections? (Who made them, when, what for, what adjustments were made to the projections, etc.)

__________ c. Is there adequate analysis and discussion of the projected depreciation expense?

__________ d. Depreciation—discuss how the future depreciation expense was calculated. Discussion should include section 179, economic useful life of existing assets and estimated capital expenditures.

SECTION IV—VALUATION APPROACHES AND METHODS CONSIDERED AND USED

— Continued —

Insert Page Ref. in Report, N/A, or ✓

METHODS OF VALUATION—INCOME APPROACH—*Continued*

__________ **17. Discounted Cash Flow Method**—*Continued*

__________ e. Is there adequate analysis and discussion of the projected capital expenditures, changes in working capital, projected minimum cash balances, and projected changes in long-term debt?

__________ f. Has the report properly addressed the impact of non-operating assets and liabilities in the cash flow projections and the impact on the final value?

__________ g. Was the income/expense from the non-operating assets removed from the company's adjusted earnings?

Comments: ____

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The above addresses: SSVS 61a

__________ **18. Weighted Average Cost of Capital (WACC)**

__________ a. Is there adequate discussion of the WACC and when it is used?

__________ b. Is there adequate disclosure of the sources of equity and debt? (Cite publications, online, etc.)

__________ c. Is there adequate support for weighting the debt and equity? Is the basis for the weighting discussed?

__________ d. Is there an adequate discussion of the iterative process?

Comments: ____

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The above addresses: SSVS 61a

__________ **19. Build-Up Methods**

__________ a. Is the risk free rate of return effective as of the valuation date?

__________ b. Is the common stock equity risk premium as of the year of the valuation?

__________ c. Is the small capitalization equity risk premium as of the year of the valuation?

__________ d. If the industry risk premium was used, did the report adequately identify the source?

__________ e. Was the proper size premium used?

__________ f. Describe in detail how the company specific risk was determined.

__________ g. Is there an adequate discussion of the expected long-term earnings growth rate and the justification for the long-term growth rate selected?

Comments: ____

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The above addresses: SSVS 61a

SECTION IV—VALUATION APPROACHES AND METHODS CONSIDERED AND USED

— Continued —

Insert Page Ref. in Report, N/A, or ✓

METHODS OF VALUATION—INCOME APPROACH—*Continued*

__________ **20. Capital Asset Pricing Model—CAPM**

__________ a. Is the risk free rate of return effective as of the valuation date? Are the other components of the rate effective either as of the valuation date or the year of the valuation date?

__________ b. Is the equity risk premium adequate?

__________ c. Is the size premium adequate?

__________ d. Is there adequate support for the beta?

__________ e. Is there a discussion as to the assumptions of the Capital Asset Pricing Model?

__________ f. Is the discount/capitalization rate appropriate for the valuation?

Comments: ____

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The above addresses: SSVS 61a

__________ **21. Risk Rate Component Model—RRCM**

__________ a. Does the report demonstrate an understanding of how to use the Risk Rate Component Model?

Comments: ____

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The above addresses: SSVS 61a

__________ **22. Use of Projections**

__________ a. Income Statements

__________ i. Are the projected income statements presented with adequate detail? (Nominal, common sized, trends.)

__________ ii. Are the projected income statements presented in a form comparable to the historical financial statements?

__________ iii. Are the assumptions for the projected income statements adequately disclosed and are they reasonable?

__________ b. Balance Sheet

__________ i. Are the projected balance sheets presented with adequate detail? (Nominal, common sized, trends.)

__________ ii. Are the projected balance sheets presented in a form comparable to the historical financial statements?

__________ iii. Are the assumptions for the projected balance sheets adequately disclosed and are they reasonable?

__________ c. Statement of Cash Flows

__________ i. Are the projected statement of cash flows presented with adequate detail? (Nominal, common sized, trends.)

__________ ii. Are the projected statement of cash flows presented in a form comparable to the historical financial statements?

SECTION IV—VALUATION APPROACHES AND METHODS CONSIDERED AND USED

— Continued —

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METHODS OF VALUATION—INCOME APPROACH—*Continued*

__________ **22. Use of Projections**—*Continued*

__________ iii. Are the assumptions for the projected statement of cash flows adequately disclosed and are they reasonable?

__________ d. Ratios

__________ i. Are the projected ratios presented with adequate detail? (Nominal, common sized, trends.)

__________ ii. Are the projected ratios presented in a form comparable to the historical financial statements?

__________ iii. Are the assumptions for the projected ratios adequately disclosed and are they reasonable?

Comments: ____

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The above addresses: SSVS 61a

__________ **23. Intangible Asset Valuation**

Were the following considered and explained in the valuation?

__________ a. Remaining useful life.

__________ b. Current and anticipated future use of the intangible asset.

__________ c. Rights attributable to the intangible asset.

__________ d. Position of intangible asset in its life cycle.

__________ e. Appropriate discount rate for the intangible asset.

__________ f. Appropriate capital or contributory asset charge, if any.

__________ g. Research and development or marketing expense needed to support the intangible asset in its existing state.

__________ h. Allocation of income (for example, incremental income, residual income, or profit split income) to intangible asset.

__________ i. Whether any tax amortization benefit would be included in the analysis.

__________ j. Discounted multi-year excess earnings.

__________ k. Market royalties.

__________ l. Relief from royalty.

Comments: ____

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SECTION V—VALUATION ADJUSTMENTS

___________ **24. Discounts and Premiums**

___________ a. Discuss the adequacy of including a control premium to the final value.

___________ b. Discuss the adequacy of including a minority interest discount to the final value.

___________ c. Discuss the adequacy of including a marketability discount to the final value. Demonstrate an understanding and the ability to apply the following marketability studies. (Institutional Investors study, Public Offering studies, Security Exchange Commission study, the Gelman study, Trout study, the Moroney study, the Maher study, Standard Research Consultants, Pittock/Stryker) study, Silber study, FMV Opinions, Inc. (Hall/Polleck) study, IPO studies, Emory study.)

___________ d. If a model was used to support a marketability discount, has the report demonstrated adequate understanding and use of that model?

___________ e. Summarize the various marketability discount studies.

___________ f. 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.

___________ g. Discuss the application of all discounts or premiums as applied to both a control and minority shareholder.

___________ h. Is there adequate support for the premiums and or discounts applied?

___________ i. Discuss the degree of control or lack of control characteristics.

___________ j. Discuss and provide rationale and calculations for control premium or lack of control discounts.

___________ k. Has the report adequately addressed the impact and applicability of court decisions in arriving at the final discount or premium?

Comments: ____

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The above addresses: SSVS 63

SECTION VI—REPRESENTATIONS OF THE VALUATION ANALYST

___________ **25. Are the Following Attributes Present? (Check those that apply)**

___________ a. The analyses, opinions, and conclusion of value included in the valuation report are subject to the specified assumptions and limiting conditions, and they are the personal analyses, opinions, and conclusion of value of the valuation analyst.

___________ b. The economic and industry data included in the valuation report have been obtained from various printed or electronic reference sources that the valuation analyst believes to be reliable (any exceptions should be noted). The valuation analyst has not performed any corroborating procedures to substantiate that data.

___________ c. The valuation engagement was performed in accordance with NACVA's Professional Standards and if applicable, the American Institute of Certified Public Accountants Statement on Standards for Valuation Services No. 1 (SSVS).

___________ d. The parties for which the information and use of the valuation report is restricted are identified; the valuation report is not intended to be and should not be used by anyone other than such parties.

___________ e. The analyst's compensation is fee-based or is contingent on the outcome of the valuation.

SECTION VI—REPRESENTATIONS OF THE VALUATION ANALYST

Insert Page Ref. in Report, N/A, or ✓

— Continued —

__________ **25. Are the Following Attributes Present? (Check those that apply)**—*Continued*

__________ f. The valuation analyst used the work of one or more outside specialists to assist during the valuation engagement. (An outside specialist is a specialist other than those employed in the valuation analyst's firm.) If the work of such a specialist was used, the specialist should be identified. The valuation report should include a statement identifying the level of responsibility, if any, the valuation analyst is assuming for the specialist's work.

__________ g. The valuation analyst has no obligation to update the report or the conclusion of value for information that comes to his or her attention after the date of the report.

__________ h. The valuation analyst and the person(s) assuming responsibility for the valuation should sign the representation in their own name(s). The names of those providing significant professional assistance should be identified.

__________ i. Disclose any conflicts of interest.

__________ j. Disclose any hypothetical conditions.

__________ k. Disclose if did the audit, review or compilation, or prepare the tax returns, or that we assume no responsibility.

Comments: ____

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The above addresses: SSVS 54, 55, 56, 64, 65, 66

SECTION VII—CONCLUSION OF VALUE

__________ **26. Conclusion of Value**

__________ a. Is there an adequate synthesis and reconciliation of the values?

__________ b. If necessary, does the report address mathematical versus subjective weighting?

__________ c. Is there replicability of all calculations in the report?

__________ d. Is there an adequate justification of the methods of valuation selected?

__________ e. Is the final determination of value consistent with the analysis performed?

The following information should be included:

__________ a. A valuation engagement was performed, including the subject interest and the valuation date.

__________ b. The analysis was performed solely for the purpose described in this report, and the resulting conclusion of value should not be used for any other purpose.

__________ c. The valuation engagement was conducted in accordance with NACVA's Professional Standards, and if applicable, the American Institute of Certified Public Accountants Statement on Standards for Valuation Services No. 1 (SSVS).

__________ d. A statement that the determination of value resulting from a valuation engagement is expressed as a conclusion of value.

__________ e. The scope of work or data available for analysis is explained, including any restrictions or limitations (paragraph 19).

__________ f. A statement describing the conclusion of value, either a single amount or a range.

__________ g. The conclusion of value is subject to the assumptions and limiting conditions (paragraph 18) and to the valuation analysts' representation (paragraph 65).

	Initials	Date
Prepared By		
Approved By		

SECTION VII—CONCLUSION OF VALUE

— Continued —

Insert Page Ref. in Report, N/A, or ✓

___________ **26. Conclusion of Value**—*Continued*

___________ h. The report is signed in the name of the valuation analyst or the valuation analyst's firm.

___________ i. The date of the valuation report is included.

___________ j. The valuation analyst has no obligation to update the report or the conclusion of value for information that comes to his or her attention after the date of the report.

Comments: ____

The above addresses: SSVS 62, 68

Final Comments that refer to any additional details in your valuation report: ________________________________

