

American Society of Appraisers

Business Valuation Standards©

This release of the approved Business Valuation Standards of the American Society of Appraisers contains all standards approved through August, 2002, and is to be used in conjunction with the *Uniform Standards of Professional Appraisal Practice* (USPAP) of The Appraisal Foundation and the *Principles of Appraisal Practice and Code of Ethics* of the American Society of Appraisers. Periodic updates to these Standards are posted to the Business Valuation Committee's website www.bvappraisers.org.

It contains the following sections, effective on the dates listed:

<u>Item</u>	<u>Title</u>	<u>Effective Date</u>	<u>Page</u>
GENERAL PREAMBLE		September 1992 Revised January 1994 Revised February 2001 Revised August 2002	3
BUSINESS VALUATION STANDARDS (BVS) (Standards provide minimum criteria for developing and reporting on the valuation of businesses, business ownership interests, or securities.)			
BVS-I	General Requirements for Developing a Business Valuation	January 1992 Revised June 1993 Revised January 1994 Revised January 1996 Revised February 2001	4
BVS-II	Financial Statement Adjustments	September 1992 Revised January 1994 Revised February 2001	7
BVS-III	Asset-Based Approach to Business Valuation	January 1992 Revised January 1994 Revised February 2001 Revised August 2002	8
BVS-IV	Income Approach to Business Valuation	September 1992 Revised January 1994 Revised February 2001	10
BVS-V	Market Approach to Business Valuation	September 1992 Revised January 1994 Revised February 2001	12

BVS-VI	Reaching a Conclusion of Value	September 1992 Revised January 1994 Revised February 2001 Revised August 2002	14
<u>Item</u>	<u>Title</u>	<u>Effective Date</u>	<u>Page</u>
BVS-VII	Valuation Discounts and Premiums	January 1996 Revised February 2001	16
BVS-VIII	Comprehensive Written Business Valuation Report	June 1991 Revised January 1994 Revised February 2001	18
DEFINITIONS		January 1989 Revised September 1992 Revised June 1993 Revised January 1994 Revised February 2001 Revised June 2002	21
STATEMENTS ON BUSINESS VALUATION STANDARDS (SBVS) (Statements clarify, interpret, explain, or elaborate on Standards. Statements have the full weight of Standards.)			
SBVS-1	The Guideline Company Valuation Method	January 1992 Revised January 1994 Revised February 2001 Revised July 2001	31
ADVISORY OPINIONS (AO) (Advisory Opinions illustrate the applicability of Standards and Statements in specific situations, offer advice for the resolution of valuation issues, and are not binding.)			
AO-1	Financial Consultation and Advisory Services	February 1997 Revised February 2001	33
PROCEDURAL GUIDELINES (PG) (Procedural Guidelines suggest certain procedures that may be used in the conduct of an assignment. They are not binding.)			
PG-1	Litigation support: Role of The Independent Financial Expert	July 2001	34

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Business Valuation Standards

General Preamble©

- I. The American Society of Appraisers, through its Business Valuation Committee, has adopted these Business Valuation Standards (“the Standards”) in order to maintain and enhance the quality of business valuations for the benefit of the business valuation profession and users of business valuations.
- II. The American Society of Appraisers, in its *Principles of Appraisal Practice and Code of Ethics*, and The Appraisal Foundation, in its *Uniform Standards of Professional Appraisal Practice* (“USPAP”), have established authoritative principles and a code of professional ethics. These Standards incorporate the *Principles of Appraisal Practice and Code of Ethics* and the relevant portions of USPAP, either explicitly or by reference, and are designed to clarify them and provide additional requirements specifically applicable to the valuation of businesses, business ownership interests, and securities.
- III. These Standards incorporate all relevant business valuation standards adopted by the American Society of Appraisers through its Business Valuation Committee.
- IV. These Standards provide minimum criteria to be followed by business appraisers in developing and reporting the valuation of businesses, business ownership interests, and securities.
- V. If, in the opinion of the appraiser, the circumstances of a specific business valuation assignment dictate a departure from any provision of any Standard, such departure must be disclosed and will apply only to the specific provision.
- VI. These Standards are designed to provide guidance to ASA members and to provide a structure for regulating the development and reporting of business valuations through uniform practices and procedures. Deviations from the Standards are not intended to form the basis of any civil liability and should not create any presumption or evidence that a legal duty has been breached. Moreover, compliance with these Standards does not create any special relationship between the appraiser and any other person.

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AMERICAN SOCIETY OF APPRAISERS
Business Valuation Standards

BVS-I General Requirements for Developing a Business Valuation©

I. Preamble

- A. This Standard must be followed in all valuations of businesses, business ownership interests, and securities developed by all members of the American Society of Appraisers, be they Candidates, Accredited Members (AM), Accredited Senior Appraisers (ASA), or Fellows (FASA).
- B. The purpose of this Standard is to define and describe the general requirements for developing the valuation of businesses, business ownership interests, and securities.
- C. This Standard incorporates the General Preamble to the Business Valuation Standards of the American Society of Appraisers.

II. Appropriate definition of the assignment

- A. Business Valuation is the act or process of determining the value of a business enterprise or ownership interest therein.
- B. In developing a business valuation, an appraiser must identify and define:
 - 1. The business, business ownership interest, or security to be valued
 - 2. The effective date of the appraisal
 - 3. The standard of value
 - 4. The purpose and intended use of the valuation
- C. The nature and scope of the assignment must be defined. An acceptable scope of work will generally be one of the three types detailed below. Other scopes of work should be explained and described.
 - 1. Appraisal
 - a. An Appraisal is the act or process of determining the value of a business, business ownership interest, security, or intangible asset.
 - b. The objective of an appraisal is to express an unambiguous opinion as to the value of a business, business ownership interest, or security, which opinion is supported by all procedures that the appraiser deems to be relevant to the valuation.
 - c. An appraisal has the following qualities:
 - (1) Its conclusion of value is expressed as either a single dollar amount or a range.

- (2) It considers all relevant information as of the appraisal date available to the appraiser at the time of performance of the valuation.
- (3) The appraiser conducts appropriate procedures to collect and analyze all information expected to be relevant to the valuation.
- (4) The valuation considers all conceptual approaches deemed to be relevant by the appraiser.

2. Limited appraisal

- a. The objective of a limited appraisal is to express an estimate as to the value of a business, business ownership interest, or security. The development of this estimate excludes some additional procedures that are required in an appraisal.
- b. A limited appraisal has the following qualities:
 - (1) Its conclusion of value is expressed as either a single dollar amount or a range.
 - (2) It is based upon consideration of limited relevant information.
 - (3) The appraiser conducts only limited procedures to collect and analyze the information that such appraiser considers necessary to support the conclusion presented.
 - (4) The valuation is based upon the conceptual approach(es) deemed by the appraiser to be most appropriate.

3. Calculations

- a. The objective of calculations is to provide an approximate indication of value based upon the performance of limited procedures agreed upon by the appraiser and the client.
- b. Calculations have the following qualities:
 - (1) Their results may be expressed as either a single dollar amount or a range.
 - (2) They may be based upon consideration of only limited relevant information.
 - (3) The appraiser performs limited information and analysis procedures.
 - (4) The calculations may be based upon conceptual approaches agreed upon with the client.

III. Information collection and analysis

The appraiser shall gather, analyze, and adjust the relevant information necessary to perform a valuation appropriate to the scope of work. Such information shall include:

- A. Characteristics of the business, business ownership interest, or security to be valued, including rights, privileges, conditions, quantity, factors affecting control, and agreements restricting sale or transfer
- B. The nature, history, and outlook of the business
- C. Historical financial information for the business
- D. Assets and liabilities of the business
- E. The nature and conditions of relevant industries that have an impact on the business
- F. Economic factors affecting the business

- G. Capital markets providing relevant information; for example, available rates of return on alternative investments, relevant public stock market information, and relevant merger and acquisition information
- H. Prior transactions involving the subject business, an interest in the subject business, or the securities of the subject business
- I. Other information deemed by the appraiser to be relevant

IV. Approaches, methods, and procedures

- A. The appraiser shall select and apply appropriate valuation approaches, methods, and procedures.
- B. The appraiser shall develop a conclusion of value pursuant to the valuation assignment as defined, considering the relevant valuation approaches, methods, and procedures, the information available, and appropriate premiums and discounts, if any.

V. Documentation and retention

The appraiser shall appropriately document and retain all information relied on and the work product used in reaching a conclusion.

VI. Reporting

The appraiser shall report the appraisal conclusions to the client in an appropriate written or oral format. Other than preliminary communications of results to a client, reporting on valuation calculations, or reporting on engagements that do not result in conclusions of value, the report must meet the requirements of Standard 10 of the Uniform Standards of Professional Appraisal Practice. In the event the assignment results in a Comprehensive Written Business Valuation Report, the report shall meet the requirements of BVS-VIII.

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Business Valuation Standards

BVS-II Financial Statement Adjustments©

I. Preamble

- A. This Standard must be followed in all valuations of businesses, business ownership interests, and securities developed by all members of the American Society of Appraisers, be they Candidates, Accredited Members (AM), Accredited Senior Appraisers (ASA), or Fellows (FASA).
- B. The purpose of this Standard is to define and describe the requirements for making financial statement adjustments in the valuation of businesses, business ownership interests, and securities.
- C. This Standard applies to appraisals and may not necessarily apply to limited appraisals and calculations as defined in BVS-I, Section II.B.
- D. This Standard incorporates the General Preamble to the Business Valuation Standards of the American Society of Appraisers.

II. Conceptual framework

- A. As a procedure in the valuation process, financial statements should be analyzed and, if appropriate, adjusted. Financial statements to be analyzed include those of the subject entity and any entities used as guideline companies.
- B. Financial statement adjustments are modifications to reported financial information that are relevant and significant to the appraisal process. Adjustments may be appropriate for the following reasons, among others:
 - 1. To present financial data of the subject and guideline companies on a consistent basis.
 - 2. To adjust from reported values to current values
 - 3. To adjust revenues and expenses to levels that are reasonably representative of continuing results
 - 4. To adjust for non-operating assets and liabilities, and any related revenues and expenses
- C. Financial statement adjustments are made for the sole purpose of assisting the appraiser in reaching a conclusion of value.

III. Documentation of adjustments

All adjustments made should be fully described and supported.

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Business Valuation Standards

BVS-III Asset-Based Approach to Business Valuation

I. Preamble

- A. This Standard must be followed in all valuations of businesses, business ownership interests, and securities developed by all members of the American Society of Appraisers, be they candidates, Accredited Members (AM), Accredited Senior Appraisers (ASA), or Fellows (FASA).
- B. The purpose of this Standard is to define and describe the requirements for the use of the asset-based approach (and the circumstances in which it is appropriate) in the valuation of businesses, business ownership interests, and securities, but not the reporting thereof.
- C. This Standard applies to appraisals and may not necessarily apply to limited appraisals and calculations as defined in BVS-I, Section II.B.
- D. This Standard incorporates the General Preamble to the Business Valuation Standards of the American Society of Appraisers.

II. The asset-based approach

- A. The asset-based approach is a general way of determining a value indication of a business, business ownership interest, or security using one or more methods based on the value of the assets net of liabilities.
- B. In business valuation, the asset-based approach may be analogous to the cost approach of other disciplines.
- C. Assets, liabilities, and equity relate to a business that is an operating company, a holding company, or a combination thereof (a mixed business).
 - 1. An operating company is a business that conducts an economic activity by generating and selling, or trading in a product or service.
 - 2. A holding company is a business that derives its revenues by receiving returns on its assets, which may include operating companies and/or other businesses.
- D. The asset-based approach should be considered in valuations conducted at the enterprise level and involving:
 - 1. An investment or real estate holding company
 - 2. A business appraised on a basis other than as a going concern

Valuations of *particular ownership interests* in an enterprise may or may not require the use of the asset-based approach.

- E. The asset-based approach should not be the sole appraisal approach used in assignments relating to operating companies appraised as going concerns unless this approach is customarily used by sellers and buyers. In such cases, the appraiser must support the selection of this approach.

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Business Valuation Standards

BVS-IV Income Approach to Business Valuation

I. Preamble

- A. This Standard must be followed in all valuations of businesses, business ownership interests, and securities developed by all members of the American Society of Appraisers, be they Candidates, Accredited Members (AM), Accredited Senior Appraisers (ASA), or Fellows (FASA).
- B. The purpose of this Standard is to define and describe the requirements for the use of the income approach in the valuation of businesses, business ownership interests, and securities, but not the reporting thereof.
- C. This Standard applies to appraisals and may not necessarily apply to limited appraisals and calculations as defined in BVS-I, Section II.B.
- D. This Standard incorporates the General Preamble to the Business Valuation Standards of the American Society of Appraisers.

II. The income approach

- A. The income approach is a general way of determining a value indication of a business, business ownership interest, or security by using one or more methods through which anticipated benefits are converted into value.
- B. Both capitalization of benefits methods and discounted future benefits methods are acceptable. In capitalization of benefits methods, a representative benefit level is divided or multiplied by an appropriate capitalization factor to convert the benefit to value. In discounted future benefits methods, benefits are estimated for each of several future periods. These benefits are converted to value by applying an appropriate discount rate and using present value procedures.

III. Anticipated benefits

- A. Anticipated benefits, as used in the income approach, are expressed in monetary terms. Anticipated benefits may be reasonably represented by such items as dividends or various forms of earnings or cash flow.
- B. Anticipated benefits should be estimated by considering such items as the nature, capital structure, and historical performance of the related business entity, the expected future outlook for the business entity and relevant industries, and relevant economic factors.

IV. Conversion of anticipated benefits

- A. Anticipated benefits are converted to value by using procedures that consider the expected growth and timing of the benefits, the risk profile of the benefits stream, and the time value of money.
- B. The conversion of anticipated benefits to value normally requires the determination of a capitalization factor or discount rate. In that determination, the appraiser should consider

- such factors as the level of interest rates, the rates of return expected by investors on alternative investments, and the specific risk characteristics of the anticipated benefits.
- C. In discounted future benefits methods, expected growth is considered in estimating the future stream of benefits. In capitalization of benefits methods, expected growth is incorporated in the capitalization factor.
 - D. The capitalization factors or discount rates should be consistent with the types of anticipated benefits used. For example, pre-tax factors or rates should be used with pre-tax benefits, common equity factors or rates should be used with common equity benefits, and net cash flow factors or rates should be used with net cash flow benefits.

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Business Valuation Standards

BVS-V Market Approach to Business Valuation©

I. Preamble

- A. This Standard must be followed in all valuations of businesses, business ownership interests, and securities developed by all members of the American Society of Appraisers, be they Candidates, Accredited Members (AM), Accredited Senior Appraisers (ASA), or Fellows (FASA).
- B. The purpose of this Standard is to define and describe the requirements for the use of the market approach in the valuation of businesses, business ownership interests, and securities, but not the reporting thereof.
- C. This Standard applies to appraisals and may not necessarily apply to limited appraisals and calculations as defined in BVS-I, Section II.B.
- D. This Standard incorporates the General Preamble to the Business Valuation Standards of the American Society of Appraisers.

II. The market approach

- A. The market approach is a general way of determining a value indication of a business, business ownership interest, or security by using one or more methods that compare the subject to similar businesses, business ownership interests, or securities that have been sold.
- B. Examples of market approach methods include the guideline company method (see SBVS-1) and the analysis of prior transactions in the ownership of the subject company.

III. Reasonable basis for comparison

- A. The business, business ownership interest, or security used for comparison must serve as a reasonable basis for such comparison.
- B. Factors to be considered in judging whether a reasonable basis for comparison exists include:
 - 1. A sufficient similarity of qualitative and quantitative investment characteristics
 - 2. The amount and verifiability of data known about the similar investment
 - 3. Whether or not the price of the similar investment was obtained in an arm's-length transaction, or a forced or distress sale

IV. Selection of valuation ratios

- A. Comparisons are normally made through the use of valuation ratios. The computation and use of such ratios should provide meaningful insight about the value of the subject, considering all relevant factors. Accordingly, care should be exercised with respect to issues such as:

1. The selection of the underlying data used to compute the valuation ratios
 2. The selection of the time periods and/or the averaging methods used for the underlying data
 3. The computation of the valuation ratios
 4. The timing of the price data used in the valuation ratios
 5. How the valuation ratio or ratios were selected and applied to the subject's underlying data
- B. In general, comparisons should be made by using comparable definitions of the components of the valuation ratios. However, where appropriate, valuation ratios based on components that are reasonably representative of ongoing results may be used.

V. Rules of thumb

Rules of thumb may provide insight on the value of a business, business ownership interest, or security. However, value indications derived from the use of rules of thumb should not be given substantial weight unless they are supported by other valuation methods and it can be established that knowledgeable buyers and sellers place substantial reliance on them.

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Business Valuation Standards

BVS-VI Reaching a Conclusion of Value©

I. Preamble

- A. This Standard must be followed in all valuations of businesses, business ownership interests, and securities developed by all members of the American Society of Appraisers, be they Candidates, Accredited Members (AM), Accredited Senior Appraisers (ASA), or Fellows (FASA).
- B. The purpose of this Standard is to define and describe the requirements for reaching a final conclusion of value in the valuation of businesses, business ownership interests, and securities.
- C. This Standard applies to appraisals and may not necessarily apply to limited appraisals and calculations as defined in BVS-I, Section II.B.
- D. This Standard incorporates the General Preamble to the Business Valuation Standards of the American Society of Appraisers.

II. General

- A. The conclusion of value reached by the appraiser shall be based upon the applicable standard of value, the purpose and intended use of the valuation, and all relevant information available as of the valuation date in carrying out the scope of the assignment.
- B. The conclusion of value reached by the appraiser will be based on value indications resulting from one or more methods performed under one or more appraisal approaches.

III. Selection and weighing of methods

- A. The selection of and reliance on appropriate methods and procedures depends on the judgment of the appraiser and not on any prescribed formula. One or more approaches may not be relevant to a particular situation, and more than one method under an approach may be relevant.
- B. The appraiser must use informed judgment when determining the relative weight to be accorded to indications of value reached on the basis of various methods, or whether an indication of value from a single method should dominate. The appraiser's judgment may be presented either in general terms or in terms of mathematical weighting of the indicated values reflected in the conclusion. In any case, the appraiser should provide the rationale for the selection or weighing of the method or methods relied on in reaching the conclusion.

- C. In assessing the relative importance of indications of value determined under each method, or whether an indication of value from a single method should dominate, the appraiser should consider factors such as:
 - 1. The applicable standard of value
 - 2. The purpose and intended use of the valuation
 - 3. Whether the subject is an operating company, a real estate or investment holding company, or a company with substantial non-operating or excess assets
 - 4. The quality and reliability of data underlying the indication of value
 - 5. Such other factors that, in the opinion of the appraiser, are appropriate for consideration

IV. Additional factors to consider

As appropriate for the valuation assignment as defined, and if not considered in the process of determining and weighing the indications of value provided by various procedures, the appraiser should separately consider the following factors in reaching a final conclusion of value:

- A. Marketability or lack thereof, considering the nature of the business, the business ownership interest, or security; the effect of relevant contractual and legal restrictions; and the condition of the markets
- B. The ability of the appraised interest to control the operation, sale, or liquidation of the relevant business
- C. Such other factors that, in the opinion of the appraiser, are appropriate for consideration.

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Business Valuation Standards

BVS-VII Valuation Discounts and Premiums©

I. Preamble

- A. This Standard must be followed in all valuations of businesses, business ownership interests, and securities developed by all members of the American Society of Appraisers, be they Candidates, Accredited Members (AM), Accredited Senior Appraisers (ASA), or Fellows (FASA).
- B. The purpose of this Standard is to define and describe the requirements for the use of discounts and premiums whenever they are applied in the valuation of businesses, business ownership interests, and securities.
- C. This Standard applies to appraisals and may not necessarily apply to limited appraisals and calculations as defined in BVS-I, Section II.B.
- D. This Standard incorporates the General Preamble to the Business Valuation Standards of the American Society of Appraisers.
- E. This Standard applies at any time in the valuation process, whether within a method, to the value indicated by a valuation method, or to the result of weighing or correlating methods.

II. The concepts of discounts and premiums

- A. A discount has no meaning until the conceptual basis underlying the base value to which it is applied is defined.
- B. A premium has no meaning until the conceptual basis underlying the base value to which it is applied is defined.
- C. A discount or premium is warranted when characteristics affecting the value of the subject interest differ sufficiently from those inherent in the base value to which the discount or premium is applied.
- D. A discount or premium quantifies an adjustment to account for differences in characteristics affecting the value of the subject interest relative to the base value to which it is compared.

III. The application of discounts and premiums

- A. The purpose, applicable standard of value, or other circumstances of an appraisal may indicate the need to account for differences between the base value and the value of the subject interest. If so, appropriate discounts or premiums should be applied.
- B. The base value to which the discount or premium is applied must be specified and defined.
- C. Each discount or premium to be applied to the base value must be defined.
- D. The primary reasons why each selected discount or premium applies to the appraised interest must be stated.

- E. The evidence considered in deriving the discount or premium must be specified.
- F. The appraiser's reasoning in arriving at a conclusion regarding the size of any discount or premium applied must be explained.

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Business Valuation Standards

BVS-VIII Comprehensive Written Business Valuation Report©

I. Preamble

- A. This Standard must be followed only in the preparation of comprehensive written business valuation reports developed by all members of the American Society of Appraisers, be they Candidates, Accredited Members (AM), Accredited Senior Appraisers (ASA), or Fellows (FASA).
- B. A business valuation report may be less comprehensive in content provided that the report complies with the minimum content required by Standard 10.2 of the USPAP.
- C. The purpose of this Standard is to define and describe the requirements for the written communication of the results of a business valuation, analysis, or opinion, but not the conduct thereof, which may reflect the three scopes of work defined in BVS-I Section (II) B.
- D. This Standard incorporates the General Preamble to the Business Valuation Standards of the American Society of Appraisers.

II. Signature and certification

- A. An appraiser assumes responsibility for the statements made in the comprehensive written report and accepts that responsibility by signing the report. To comply with this Standard, a comprehensive written report must be signed by the appraiser. For the purpose of this Standard, the appraiser is the individual or entity undertaking the appraisal assignment under a contract with the client.
- B. Clearly, at least one individual is responsible for the valuation conclusion(s) expressed in a report. A report must contain a certification, as required by Standard 10 of the *Uniform Standards of Professional Appraisal Practice* of The Appraisal Foundation, in which the individual(s) responsible for the valuation conclusion(s) must be identified.

III. Assumptions and limiting conditions

The following assumptions and/or limiting conditions must be stated:

- A. *Pertaining to bias.* A report must contain a statement that the appraiser has no interest in the asset appraised, or other conflict that could cause a question as to the appraiser's independence or objectivity; or, if such an interest or conflict exists, it must be disclosed.
- B. *Pertaining to data used.* Where appropriate, a report must indicate that an appraiser relied on data supplied by others, without further verification by the appraiser, as well as the sources that were relied on.
- C. *Pertaining to validity of the valuation.* A report must contain a statement that a valuation is valid only for the valuation date indicated and for the purpose stated.

IV. Definition of the valuation assignment

The precise definition of the valuation assignment is a key aspect of the report. The following are components of such a definition and must be included in the report:

- A. The business interest being valued must be clearly defined, such as “100 shares of the Class A common stock of the XYZ Corporation” or “a 20 percent limited partnership interest in the ABC Limited Partnership.” The existence, rights, and/or restrictions of other classes of ownership in the subject business must also be adequately described if they are relevant to the conclusion of value.
- B. The purpose and use of the valuation must be clearly stated, such as “a determination of fair market value for ESOP purposes” or “a determination of fair value for dissenters' rights purposes.” If a valuation is being performed pursuant to a particular statute, the statute must be referenced.
- C. The standard of value used in the valuation must be stated and defined. The premise or basis of value, such as the valuation of a minority interest or a controlling interest, must be stated.
- D. The effective date and the report date must be stated.

V. Business description

A comprehensive written business valuation report must include a business description that covers relevant factual areas, such as:

- A. Form of organization (corporation, partnership, etc.)
- B. History
- C. Products and/or services
- D. Markets and customers
- E. Management
- F. Major assets, both tangible and intangible, and major liabilities
- G. Outlook for the economy, industry, and business
- H. Past transactional evidence of value
- I. Sensitivity to seasonal or cyclical factors
- J. Competition
- K. Sources of information used
- L. Such other factual information as may be required to present a clear description of the business, and the general context within which it operates

VI. Financial analysis

- A. An analysis and discussion of a firm's financial statements is an integral part of a business valuation and must be included. Exhibits summarizing balance sheets and income statements for a period of years sufficient to the purpose of the valuation and the nature of the subject company must be included in the valuation report.
- B. Any adjustments made to the reported financial data must be fully explained.
- C. If projections of balance sheets or income statements were used in the valuation, key assumptions underlying those projections must be included and discussed.
- D. If appropriate, the company's financial results in comparison to those of the industry in which it operates must be discussed.

VII. Valuation methodology

- A. The valuation method or methods selected, and the reasons for their selection, must be discussed. The steps followed in the application of the method(s) selected must be described. The description of the methodology and the procedures followed must contain sufficient detail to allow the intended user of the report to understand how the appraiser reached the valuation conclusion.
- B. The report must include an explanation of how any variables such as discount rates, capitalization rates, or valuation multiples were determined and used. The rationale and/or supporting data for any premiums or discounts must be clearly presented.

VIII. Comprehensive written business valuation report format

The comprehensive written business valuation report must clearly communicate pertinent information, valuation methods, and conclusions in a logical progression, and must incorporate the other specific requirements of this Standard, including the signature and certification provisions.

IX. Confidentiality of the report

No copies of the report may be furnished to persons other than the client without the client's specific permission or direction unless ordered by a court of competent jurisdiction.

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Business Valuation Standards

Definitions of Business Valuation Terms

Preamble

The American Society of Appraisers, through its Business Valuation Committee, has adopted these Definitions (“Definitions”) to ensure the quality of valuations by defining terms whose meanings are clear and consistently applied for the benefit of appraisers, their clientele, and other intended users.

- A. These Definitions include the International Glossary of Business Valuation Terms as adopted by the following professional societies and organizations:

American Institute of Certified Public Accountants

American Society of Appraisers

National Association of Certified Valuation Analysts

The Canadian Institute of Chartered Business Valuators

The Institute of Business Appraisers

- B. In the event that the assignment requires use of definitions that materially depart from those contained herein, the appraiser should fully explain the reason for departure and the implications it may have on the valuation assignment.
- C. These Definitions provide guidance to ASA members by offering uniformity and consistency in the course of applying valuation terms used in developing and reporting the valuation of businesses, business ownership interests, and securities.
- D. Departure from these Definitions is not intended to form the basis of any civil liability and should not create any presumption or evidence that a legal duty has been breached. Moreover, compliance with these Definitions does not create any special relationship between the appraiser and any other person.

Definitions

Adjusted Book Value - The book value that results after asset or liability amounts are added, deleted, or changed from their respective book amounts.

Adjusted Book Value Method – a method within the asset approach whereby all assets and liabilities (including off-balance sheet, intangible, and contingent) are adjusted to their fair market values (NOTE: In Canada on a going concern basis).

Adjusted Net Asset Method – see **Adjusted Book Value Method**.

Appraisal - see **Valuation**.

Appraisal Approach - see **Valuation Approach**.

Appraisal Date - see **Valuation Date**.

Appraisal Method - see **Valuation Method**.

Appraisal Procedure - see **Valuation Procedure**.

Appraised Value - The appraiser's opinion or conclusion of value.

Arbitrage Pricing Theory – a multivariate model for estimating the cost of equity capital, which incorporates several systematic risk factors.

Asset (Asset-Based) Approach - a general way of determining a value indication of a business, business ownership interest, or security using one or more methods based on the value of the assets net of liabilities.

Beta - a measure of systematic risk of a stock; the tendency of a stock's price to correlate with changes in a specific index.

Blockage Discount - an amount or percentage deducted from the current market price of a publicly traded stock to reflect the decrease in the per share value of a block of stock that is of a size that could not be sold in a reasonable period of time given normal trading volume.

Book Value - see **Net Book Value**.

Business - see **Business Enterprise**.

Business Appraiser - A person who, by education, training, and experience, is qualified to develop an appraisal of a business, business ownership interest, security or intangible assets.

Business Enterprise - a commercial, industrial, service, or investment entity (or a combination thereof) pursuing an economic activity.

Business Risk – the degree of uncertainty of realizing expected future returns of the business resulting from factors other than financial leverage. See **Financial Risk**.

Business Valuation - the act or process of determining the value of a business enterprise or ownership interest therein.

Capital Asset Pricing Model (CAPM) - a model in which the cost of capital for any stock or portfolio of stocks equals a risk-free rate plus a risk premium that is proportionate to the systematic risk of the stock or portfolio.

Capitalization - a conversion of a single period of economic benefits into value.

Capitalization Factor - any multiple or divisor used to convert anticipated economic benefits of a single period into value.

Capitalization of Earnings Method – a method within the income approach whereby economic benefits for a representative single period are converted to value through division by a capitalization rate.

Capitalization Rate - any divisor (usually expressed as a percentage) used to convert anticipated economic benefits of a single period into value.

Capital Structure - the composition of the invested capital of a business enterprise, the mix of debt and equity financing.

Cash Flow - cash that is generated over a period of time by an asset, group of assets, or business enterprise. It may be used in a general sense to encompass various levels of specifically defined cash flows. When the term is used, it should be supplemented by a qualifier (for example, "discretionary" or "operating") and a specific definition in the given valuation context.

Common Size Statements – financial statements in which each line is expressed as a percentage of the total. On the balance sheet, each line item is shown as a percentage of total assets, and on the income statement, each item is expressed as a percentage of sales.

Control - the power to direct the management and policies of a business enterprise.

Control Premium - an amount or a 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.

Cost Approach - a general way of determining a value indication of an individual asset by quantifying the amount of money required to replace the future service capability of that asset.

Cost of Capital - the expected rate of return that the market requires in order to attract funds to a particular investment.

Debt-Free - *we discourage the use of this term.* See **Invested Capital**.

Discount for Lack of Control - an amount or percentage deducted from the pro rata share of value of 100% of an equity interest in a business to reflect the absence of some or all of the powers of control.

Discount for Lack of Liquidity - an amount or percentage deducted from the value of an ownership interest to reflect the relative inability to quickly convert property to cash.

Discount for Lack of Marketability - an amount or percentage deducted from the value of an ownership interest to reflect the relative absence of marketability.

Discount for Lack of Voting Rights – an amount or percentage deducted from the per share value of a minority interest voting share to reflect the absence of voting rights.

Discount Rate - a rate of return used to convert a future monetary sum into present value.

Discounted Cash Flow Method – a method within the income approach whereby the present value of future expected net cash flows is calculated using a discount rate.

Discounted Future Earnings Method – a method within the income approach whereby the present value of future expected economic benefits is calculated using a discount rate.

Economic Benefits - inflows such as revenues, net income, net cash flows, etc.

Economic Life - the period of time over which property may generate economic benefits.

Effective Date - see **Valuation Date**.

Enterprise - see **Business Enterprise**.

Equity - The owner's interest in property after deduction of all liabilities.

Equity Net Cash Flows - those cash flows available to pay out to equity holders (in the form of dividends) after funding operations of the business enterprise, making necessary capital investments, and increasing or decreasing debt financing.

Equity Risk Premium - a rate of return added to a risk-free rate to reflect the additional risk of equity instruments over risk free instruments (a component of the cost of equity capital or equity discount rate).

Excess Earnings - that amount of anticipated economic benefits that exceeds an appropriate rate of return on the value of a selected asset base (often net tangible assets) used to generate those anticipated economic benefits.

Excess Earnings Method - a specific way of determining a value indication of a business, business ownership interest, or security determined as the sum of a) the value of the assets derived by capitalizing excess earnings and b) the value of the selected asset base. Also frequently used to value intangible assets. See **Excess Earnings**.

Fair Market Value - 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 arm's 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. {NOTE: In Canada, the term "price" should be replaced with the term "highest price"}

Fairness Opinion – an opinion as to whether or not the consideration in a transaction is fair from a financial point of view.

Financial Risk – the degree of uncertainty of realizing expected future returns of the business resulting from financial leverage. See **Business Risk**.

Forced Liquidation Value - liquidation value, at which the asset or assets are sold as quickly as possible, such as at an auction.

Free Cash Flow – *we discourage the use of this term*. See **Net Cash Flow**.

Going Concern - an ongoing operating business enterprise.

Going Concern Value - the value of a business enterprise that is expected to continue to operate into the future. The intangible elements of Going Concern Value result from factors such as having a trained work force, an operational plant, and the necessary licenses, systems, and procedures in place.

Goodwill - that intangible asset arising as a result of name, reputation, customer loyalty, location, products, and similar factors not separately identified.

Goodwill Value - the value attributable to goodwill.

Guideline Public Company Method – a method within the market approach whereby market multiples are derived from market prices of stocks of companies that are engaged in the same or similar lines of business, and that are actively traded on a free and open market.

Holding Company – a business that derives its revenues by receiving returns on its assets which may include operating companies/or other businesses.

Income (Income-Based) Approach - a general way of determining a value indication of a business, business ownership interest, security, or intangible asset using one or more methods that convert anticipated economic benefits into a present single amount.

Intangible Assets - non-physical assets such as franchises, trademarks, patents, copyrights, goodwill, equities, mineral rights, securities and contracts (as distinguished from physical assets) that grant rights and privileges, and have value for the owner.

Internal Rate of Return – a discount rate at which the present value of the future cash flows of the investment equals the cost of the investment.

Intrinsic Value – the value that an investor considers, on the basis of an evaluation or available facts, to be the "true" or "real" value that will become the market value when other investors reach the same conclusion. When the term applies to options, it is the difference between the exercise price or strike price of an option and the market value of the underlying security.

Invested Capital - the sum of equity and debt in a business enterprise. Debt is typically a) all interest bearing debt or b) long-term interest-bearing debt. When the term is used, it should be supplemented by a specific definition in the given valuation context.

Invested Capital Net Cash Flows - those cash flows available to pay out to equity holders (in the form of dividends) and debt investors (in the form of principal and interest) after funding operations of the business enterprise and making necessary capital investments.

Investment Risk - the degree of uncertainty as to the realization of expected returns.

Investment Value – the value to a particular investor based on individual investment requirements and expectations. {NOTE: in Canada, the term used is "Value to the Owner"}.

Key Person Discount - an amount or percentage deducted from the value of an ownership interest to reflect the reduction in value resulting from the actual or potential loss of a key person in a business enterprise.

Levered Beta - the beta reflecting a capital structure that includes debt.

Limited Appraisal – the act or process of determining the value of a business, business ownership interest, security, or intangible asset with limitations in analyses, procedures, or scope.

Liquidation Value - the net amount that would be realized if the business is terminated and the assets are sold piecemeal. Liquidation can be either "orderly" or "forced."

Liquidity - the ability to quickly convert property to cash or pay a liability.

Majority Control - the degree of control provided by a majority position.

Majority Interest - an ownership interest greater than 50% of the voting interest in a business enterprise.

Market (Market-Based) Approach - a general way of determining a value indication of a business, business ownership interest, security, or intangible asset by using one or more methods that compare the subject to similar businesses, business ownership interests, securities, or intangible assets that have been sold.

Market Capitalization of Equity – the share price of a publicly traded stock multiplied by the number of shares outstanding.

Market Capitalization of Invested Capital – the market capitalization of equity plus the market value of the debt component of invested capital.

Market Multiple – the market value of a company's stock or invested capital divided by a company measure (such as economic benefits, number of customers).

Marketability - the ability to quickly convert property to cash at minimal cost.

Marketability Discount - see **Discount for Lack of Marketability**.

Merger and Acquisition Method – a method within the market approach whereby pricing multiples are derived from transactions of significant interests in companies engaged in the same or similar lines of business.

Mid-Year Discounting – a convention used in the Discounted Future Earnings Method that reflects economic benefits being generated at midyear, approximating the effect of economic benefits being generated evenly throughout the year.

Minority Discount - a discount for lack of control applicable to a minority interest.

Minority Interest - an ownership interest less than 50% of the voting interest in a business enterprise.

Multiple - the inverse of the capitalization rate.

Net Assets - Total assets less total liabilities.

Net Book Value - with respect to a business enterprise, the difference between total assets (net of accumulated depreciation, depletion, and amortization) and total liabilities as they appear on the balance sheet (synonymous with Shareholder's Equity). With respect to a specific asset, the capitalized cost less accumulated amortization or depreciation as it appears on the books of account of the business enterprise.

Net Cash Flows - a form of cash flow. When the term is used, it should be supplemented by a qualifier (for example, "Equity" or "Invested Capital") and a specific definition in the given valuation context.

Net Income - Revenue less expenses and taxes.

Net Present Value – the value, as of a specified date, of future cash inflows less all cash outflows (including the cost of investment) calculated using an appropriate discount rate.

Net Tangible Asset Value - the value of the business enterprise's tangible assets (excluding excess assets and non-operating assets) minus the value of its liabilities. {NOTE: in Canada, tangible assets also include identifiable intangible assets}.

Non-Operating Assets - assets not necessary to ongoing operations of the business enterprise. {NOTE: in Canada, the term used is "Redundant Assets"}.

Normalized Earnings – economic benefits adjusted for nonrecurring, non-economic, or other unusual items to eliminate anomalies and/or facilitate comparisons.

Normalized Financial Statements – financial statements adjusted for nonoperating assets and liabilities and/or for nonrecurring, non-economic, or other unusual items to eliminate anomalies and/or facilitate comparisons.

Operating Company – a business that conducts an economic activity by generating and selling, or trading in a product or service.

Orderly Liquidation Value - liquidation value at which the asset or assets are sold over a reasonable period of time to maximize proceeds received.

Portfolio Discount - an amount or percentage deducted from the value of a business enterprise to reflect the fact that it owns dissimilar operations or assets that do not fit well together.

Premise of Value - an assumption regarding the most likely set of transactional circumstances that may be applicable to the subject valuation; e.g. going concern, liquidation.

Present Value – the value, as of a specified date, of future economic benefits and/or proceeds from sale, calculated using an appropriate discount rate.

Price/Earnings Multiple – the price of a share of stock divided by its earnings per share.

Rate of Return – an amount of income (loss) and/or change in value realized or anticipated on an investment, expressed as a percentage of that investment.

Redundant Assets – see **Non-Operating Assets**.

Replacement Cost New – the current cost of a similar new property having the nearest equivalent utility to the property being valued.

Report Date – the date conclusions are transmitted to the client.

Reproduction Cost New – the current cost of an identical new property.

Required Rate of Return – the minimum rate of return acceptable by investors before they will commit money to an investment at a given level of risk.

Residual Value – the value as of the end of the discrete projection period in a discounted future earnings model.

Return on Equity – the amount, expressed as a percentage, earned on a company's common equity for a given period.

Return on Invested Capital – the amount, expressed as a percentage, earned on a company's total capital for a given period.

Return on Investment – see **Return on Invested Capital** and **Return on Equity**.

Risk-Free Rate – the rate of return available in the market on an investment free of default risk.

Risk Premium – a rate of return added to a risk-free rate to reflect risk.

Rule of Thumb – a mathematical formula developed from the relationship between price and certain variables based on experience, observation, hearsay, or a combination of these; usually industry specific.

Special Interest Purchasers – acquirers who believe they can enjoy post-acquisition economies of scale, synergies, or strategic advantages by combining the acquired business interest with their own.

Standard of Value – the identification of the type of value being used in a specific engagement; e.g. fair market value, fair value, investment value.

Sustaining Capital Reinvestment – the periodic capital outlay required to maintain operations at existing levels, net of the tax shield available from such outlays.

Systematic Risk – the risk that is common to all risky securities and cannot be eliminated through diversification. The measure of systematic risk in stocks is the beta coefficient.

Tangible Assets – physical assets (such as cash, accounts receivable, inventory, property, plant and equipment, etc.).

Terminal Value. see **Residual Value**.

Transaction Method - see **Merger and Acquisition Method**.

Unlevered Beta – the beta reflecting a capital structure without debt.

Unsystematic Risk – the risk specific to an individual security that can be avoided through diversification.

Valuation – the act or process of determining the value of a business, business ownership interest, security, or intangible asset.

Valuation Approach – a general way of determining a value indication of a business, business ownership interest, security, or intangible asset using one or more valuation methods.

Valuation Date – the specific point in time as of which the valuator's opinion of value applies (also referred to as "Effective Date" or "Appraisal Date").

Valuation Method – within approaches, a specific way to determine value.

Valuation Procedure – the act, manner, and technique of performing the steps of an appraisal method.

Valuation Ratio – a fraction in which a value or price serves as the numerator and financial, operating, or physical data serves as the denominator.

Value to the Owner – see **Investment Value**.

Voting Control – *de jure* control of a business enterprise.

Weighted Average Cost of Capital (WACC) – the cost of capital (discount rate) determined by the weighted average, at market value, of the cost of all financing sources in the business enterprise's capital structure.

Working Capital - The amount by which current assets exceed current liabilities.

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AMERICAN SOCIETY OF APPRAISERS
Statements on Business Valuation Standards

SBVS-1 The Guideline Company Valuation Method©

I. Preamble

- A. This Statement must be followed in all valuations of businesses, business ownership interests, and securities developed by all members of the American Society of Appraisers, be they Candidates, Accredited Members (AM), Accredited Senior Appraisers (ASA), or Fellows (FASA).
- B. The purpose of this Statement is to define and describe the requirements for the use of guideline companies in the valuation of businesses, business ownership interests, and securities.
- C. This present standard is applicable to appraisals and may not necessarily be applicable to limited appraisals and calculations as defined in BVS-I, Section II.B.
- D. This Statement incorporates the General Preamble to the Business Valuation Standards of the American Society of Appraisers.

II. Conceptual framework

- A. Market transactions in businesses, business ownership interests, and securities can provide objective, empirical data for developing valuation ratios for use in business valuation.
- B. The development of valuation ratios from guideline companies should be considered in the valuation of businesses, business ownership interests, and securities, to the extent that adequate information is available.
- C. Guideline companies are companies that provide a reasonable basis for comparison to the investment characteristics of the company being valued. Ideal guideline companies are in the same industry as the subject company; however, if there is insufficient transaction evidence available in that industry, it may be necessary to select other companies having an underlying similarity to the subject company in terms of relevant investment characteristics such as markets, products, growth, cyclical variability, and other salient factors.

III. Search for and selection of guideline companies

- A. A thorough, objective search for guideline companies is required to establish the credibility of the valuation analysis. The procedure must include criteria for screening and selecting guideline companies.
- B. Guideline company empirical data can be found in transactions involving either minority or controlling interests in either publicly-traded or closely-held companies.

IV. Financial data of guideline companies

- A. It is necessary to obtain and analyze financial and operating data on the guideline companies, as available.
- B. Adjustments to the financial data of the subject company and guideline companies should be considered to minimize the difference in accounting treatments when such differences are significant. Unusual or nonrecurring items should be analyzed and adjusted as appropriate.

V. Comparative analysis of qualitative and quantitative factors

A comparative analysis of the qualitative and quantitative similarities and differences between the guideline companies and the subject company must be made to assess the investment attributes of the guideline companies relative to the subject company.

VI. Valuation ratios derived from guideline companies

- A. Price information of the guideline companies *must* be related to the appropriate underlying financial data of each guideline company in order to compute appropriate valuation ratios.
- B. The valuation ratios for the guideline companies and the comparative analysis of qualitative and quantitative factors should be used together to determine appropriate valuation ratios to be applied to the subject company.
- C. Several valuation ratios may be selected for application to the subject company, and several value indications may be obtained. The appraiser should consider the relative importance accorded to each of the value indications used in arriving at the opinion or conclusion of value.
- D. To the extent that adjustments for dissimilarities with respect to minority and control, or marketability, have not been made earlier, appropriate adjustments for these factors must be made, if applicable.

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AMERICAN SOCIETY OF APPRAISERS
Advisory Opinions

AO-1 Financial Consultation and Advisory Services©

It is the opinion of the Business Valuation Committee that the American Society of Appraisers Business Valuation Standards and the Uniform Standards of Professional Appraisal Practice of The Appraisal Foundation, as they apply to business valuation issues, are intended to apply to appraisals that are formally developed and presented opinions of value performed as the primary or ultimate objective of an appraisal engagement. These standards are not intended to apply to financial consultation or advisory services where there is no expression of value opinion or the primary or the ultimate objective is not to express an opinion of value, including but not limited to, fairness opinions, solvency opinions, pricing of securities for public offerings, feasibility studies, transfer pricing studies, lifing studies of intangibles, estate planning or estate tax services, economic damage analysis and quantification, litigation consulting, royalty rate studies for intangibles, and similar engagements.

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AMERICAN SOCIETY OF APPRAISERS

Procedural Guidelines

PG-1 Litigation Support: Role of The Independent Financial Expert

I. Preamble

- A. Business valuation professionals are frequently engaged as independent financial experts for purposes of assisting in dispute resolution, litigation, or potential litigation. To preserve and enhance the quality of the services of such experts, the American Society of Appraisers, through its Business Valuation Committee, has adopted this Procedural Guideline.
- B. This Procedural Guideline incorporates, where appropriate, all relevant Business Valuation Standards and Statements on Standards adopted by the American Society of Appraisers through its Business Valuation Committee.
- C. This Procedural Guideline suggests specific procedures that may be used by experts. It is not binding.
- D. This Procedural Guideline is designed to offer guidance to ASA members providing Litigation-Support Services. Deviations from this Procedural Guideline are not designed to be or intended to be the basis of any civil liability, and should not create any presumption or evidence that a legal duty has been breached, or create any special relationship between the expert and any other person.

II. Performance of Litigation-Support Services

- A. Litigation-Support Services include any professional assistance provided to a client in a matter involving pending or potential litigation or dispute resolution proceedings before a trier of fact.
- B. In rendering Litigation-Support Services, the expert may be retained to provide an expert opinion on the financial effects of facts and assumptions. In addition to forming an expert opinion, the expert may value a business, project future financial results, analyze the performance of a business operation, interpret financial data, opine on an impaired stream of earnings, or render other similar types of professional services.
- C. In providing Litigation-Support Services, an independent financial expert may play a role as:
 - 1. *Expert* — One who is qualified by knowledge, skill, experience, training, or education in performing business valuation services and/or related financial analyses.

2. *Expert Witness* — An expert who is engaged to explain technical, scientific, or specialized knowledge in order to assist the trier of fact in understanding evidence.
 3. *Arbitrator* — An expert who serves as a trier of fact in an alternative dispute resolution context.
 4. *Court-Appointed Expert* — An expert who is engaged by the court to assist the trier of fact.
 5. *Consulting or Advisory Expert* — An expert who is engaged to review another expert’s work product or who is engaged to advise the client, lawyer or another expert witness about technical matters relating to the subject litigation, but who will not be called to testify at trial, may or may not be independent. Accordingly, this Procedural Guideline may not apply to such an expert.
- D. The expert should obtain a clear understanding of the scope of the assignment.
- E. When planning the scope of work for a particular engagement, the expert should obtain a sufficient understanding of the nature of the dispute, the events giving rise to the claim, as well as the economic context and industry outlook impacting the business and/or individual central to the assignment.
- F. The expert should obtain sufficient relevant data to afford a reasonable basis for the conclusions reached and/or recommendations made.
- G. Sufficient information and documentation should be gathered by such means as inspection, inquiry, computation and analysis to ensure that the expert’s analysis and conclusion are properly supported. The expert should exercise professional judgment in determining the extent of the information and documentation necessary to support the conclusion.
- H. The expert witness, arbitrator or court-appointed expert should maintain integrity, objectivity and independence.
- I. The following examples represent some of the many types of cases in which an expert may provide Litigation-Support Services in the area of business valuation and related financial analysis:
1. **Business Valuation**
 - a. Determination of “fair value” of minority shares in dissenting stockholder and oppression suits.
 - b. Income, property, gift tax, and estate tax issues, including the determination of fair market value in non-arm’s length transactions, allocation of purchase price among different categories of assets, corporate reorganizations, rollovers, stockholder benefits, deemed dispositions, gifts and bequests, capital gains, etc.
 - c. Valuation of shares held by an Employee Stock Ownership Plan.
 - d. Separation and divorce.

- e. Partner/shareholder disputes.
- f. Business valuations.
- g. Buy-sell agreements.

2. Quantification of Financial Loss or Damages

- a. Breach of contract and tort, including:
 - (1) measuring damages for lost profits and loss of goodwill,
 - (2) defining relevant markets and calculating market share,
 - (3) restating or reconstructing financial records,
 - (4) developing profit and cost relationships,
 - (5) creating pro-forma financial statements.
- b. Personal injury and fatality claims, including the quantification of impaired earnings.
- c. Insurance claims, including business interruption and disturbance losses.
- d. Condemnation/Expropriation of business or property.
- e. Trespass and conversion.
- f. Professional malpractice.
- g. Anti-trust/unfair competition.
- h. Intellectual property-infringement damages.
- i. Bankruptcy and reorganization.

III. Conducting the Assignment

- A. In performing the engagement, the expert should consider the appropriate method(s) to be adopted and procedures to be applied.
- B. The expert should consider key assumptions and hypothetical conditions, determining the reasonableness and appropriateness thereof. The use of unwarranted assumptions may impair the objectivity — actual or perceived — of the expert.
- C. The expert should consider the necessity of relying on the work of a specialist. When there is such reliance, the expert may wish to consider the specialist's independence and competency. If the expert relies upon a specialist, the conclusions drawn should be documented. Any written opinion or report from a specialist should be retained on file.

- D. Work performed in the course of an engagement should be documented and files should be maintained in an organized manner. The form and extent of work papers should suit the circumstances and needs of the engagement for which they are prepared.
- E. The expert should evaluate the necessity of obtaining a client representation letter and, if possible and applicable, a representation letter from management or other representatives of the underlying business.
- F. The expert should either retain on file, or have access to, all information relied upon.
- G. When the expert has determined that an engagement letter is required, the engagement letter should be retained on file. When no engagement letter has been received, the expert's file should include a summary of the nature and function of the assignment.
- H. When the expert has determined that a client representation letter and/or a management representation letter is necessary, this (these) letter(s) should be retained on file.
- I. The method(s) selected by the expert should be documented along with the reasons for selection. In addition, the specific procedures should be documented along with the reasons for selection. The expert should document key areas considered and significant assumptions made. A copy of calculations, explanations, and documentation supporting the final conclusion should be retained in the file.
- J. The expert should follow the rules of the applicable jurisdiction.

IV. Preparation of an Expert Report

- A. An expert report is often considered to constitute any communication, written or oral (and not in draft or preliminary form) that is prepared by an expert and that contains a conclusion pertaining to a review, analysis, or quantification of business value, damages, or economic loss and that is to be used in litigation or arbitration proceedings.
- B. It is recommended that the individual(s) responsible for the preparation of the expert report be identified.
- C. To the extent that it is both possible and appropriate, an expert report should contain, as a minimum, the following information:
 - 1. **Identity of Client**

The expert's client(s) should be clearly identified.
 - 2. **Description of Assignment**

The expert report should contain a clear description as to the specific nature of the expert's assignment.

3. Effective Date(s) or Effective Time Period(s)

Value(s) or damages should be expressed as of a specific date or time period. In damage claims, the damages may relate to past, present and/or future economic losses.

4. Intended Use

If not already included in the description of the nature of the assignment, the intended use of the expert report should be clearly stated, and use for other purposes should be precluded.

5. Definitions

The expert report should contain the expert's definition of key terms not commonly defined. The expert should define or explain terms such as (but not limited to) "damages," "economic loss," "loss of profits," "lost contribution margin."

6. Documents and Information

The expert report should identify significant documents and information relied upon, and, if applicable, those reviewed but not relied upon.

7. Limitations

If the expert was unable to obtain, or was otherwise denied access to, documents, information, and/or interviews, or where the information provided was incomplete, this limitation should be clearly disclosed in the expert report. It may also be appropriate to disclose the reasons for this limitation. To the extent that such limitation would restrict the ability of the expert to form an opinion, it may be necessary to express a qualified opinion, a disclaimer, or a denial of an opinion, depending on the specific circumstances.

8. Relevant Chronology

When relevant, the expert report should summarize the chronology of events giving rise to the claim(s) in the litigation. The chronology of events, as set out in the expert report, should be consistent with the effective date or time period.

9. Relevant Context and Financial Analysis

When relevant, the expert report should include an appropriate description of factors such as those listed in BVS VIII, paragraph V, and a financial analysis such as the one described in BVS VIII, paragraph VI.

10. Methodology

The expert report should contain a description of the method(s) adopted and the reason(s) for their use.

11. Analysis

The expert report should provide adequate description in clear terms of how the expert determined value, quantified economic losses, damages, etc.

12. Assumptions

The expert report should clearly state, and identify the basis of, all assumptions, hypothetical conditions, and limiting conditions that affected the analyses, opinions, and conclusions (see USPAP 10-2(a)(viii)).

13. Conclusion

The expert report should clearly state the conclusions of the expert.

14. Report Date

The expert report should be dated as of the day on which it is completed or issued.

15. Exhibits, Appendices, Graphs, Charts, Schedules, and Tables

The use of visual aids in the body of, or appending, the expert report should be made in an objective, unbiased, and professional manner, so that they can be properly interpreted by the trier of fact and others connected with the litigation or arbitration.

V. Retention of Work Papers and Report

- A. The expert should retain fully-documented work papers for each engagement, whether in hard copy or electronic copy. The expert should also retain summaries of oral reports or testimony (or a transcript of testimony) and all other data, information and documentation necessary to support the expert's opinions and conclusions. Summaries of key meetings, discussions and correspondence should be retained on file.
- B. The expert should maintain custody of the work papers, or make appropriate retention, access, and retrieval arrangements with the party having custody of those work papers. The expert should retain the work papers for a period of at least five (5) years after preparation, or at least two (2) years after final disposition of any judicial proceeding (including arbitration) in which testimony was given, whichever period expires last.
- C. A copy of the final issued expert report should be retained on file for a period of at least five (5) years after preparation, or at least two (2) years after final disposition of any judicial proceeding (including arbitration) in which testimony was given, whichever period expires last.

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