Comprehensive Business Valuation Development Checklist

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“An investment in knowledge always pays the best interest.”
— Benjamin Franklin

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Comprehensive Business Valuation Development Checklist

Use of this document in obtaining the necessary information and addressing the specific areas of development to conduct your analysis in the performance of a business valuation will help in complying with the Development Standards promulgated by the National Association of Certified Valuation Analysts (NACVA) and the American Institute of Certified Public Accountants (AICPA) in their recently published Statement on Standards for Valuation Services No. 1 (SSVS), which have an effective implementation date of January 1, 2008.

Disclaimers:

1) By no means is the use of this document intended to replace the User’s responsibility for having read and being fully conversant with both NACVA’s and the AICPA’s standards. The authors of this document are fallible and it is very possible that items have been overlooked. Thereby, we disclaim any and all liability for one’s use of this document should it turn out that the valuation report produced while using this Checklist is not in compliance with the aforementioned standards.

2) Provisions under SSVS #46 pertaining to “Calculation of Value” have been omitted.

3) This comprehensive checklist is designed for use in engagement to determine a “Conclusion of Value.”

4) SSVS #24 states that the sequence of implementation of the Developmental Standards is at the option of the Valuation Analyst.

5) SSVS #45 provides that the Valuation Analyst should retain the documentation for a period of time sufficient to meet the needs of applicable legal, regulatory, or other professional requirements for records retention.

6) Specifically not referenced, herein, as the pronouncements did not pertain to the gathering or collection of data are: SSVS numbers 1, 2, 4, 5, 6, 7, 8, 9, 10, 11, 19, 21, 22, 23, 26, 30, 31, 32, 38, and 42.

7) All SSVS references herein, are to paragraph numbers in the SSVS.
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**I. ANALYSIS OF THE SUBJECT INTEREST OWNERSHIP INFORMATION**

**Company Information**

Name: ___________________________  Company: ___________________________
Street address: _____________________
City: _____________________________  State: __________  ZIP: ________________
Tel: _____________________________  Fax: _____________________________  Email: ___________________________
DBA (if applicable): _____________________________

**Organizational Information**

- Corporation type: ___________________________
- Date incorporated: ___________________________
- State of incorporation: ___________________________
- Selection: ___________________________
- Merger date: ___________________________
- Recapitalization ___________________________
- Agreement: ___________________________

**Common Shares**

- # of shares authorized: ___________________________
- # of shares issued and outstanding: ___________________________
- Restrictions, if any: ___________________________
- Voting or non-voting: ___________________________

**Treasury Shares**

- # of shares held: ___________________________
- Date of purchase: ___________________________
- Purchase price: ___________________________
- Date of cancellation: ___________________________

**Preferred Shares**

- # of shares authorized: ___________________________
- # of shares issued and outstanding: ___________________________
- Description of preference: ___________________________
- Dividend %: ___________________________

**Shareholder Information**

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Totals: __________  __________  __________  __________

*This page and above addresses: SSVS 13b, 13c*

**Ownership**

- Determine the type of ownership interest being valued and ascertain whether that interest exhibits control characteristics: ___________________________

---

Back to TOC
Analyze the different ownership interests of other owners and assess the potential effect on the value of the subject interest:

Understand the classes of equity ownership interests and rights attached thereto:

Understand the rights included in, or excluded from, each intangible asset:

Other matters that may affect the value of the subject interest, such as:

- For a business, business ownership interest, or security: shareholder agreements, partnership agreements, operating agreements, voting trust agreements, buy-sell agreements, loan covenants, restrictions, and other contractual obligations or restrictions affecting the owners and the subject interest.

- For an intangible asset: legal rights, licensing agreements, sublicense agreements, non-disclosure agreements, development rights, commercialization or exploitation rights, and other contractual obligations:

- To the extent any of these agreements are applicable, request for our file:

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<th>Participation</th>
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Related Party Information

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<th>Name</th>
<th>Relationship</th>
<th>Involvement Described</th>
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Recent Stock Sale Information

- Type of stock sold: ________________
- Sold to: __________________________
- # of shares sold: __________________
- Price of shares sold: ______________
- Date of sale: _____________________
- % sold: ___________________________
- Restrictions, if any: ______________
- Reason for sale: __________________
- How valued: _______________________
- Stock options: ____________________
- Terms: ___________________________
- Type: ____________________________

This page and above addresses: SSVS 13c, 29

II. VALUATION ESSENTIALS

Purpose of Valuation

- Purpose of valuation: ____________________________
- Valuation date: _________________________________
- # of shares to be valued: _______________________
- % of interest to be valued: _____________________

Assumptions and limiting conditions: use Exhibit I

- Type of report to be issued: ______________________
- Use of specialists: ______________________________
- Competency issue: ______________________________

Standard/Premise of Valuation

- Define standard of value: _________________________
- Define premise of value: __________________________
Comprehensive Business Valuation Development Checklist

Workpapers Page Reference

- Are we valuing equity, invested capital or intangible assets?
- Is there a jurisdictional exception?
- Are there governmental regulations?
- AICPA professional standards:

Check those that apply:

- AICPA Code of Professional Conduct:
- Statement on Standards for Consulting Services:
- Consulting services: definitions & standards AICPA professional standards, Vol. 2, CS Sec 100:
- Rule 201-A professional competence of AICPA Code of Professional Conduct:

- Is this an attest client? If so, the firm is not able to perform the engagement unless the analyst meets all requirements of Interpretation 101-3:

This page and above addresses: SSVS 3, 12d (iii, iv), 12e, 13c, 14, 15, 20, 25

Requesting Party

Name: ______________________________ Title: ______________________________
Street address: ______________________________
City: ______________________________ State: ___________ ZIP: ___________
Tel: _______________ Fax: _______________ Email: ______________________________
Relationship: ______________________________

Describe understanding with client:

- Scope limitations:
- Restrictions:
- Hypothetical conditions:
- Obligation to update:
- Conflicts of interest:
- Independence issues:
- Due date:
- Client’s responsibilities:
- Analyst’s responsibilities:
- Assumptions:
- Report type:
- Nature, purpose and objective of valuation:
- Document terms of valuation engagement, procedural requirements, objectivity, and independence:

This page and above addresses: SSVS 13a, 14, 16, 17

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### Contact Person

Name: __________________________ Title: __________________________

Street address: ________________________________________________________

City: __________________________ State: ___________ ZIP: ________________

Tel: __________________________ Fax: __________________________ Email: __________________________

Relationship: __________________________

### III. NON-FINANCIAL INFORMATION

- **History/background:** ____________________________________________
  ____________________________________________
  ____________________________________________
  ____________________________________________
  ____________________________________________

- **Major historical events:** __________________________________________
  ____________________________________________
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- **Annual gross revenues:** ___________  •  **Average # of employees:** ___________

### Location Information

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<tr>
<th>Location</th>
<th>Date Occupied</th>
<th>Leased/Owned</th>
<th>Function</th>
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- **SIC code:** __________________________  •  **NAICS code:** __________________________

- **Principal activity:** __________________________________________
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### Employee Turnover

- **Describe management turnover:** _______________________________________
  ____________________________________________
  ____________________________________________
  ____________________________________________

- **Describe non-management turnover:** _______________________________________
  ____________________________________________
  ____________________________________________
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*This page and above addresses: SSVS 27*
### Family Involvement

| | | | | | |
|---|---|---|---|
| Does the company have family members working for the company? | | | | |
| How many family members work for the company? | | | | |
| What is the amount and basis for each family member’s compensation? | | | | |
| Do family members have proper education and experience for position held? | | | | |
| Is there absentee management? | | | | |
| Provide owners and family fringe benefits: | | | | |
| Describe related party transactions: | | | | |

**This page and above addresses: SSVS 27**

### IV. MANAGEMENT

**Key Management**

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<th>Name</th>
<th>Title</th>
<th>Duties</th>
<th>Age / Health</th>
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- Describe key management background, education, longevity, and experience: 
- Are employment contracts in place? 
- Are key man policies in place? 

Describe:
### Identify Basis of Officer / Owner Compensation

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### Identify Officer / Owner Prerequisites

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<th>Name</th>
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<th>Type of Benefit</th>
<th>Annual Cost</th>
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### Board of Directors and Level of Involvement

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### Staffing

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<td>Number of managers</td>
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<td>Number of sales staff</td>
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<td>Number of service staff</td>
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<td>Number of clerical staff</td>
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### V. PRODUCTS / SERVICES AND MARKETS

- **Describe products / services (indicate proprietary nature, if any):**
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- **Describe customers:**
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Back to TOC
• Describe market area: ________________________________________________________________
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• Estimated total market: ________________________________________________________________
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• Describe cyclical or seasonal: ________________________________________________________________
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• Describe distribution channels: ________________________________________________________________
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• Summary of barriers to market entry: ________________________________________________________________
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Description of Barriers to Entry

• Describe the economies of scale: ________________________________________________________________
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• Describe the product differentiation: ________________________________________________________________
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• Describe the capital requirements: ________________________________________________________________
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• Describe the access to distribution channels: ________________________________________________________________
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This page and above addresses: SSVS 27
• Describe the cost disadvantages independent of scale: ____________________________________________

• Describe the proprietary product technology: patents / trademarks: ____________________________

• Describe the favorable access to raw materials: _____________________________________________

• Describe the favorable locations: _________________________________________________________

• Describe the government subsidies: _______________________________________________________

• Describe the learning or experience curve: _________________________________________________

• Describe the government policies applicable to the company: _________________________________

• Describe the bargaining power of your suppliers: ___________________________________________

• Describe the bargaining power of your customers: _________________________________________

• Describe the threat of substitute products: _______________________________________________

• Describe the rivalry between incumbent companies in the industry: _________________________

• Describe the stability of earnings: _______________________________________________________

This page and above addresses: SSVS 27
## VI. COMPETITION AND PRODUCT DIFFERENTIATION

### Identify Major Competitors

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<th>Location</th>
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- Describe product differentiation from competition: 

- List competitive strengths: 

- List competitive weaknesses: 

- List product lines: 

- Describe the method of pricing competition: 

- Describe any proprietary content: 

- Describe any patents: 

- Describe any copyrights: 

*This page and above addresses: SSVS 27*

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• Describe the product mix: ________________________________________________________
  ________________________________________________________
  ________________________________________________________
  ________________________________________________________

Environmental Issues
Describe any environmental issues related to the following:
• Asbestos: ________________________________________________________________
  ________________________________________________________________
  ________________________________________________________________
• Polychlorinated biphenyl’s (PCB’s): _______________________________________
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• Fuel/chemical tanks, drums, and pipelines: ________________________________
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• Water discharges: ______________________________________________________
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• Air emissions: __________________________________________________________
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  ________________________________________________________________
• Waste disposal: _________________________________________________________
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  ________________________________________________________________
• Soil contamination: _____________________________________________________
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  ________________________________________________________________
• Agricultural property/pesticides, herbicides, or other agricultural chemicals: 
  ________________________________________________________________
  ________________________________________________________________

Market Size and Share
• Describe customer’s status in the industry and their estimated market share: ______________
  ________________________________________________________________
  ________________________________________________________________
  ________________________________________________________________
• Describe the market area that the company serves: _____________________________
  ________________________________________________________________
  ________________________________________________________________
  ________________________________________________________________
VII. FINANCIAL INFORMATION

- Describe financial statement generation (in-house, CPA, etc.): 

- If CPA involvement, indicate type—GAAP, tax basis or other: 

- What is the fiscal year-end of company: 

- How often are financial statements generated: 

- Describe significant accounting policies: 

- Describe extent of GAAP compliance: 

- Identify recent changes in accounting policies: 

- Describe book to tax adjustments: 

- Are budgets or forecasts prepared: 
  - If so, how often: 

- How has company performed relative to budget: 

- Describe future planned capital expenditures: 

- Describe short-term financing arrangements: 

- Describe long-term financing arrangements: 

This page and above addresses: SSVS 29
Comprehensive Business Valuation Development Checklist

- Describe retirement plan: ____________________________________________________________
  ____________________________________________________________

- Identify pending or threatened litigation: ____________________________________________
  ____________________________________________________________

- Identify major customers: __________________________________________________________
  ____________________________________________________________

- Identify major vendors: ____________________________________________________________
  ____________________________________________________________

- Identify primary discretionary expenses: _____________________________________________
  ____________________________________________________________

- Identify major non-recurring and extraordinary expenses: _______________________________
  ____________________________________________________________

- Identify non-operating assets & liabilities: ____________________________________________
  ____________________________________________________________

- Are current appraisals of tangible assets available? Describe: __________________________
  ____________________________________________________________

- Has company been denied credit? Describe: __________________________________________
  ____________________________________________________________

- Are there contracts of advantage or disadvantage to company? Describe: _________________
  ____________________________________________________________

- Is company carrying assets not in use? Describe: ______________________________________
  ____________________________________________________________

- Are there any subsidiaries owned by the company? Describe: _____________________________
  ____________________________________________________________

This page and above addresses: SSYS 27, 29
• If yes, describe the subsidiaries (name, date acquired, ownership interest, etc.):  
  
• Describe leasing activities:  
  
• Describe government and/or environmental regulations:  
  
• Is company capital intensive? Describe:  
  
• Is company labor intensive? Describe:  
  
• Discuss condition of facilities and equipment:  
  
• Describe merger authority:  
  
• Describe any tax issues:  
  
• Describe recent merger activity:  
  
• Contingent off balance sheet financing:  
  
• Describe the regulatory issues that impact the company:  
  
• Describe other significant matters:  

*This page and above addresses: SSVS 27, 29*
The valuation analyst should obtain, where applicable and available, financial information on the subject entity such as:

- Historical financial information (including annual and interim financial statements and key financial statement ratios and statistics) for an appropriate number of years:

- Prospective financial information (for example, budgets, forecasts, and projections):

- Comparative summaries of financial statements or information covering a relevant time period:

- Comparative common size financial statements for the subject entity for an appropriate number of years:

- Comparative common size industry financial information for a relevant time period:

- Income tax returns for an appropriate number of years:

- Describe recent merger activity:

This page and above addresses: SSVS 27, 29

VIII. NATIONAL AND LOCAL ECONOMIC INFORMATION

National

- Valuation date short-term bond yield: Source:

- Valuation date intermediate bond yield: Source:

- Valuation date long-term bond yield: Source:

- Expected inflation rate: Source:

- Expected GNP growth: Source:

- Current unemployment rate: Source:

This section above addresses: SSVS 27
• Describe current and/or expected major changes in tax law: ____________________________

______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________

Source: ________________________________________________________________________

• General description of the economy: _____________________________________________

______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________

Source: ________________________________________________________________________

Local and Regional
• Describe local and regional market: _____________________________________________

______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________

Source: ________________________________________________________________________

• Describe personal income growth: _____________________________________________

______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________

Source: ________________________________________________________________________

IX. NATIONAL AND LOCAL INDUSTRY INFORMATION
National
• Total market: ____________________________ Source: ____________________________

______________________________________________________________________________
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• Short-term industry growth: ____________________________ Source: ____________________________

______________________________________________________________________________
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• Long-term industry growth: ____________________________ Source: ____________________________

______________________________________________________________________________
______________________________________________________________________________

• Growth industry stability: ______________________________________________________

______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________

Source: ________________________________________________________________________

This page and above addresses: SSVS 27
• Describe market trends: 


Source:

• Describe technology advancements:


Source:

• Describe effects of government regulation:


Source:

• Describe industry outlook:


Source:

• Describe industry financial data:


Source:

• Describe industry long-term prospects:


Source:

• Source of industry financial data:


• Period covered:


This page and above addresses: SSVS 27

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## Local and Regional

<table>
<thead>
<tr>
<th>Workpapers</th>
<th>Page</th>
<th>Reference</th>
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</table>

- **Total market:**
  - Source: 

- **Short-term industry growth:**
  - Source: 

- **Long-term industry growth:**
  - Source: 

- **Growth industry stability:**
  - Source: 
  - Describe: 

- **Describe local market trends:**
  - Source: 

- **Describe effects of local government regulation:**
  - Source: 
  - Describe: 

- **Describe local industry outlook:**
  - Source: 

- **Describe local industry long-term prospects:**
  - Source: 

- **Source of local industry financial data:**
  - Period covered: 

*This page and above addresses: SSYS 27*
X. VALUATION APPROACHES AND METHODS—CONSIDERATIONS

Income Approach:

- Capitalization of earnings/cash flow: ____________________________
- Normalization adjustments: ____________________________
- Non-recurring revenue and expense items: ____________________________
- Taxes: ____________________________
- Capital structure and financing costs: ____________________________
- Appropriate capital investments: ____________________________
- Non-cash items: ____________________________
- Qualitative judgments for risks used to compute discount and capitalization rates: ____________________________
- Expected changes (growth or decline) in future benefits (for example, earnings, or cash flows): ____________________________

Discounted future benefits method (for example, earnings, or cash flows). In addition to the items above, the valuation analyst should consider:

- Forecast/projection assumptions: ____________________________
- Forecast/projected earnings or cash flows: ____________________________
- Terminal value: ____________________________

For an intangible asset, the valuation analyst should consider:

- Remaining useful life: ____________________________
- Current and anticipated future use of the intangible asset: ____________________________
- Rights attributable to the intangible asset: ____________________________
- Position of intangible asset in its life cycle: ____________________________
- Appropriate discount rate for the intangible asset: ____________________________
- Appropriate capital or contributory asset charge, if any: ____________________________
- Research and development or marketing expense needed to support the intangible asset in its existing state: ____________________________

- Allocation of income (for example, incremental income, residual income, or profit split income) to intangible asset: ____________________________
- Whether any tax amortization benefit would be included in the analysis: ____________________________
- Discounted multi-year excess earnings: ____________________________
- Market royalties: ____________________________
- Relief from royalty method: ____________________________
Asset Approach and Cost Approach:

When using the adjusted net asset method in valuing a business, business ownership interest, or security, the valuation analyst should consider, as appropriate, the following information related to the premise of value:

- Identification of the assets and liabilities:
- Value of the assets and liabilities (individually or in the aggregate):
- Liquidation costs (if applicable):

When using methods under the cost approach to value intangible assets, the valuation analyst should consider the type of cost to be used (for example, reproduction cost or replacement cost), and, where applicable, the appropriate forms of depreciation and obsolescence and the remaining useful life of the intangible asset.

Describe:

Market Approach:

Three frequently used market approach valuation methods for intangible assets are:

- Comparable uncontrolled transactions method (which is based on arm’s-length sales or licenses of guideline intangible assets)
- Comparable profit margin method (which is based on comparison of the profit margin earned by the subject entity that owns or operates the intangible asset to profit margins earned guideline companies)
- Relief from royalty method (which is based on the royalty rate, often expressed as a percentage of revenue that the subject entity that owns or operates the intangible asset would be obligated to pay to a hypothetical third-party licensor for the use of that intangible asset)

For the methods involving guideline intangible assets (for example, the comparable profit margin method), the valuation analyst should consider the subject intangible asset’s remaining useful life relative to the remaining useful life of the guideline intangible assets, if available.

In applying the methods listed above or other methods to determine valuation pricing multiples or metrics, the valuation analyst should consider:

- Qualitative and quantitative comparisons
- Arm’s-length transactions and prices
- The dates and, consequently, the relevance of the market data

Rules of thumb. Although technically not a valuation method, some valuation analysts use rules of thumb or industry benchmark indicators (hereinafter, collectively referred to as rules of thumb) in a valuation engagement. A rule of thumb is typically a reasonableness check against other methods used and should generally not be used as the only method to estimate the value of the subject interest.

Describe:
XI. GUIDELINE PUBLIC COMPANY AND MARKET APPROACH

Guideline Company Search

<table>
<thead>
<tr>
<th>Name</th>
<th>Customer IP #</th>
<th>Exchanges</th>
<th>Historical Beta</th>
<th>Total Equity</th>
<th>Total Assets</th>
<th>Mil $ Net Sales</th>
<th>5-Year Earnings Growth</th>
<th>5-Year ROE</th>
<th>SIC</th>
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- Workpapers page reference: ____________________________
- Source: ____________________________
- Comments: ____________________________

Sales Transaction Search

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<th>Description</th>
<th>Ask Price</th>
<th>Annual Gross</th>
<th>SDE</th>
<th>Sales Date</th>
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SDE—Seller’s discretionary earnings

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<thead>
<tr>
<th>% Down</th>
<th>Terms</th>
<th>Sales/Gross</th>
<th>Sales/Net</th>
<th>FF&amp;E</th>
<th>Area</th>
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FF&E—Furniture, fixtures & equipment

- Workpapers page reference: ____________________________
- Source: ____________________________
- Comments: ____________________________

- Are they comparable? Describe: ____________________________

*This page and above addresses: SSVS 36*
XII. VALUATION ADJUSTMENTS

Examples of valuation adjustments for valuation of a business, business ownership interest, or security include a discount for lack of marketability or liquidity and a discount for lack of control. An example of a valuation adjustment for valuation of an intangible asset is obsolescence.

- Lack of control: ________________
- Voting/non-voting: ________________
- Lack of marketability or liquidity: ________________

XIII. NON-OPERATING / EXCESS ASSETS

When valuing a controlling ownership interest under the income approach, the value of any non-operating assets, non-operating liabilities, or excess or deficient operating assets should be excluded from the computation of the value based on the operating assets and should be added to or deleted from the value of the operating entity. When valuing a non-controlling ownership interest under the income approach, the value of any non-operating assets, non-operating liabilities, or excess or deficient operating assets may or may not be used to adjust the value of the operating entity depending on the valuation analyst's assessment of the influence exercisable by the non-controlling interest. In the asset-based or cost approach, it may not be necessary to separately consider non-operating assets, non-operating liabilities, or excess or deficient operating assets.

- Comments: ________________

This page and above addresses: SSVS 40, 41

XIV. SUBSEQUENT EVENTS

The valuation date is the specific date at which the valuation analyst estimates the value of the subject interest and concludes on his or her estimation of value. Generally, the valuation analyst should consider only circumstances existing at the valuation date and events occurring up to the valuation date. An event that could affect the value may occur subsequent to the valuation date; such an occurrence is referred to as a subsequent event. Subsequent events are indicative of conditions that were not known or knowable at the valuation date, including conditions that arose subsequent to the valuation date. The valuation would not be updated to reflect those events or conditions. Moreover, the valuation report would typically not include a discussion of those events or conditions because a valuation is performed as of a point in time-the valuation date—and the events described in this subparagraph, occurring subsequent to that date, are not relevant to the value determined as of that date.

- Comments: ________________
XV. DOCUMENTATION

Documentation is the principal record of information obtained and analyzed, procedures performed, valuation approaches and methods considered and used, and the conclusion of value. The quantity, type, and content of documentation are matters of the valuation analyst's professional judgment. Documentation may include:

- Document understanding with client
- Information gathered and analyzed to obtain an understanding of matters that may affect the value of the subject interest
- Assumptions and limiting conditions
- Any restriction or limitation on the scope of the valuation analyst's work or the data available for analysis
- Basis for using any valuation assumption during the valuation engagement
- Valuation approaches and methods considered
- Valuation approaches and methods used including the rationale and support for their use
- If applicable, information relating to subsequent events considered by the valuation analyst
- For any rule of thumb used in the valuation, source(s) of data used, and how the rule of thumb was applied to the engagement by the valuation analyst
- Other documentation considered relevant to the engagement by the valuation analyst
- The analyst should read and evaluate information to determine that it is reasonable for the purposes of the engagement

This page and above addresses: SSVS 16, 17, 43, 44

XVI. OTHER

- Management representation letter: ____________________________

Copyright Clearance

- RMA: ____________________________
- Other: ____________________________

This page and above addresses: SSVS 44
## XVII. DOCUMENT AND DATA REQUEST CONTROL FORM

<table>
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<td>Financial statements for 5 years:</td>
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<td>Federal &amp; state income tax returns for 5 years:</td>
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<td>Historical budget vs. actual report for ____ years:</td>
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<td>Prospective budget report for year:</td>
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*This page and above addresses: SSVS 16, 44*
### Operational and Legal Documentation

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*This page and above addresses: SSVS 13d, 13e, 18 (Appendix A), 25*
### XVII. DOCUMENT AND DATA REQUEST CONTROL FORM

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