BUSINESS APPRAISAL STANDARDS

As
Promulgated
By

The Institute of Business Appraisers

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<u>NOTICE</u>

This publication supersedes and replaces the following IBA publicatons:
P-243 Standards of Business Appraisal Practice
P-244 Standards for Business Appraisal Reports
P-311a Business Appraisal Standards
P-311b Business Appraisal Standards

FOREWORD

Only a small percentage of individuals representing themselves as business appraisers have been tested and certified by a professional business appraisal institute or society.

Those considering employing a business appraiser are undoubtedly doing so in relation to a matter which can have far reaching financial or legal ramifications. Beyond the obvious caution that a proper valuation cannot be done without adequate preparation, competency, and documentation, we suggest verification that the individual is certified as a business appraiser and intends to prepare the appraisal in compliance with these standards.

The Institute of Business Appraisers would like to thank those associated with The Appraisal Foundation and the American Society of Appraisers whose efforts toward developing business appraisal standards and ethics have contributed greatly to the product of the Committee.

<u>FOUNDING STANDARDS COMMITTEE</u>

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PREAMBLE

1. Certain professions, by their nature, and by the way they are perceived by the public, are capable of exerting substantial influence on the public welfare. It is our firm conviction that the practice of business appraisal falls in a similar category.

2. The performance of business appraisal/valuation requires a high degree of skill, imposes upon the appraiser a duty of non-advocacy to the client and an obligation to the general public as a third party beneficiary of the work. It is our purpose here to articulate standards by which those who aspire to participation, and those already established in business appraisal practice may be guided in the ethical and skillful execution of their tasks, and report the results and conclusions of their work in the most effective manner.

3. It is also our purpose to state these standards in such a clear and unequivocal way that the world at large, and especially those who may engage the services of a business appraiser, will know the parameters by which professional competence is to be measured, and by which its professional practitioners wish to be judged.

4. Each standard is qualified as: (i) should, (ii) must, or (iii) shall. <u>Should</u> and <u>must</u> standards are guidelines. While an appraiser may depart from a <u>should</u> standard without a statement of departure, such departure should be made knowingly. In those instances where the appraiser feels a departure from a <u>must</u> standard is warranted, the report <u>shall</u> include a statement of departure. It is the position of the IBA that standards designated <u>shall</u> are those from which departure is not justified.

5. These standards have been developed to provide guidance to appraisers who are members of the Institute of Business Appraisers (IBA) and others performing appraisals of closely held businesses, business ownership interests or securities. They have also been developed to assist in the evaluation and regulation of members of the IBA through creating uniform practices and procedures. Departures from the standards are not intended to provide a basis for civil liability, and should not be presumed to create evidence that any legal duty has been breached, or to imply the creation of any additional relationships or duties other than those specified herein.

FORMAT

These standards are presented in a naturally progressive format beginning with overall professional conduct and ethics, followed by specific standards applicable to oral reports, expert testimony, letter reports, formal reports, and preliminary reports.

No attempt is made to anticipate every possible scenario or unique circumstance and create standards specific thereto. Conversely, these standards were developed under the premise that the professional business appraiser practicing within the proper standard of care can, on a case-by-case basis, adequately apply these standards in such a manner to result in a competent report while still permitting the flexibility necessary to meet the reasonable requests of the client and the vicissitudes of the assignment.

Within this publication, reference to all individuals has been in the masculine. This is done in the interest of simplicity and is not intended as a gender bias. Terms should be assumed to be in the singular or plural as appropriate to the context in which they are used.

STANDARD ONE

1.0 PROFESSIONAL CONDUCT & ETHICS

1.1 Competence. The achievement of certification as a business appraiser (CBA) is a result of specialized training, study, practice, the successful completion of a proctored examination, and a favorable review of the candidate's actual appraisal reports by The Institute of Business Appraisers' Qualifications Review Committee. To maintain certification, a CBA will adhere to continuing education requirements and periodic recertification as required by IBA.

Prior to accepting an engagement to perform a business appraisal, the appraiser must judge his competence to complete the assignment. Should the appraiser have a meaningful lack of knowledge and experience, the appraiser <u>must</u> immediately disclose that fact to the client. If the client desires the appraiser to continue with the assignment, the appraiser shall take those steps necessary to perform the appraisal in a competent manner, or take those steps necessary to complete the assignment under the supervision of an appraiser who has the requisite skill, or with the permission of the client, refer the engagement to a qualified business appraiser.

It is essential that a business appraiser communicate the research and thought processes which led to his opinions and conclusions in a manner that is clear, meaningful and not misleading. Said communication, whether oral or written, shall not be rendered in a careless or negligent manner.

The appraiser as an individual must be competent. Software valuation programs and/or excessive reliance on rules of thumb are not surrogates for individual competence.

The professional business appraiser recognizes and understands that compliance with these standards and ethics is an essential part of competence.

1.2 Confidentiality. The very fact an appraiser has been retained to value all or a portion of a business enterprise, or its securities, is in itself confidential. Consequently, it is considered unethical for a business appraiser to disclose either the assignment itself or any of the reasonably identifiable contents of an appraisal report without the client's express permission.

1.3 Disinterestedness. It is unethical for a business appraiser to accept any assignment when the appraiser has a present or contemplated interest in the property being appraised, or a bias for or against any person associated therewith, either directly or indirectly. Such interests include, but are not limited to, present, contemplated or prospective activity with the business enterprise, its officers, directors, or owners, including possible acquirers or investors.

However, if a prospective client, after full disclosure by the appraiser of said interest or bias, still elects to engage the appraiser, the appraiser may accept the assignment. When accepting such an assignment, the business appraiser shall include a Statement of Departure as required by Standard 1.21(b). The Statement of Departure <u>shall</u> include a complete disclosure of the interest or bias.

1.4 Non-advocacy v. Advocacy. Non-advocacy is considered to be a mandatory standard of appraisal.

The appraiser's obligation to serve the public interest assures that the integrity of valuations will be preserved. Hence, the appraiser may only be an advocate for his unbiased process and conclusions. The appraiser <u>must</u> be guided by nothing other than his informed judgment, the dictates of the client (as permitted under these standards), applicable administrative rulings, and the law.

In the event the appraiser is engaged to function not as an appraiser but as an advisor or consultant, he may serve as an advocate. In such instances the appraiser <u>shall</u> include a statement of departure which states, that any positions taken were taken as an advocate for the client.

1.5 Engagement. Prior to performing an appraisal assignment, a business appraiser <u>should</u> obtain a written agreement signed by the client or his agent. At the very least, the engagement agreement <u>should</u> specify what the appraiser is being engaged to appraise, the function (use) of the appraisal, the purpose (standard of value) including the definition thereof, the effective date of the appraisal, the scope of the appraisal, that the appraisal will be performed on a non-advocacy basis (see Standard 1.4), the amount of or method for calculating the appraiser's fee, together with the method for payment of same, and an indication of when the client may expect the report.

1.6 Coherence and Production. Appraisal reports must have logical organization. Readers' questions that can reasonably be anticipated should be answered. Data in one part of the report should not contradict other portions without reconciliation.

The appraiser should develop contributing conclusions from the various components of the appraisal process drawing them together in a cross-supporting manner that logically brings the reader to the appraiser's conclusion.

The report should be produced in a manner and style which brings credit to the appraiser and the profession. Typographical errors and the like <u>shall</u> be eliminated. In formal reports, page and exhibit numbers <u>should</u> be used together with a table of contents or index to enhance readability.

1.7 Supportable Opinion. The essence of business appraisal is a supportable opinion.

While it is intuitively logical that on a case-by-case basis certain opinions will be based on the informed, but subjective, judgment of the appraiser to a greater degree than others, the appraiser's goal is to have a supportable opinion. The reader should not be expected to accept critical elements such as adjustments to financial statements, the selected capitalization or discount rates or weightings, without support – even in those instances where the vicissitudes of the assignment dictate that support be primarily based on the informed judgment of the appraiser.

1.8 Replicability. The appraiser's procedures and conclusion in the formal report <u>must</u> be presented in sufficient detail to permit the reader to replicate the appraisal process.

1.9 Appropriateness. The standard of value, the type of report and the valuation approaches/methods utilized should be appropriate to the assignment. The material included in the report should be relevant, clear, and cogent.

1.10 Jurisdictional Exception. If any part of these standards is contrary to the law or public policy of any jurisdiction, only that part shall be void and of no force and effect in that jurisdiction.

1.11 Fiduciary Duty to Clients and Other Duties.

Client. The one employing the business appraiser.

Third Parties. Others who could be expected to review the report, e.g., attorneys, accountants, lenders, buyers, investors, regulatory agencies, courts, etc.

Public. Society at large.

(a) Specialized Character of Business Appraisal. Seldom are others intimately familiar with the process of business appraisal. Therefore, it is anticipated the business appraiser will use his professional abilities properly, as more fully described throughout these standards.

(b) Loyalty, Obedience, and Reasonable Skill and Care. Agents have such duties to clients. While no fiduciary or other affirmative duty is owed to others, services provided in accordance with these standards should be clear as to meaning and not be misleading to others.

1.12 Duty to Profession.

(a) Professional Cooperation and Courtesy. It is unethical to damage or attempt to damage the professional reputations or interfere with the performance of other business appraisers practicing within the scope of these standards through false or malicious statement or innuendo.

(b) Conduct. Every member is reminded that his demeanor and general conduct represents his profession and fellow practitioners, and unprofessional conduct damages more than his individual reputation.

(c) Cooperation. Each member shall cooperate fully with the efforts of the Institute and/or its Ethics and Discipline Committee when investigating possible activities which are contrary to these standards.

1.13 Substance v. Form. The form of an appraisal report can be oral or written with variations of each. However, it is only the form of the report that varies. The appraiser's responsibility to gather data, analyze the data, and draw supportable conclusions as applicable to the type of assignment undertaken does not change. Regardless of whether the final valuation is reported orally, in a summarizing letter report or a formal report, the appraiser must have first completed an appropriate valuation determination process.

A preliminary report is an exception to the above requirement for a thorough, complete work process. By its nature, a preliminary report results from a more cursory evaluation. (See Standard Six, Preliminary Reports.)

1.14 Professional Fees. The fees charged for the services of an appraiser are a product of the marketplace; however, a business appraiser is ethically denied the selection of a fee that could in itself call to question the objectivity of the appraiser.

(a) Finder's Fees. No appraiser will pay fees, or offer gain in any form, to others to promote the appraiser's work in such a way, or under any circumstances, that will diminish the dignity of, or reflect discredit or disrepute upon, the appraisal profession.

(b) Referral Fees. It is the right of an appraiser and, therefore, not unethical to pay a referral fee to another professional for the referral of appraisal assignments.

(c) Percentage Fees. To accept any engagement for which the compensation is based on a percentage of the valuation conclusion impairs independence and is thus unethical.

1.15 Access to Requisite Data. The business appraiser must decide what documents and/or information are requisite to a competent appraisal.

(a) Reliability of Data. An appraiser may rely upon documents and/or information provided by the client and/or his agents without further corroboration; provided, the report clearly states he has done so. This right, however, does not abrogate the appraiser's duty to ask or otherwise inquire regarding information which on its surface clearly appears to be incomplete or otherwise inaccurate.

(b) Pertinent Data. In situations where access to "pertinent" data is denied to the appraiser, the appraiser may, at his option, withdraw from completing the assignment However, should the appraiser elect to complete the assignment, the report must include a Statement of Departure as required under Standard 1.21(b). Such Statement of Departure must describe the limitation and/or restriction and its potential effect on the appraiser's conclusion.

(c) Essential Data. When the business appraiser is denied access to data considered essential to a proper appraisal, the business appraiser should not proceed with the assignment.

1.16 Valuation Approaches/Methods. The approaches/methods used within a given assignment are a matter that must be determined by the business appraiser's professional judgment. The task is generally decided through consideration of the approaches/methods that are conceptually most appropriate and those for which the most reliable data is available.

1.17 Definitions.

(a) Terms. The appraiser should be careful in the use of ambiguous or esoteric terms. Such terms require definition to prevent the reader from applying a different definition.

(b) Computations. All computations, particularly those used to compute ratios and weightings should be clearly defined.

1.18 Principal Sources and References.

(a) Formal Report. A formal report must include a list of the principal sources of non-confidential information and references whenever their inclusion will materially contribute to the clarity and understanding of the report.

(b) Oral and Informal Reports. The appraiser's work papers must include a general description of the principal sources of information and references.

1.19 Site Tours and Interviews.

(a) Tour. Familiarity with an appraisal subject is a compelling necessity to a credible valuation. For this reason, it is desirable that a business appraiser make personal inspections or tours of appraisal subject sites whenever possible. When such activities are not performed, the appraiser's report shall disclose that the appraisal process did not include a site tour.

(b) Interview. An appraiser should not perform an appraisal without interviewing the management and other parties considered appropriate in the circumstances.

1.20 Eligibility of Data. An appraisal shall be based upon what a reasonably informed person would have knowledge of as a certain date. This shall be known as the appraisal's "date of valuation" or "effective date and accordingly reflect the appraiser's supportable conclusion as of that date. Information unavailable or unknown on the date of valuation must not influence the appraiser or contribute to the concluding opinion of value.

(a) Imminent Change. The appraiser is sometimes faced with the knowledge of a material imminent change in the business; a change not known of on the "date of valuation", but known as of the appraisal's "report" date. In such an event, the imminent change (positive or negative) should not affect the valuation conclusion, unless a reasonably informed person could have anticipated the imminent change. However, it is not uncommon for an appraiser to disclose such a change within the narrative portion of the report.

(b) Data on Guideline Companies. When an appraiser selects guideline companies, the data on the companies judged sufficiently similar should be information knowable, although perhaps not yet compiled, on or before the appraisal's date of valuation. Additionally the data on the guideline companies should be for the same accounting period; however, if it is as of a different period, said different period must be on or before the appraisal's date of valuation

This restriction should apply whether the guideline companies are specific companies or aggregate industry statistics or rations.

1.21 Departure. A business appraiser may be engaged to perform an appraisal assignment that calls for something different from the work that would routinely result from the appraiser's compliance with all must standards; provided, that prior to entering into an agreement to perform such an assignment:

(a) The appraiser is of the opinion that the assignment is not so limited in scope that the resulting report would tend to mislead or confuse the client or other anticipated readers; and

(b) The appraiser has advised the client that the assignment calls for something different than that which would normally result from compliance with applicable standards and, therefore, the report shall include a statement of departure.

1.22 Hypothetical Reports. An analysis or appraisal may be prepared under a hypothetical assumption, or series thereof, even though they may appear improbable. However, such a report <u>must</u> clearly state (i) the hypothetical assumption and (ii) the purpose of the analysis or appraisal, and any opinion of value <u>must</u> clearly be identified as resulting from a hypothetical assumption.

1.23 Dissenting Opinion.

(a) <u>Dissenting Opinion with Other Appraisers.</u> Collaborating appraisers, and review appraisers <u>must</u> sign the report. When a signing appraiser disagrees in whole or in part with any or all of the finding of other appraisers, said dissenting opinion <u>must</u> be included in the report, signed by the dissenting appraiser.

(b) <u>Dissenting Opinion with Case Law and/or Administrative Regulation.</u> As any other member of society, appraisers are required to comply with statutory law and statutory definitions as they may exist from time to time and from jurisdiction to jurisdiction. However, case law and/or administrative regulations do not have the same force as statutory law. Therefore, the business appraiser may, when he believes it is warranted, express within the appraisal report a dissenting opinion to case law and/or an administrative regulation.

1.24 Membership Designations. It is considered unethical conduct for any individual to explicitly or implicitly indicate he is a Certified Business Appraiser (CBA) when he has not been awarded the designation.

(a) <u>Certified Business Appraisal Reports.</u> An appraisal report may be considered a “Certified Report” when it is signed by a Certified Business Appraiser who is taking technical responsibility for its content.

(b) <u>Certification of Firms</u>. The designation Certified Business Appraiser is awarded to individuals, not business enterprises; therefore, it is unethical for an appraiser to explicitly or implicitly indicate that the firm is certified.

(c) <u>Misuse of Certification.</u> Each Certified Business Appraiser is honor-bound to refrain from any use of his professional designation in connection with any form of activity that may reflect discredit upon his designation, or the organization that conferred it, or deceive his client, or the public. As with actual appraisal conclusions, this has been left as a matter of individual judgment and conscience; those who abuse this privilege could be subject to disciplinary action by IBA's Ethics and Discipline Committee.

1.25 Certification. Each written report must contain a certification signed by the appraiser. Additional appraisers signing the report must accept responsibility for the full contents of the report. [In the event of a dissenting opinion, see Standard 1.23(a)] The certificate must be similar in content to the following:

(a) That to the best of the appraiser's knowledge, the statements of fact contained in the report are true and correct.

(b) That the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are the appraiser's personal, unbiased professional analyses, opinions and conclusions.

(c) That the appraisal was performed on a basis of non-advocacy, including a statement that the appraiser has no present of contemplated interest in the property appraised and has no personal bias with respect to the parties involved, or a complete disclosure of any such interest or bias.

(d) That the appraiser's compensation is not contingent on an action or event resulting from the analysis, opinions, or conclusions in, or the use of, the report.

(e) That the appraiser's analyses, opinions, and conclusions were developed and that the report has been prepared in conformity with the Business Appraisal Standards of The Institute of Business Appraisers.

(f) That no one provided significant professional assistance to the person signing the report. However, if there are exceptions to this, then the name of each individual providing significant professional assistance must be disclosed.

1.26 Qualifications of the Appraiser. The reader cannot fully judge the quality of the appraisal report without being given the opportunity to judge the appraiser's qualifications. Therefore, each appraisal report must include the appraiser's qualifications in a manner the appraiser believes accurately presents his appraisal experience, certification, professional activities, and other qualifications.

1.27 Force and Effect. These standards shall be in full force and effect on the date of their issuance. (Earlier compliance is encouraged.) Any and all prior standards regarding business appraisal practices, reports, conduct, or ethics are superseded. Future amendments, to be effective, shall be initiated and passed in accordance with Standard 1.29.

1.28 Enforcement. The enforcement of these standards, including amendments or modifications as may occur in accordance with Standard 1.29, shall be the responsibility and duty of all members as to their own performance, and otherwise by the standing Ethics and Discipline Committee of The Institute of Business Appraisers and/or such other individuals or committees as are designated from time to time by the governing body of The Institute of Business Appraisers.

1.29 Amendments to Standards. The Standards Committee of The Institute of Business Appraisers is a standing committee. Certified members desiring to propose amendments, additions, or deletions to these standards should submit a clear expression of the proposed change to The Institute of Business Appraisers, Attention: Chairperson, Standards Committee. The chairperson reserves the right to return any submitted change for further clarification as to the precise change proposed. The chairperson shall distribute copies of the proposed change to the members of the Standards Committee for their opinions on the proposed change. Should two-thirds or more of the Committee support the change, it shall be endorsed by the Committee and an exposure draft will be provided to all CBAs. The exposure draft shall provide for a thirty-day period for the vote of all CBAs. In the event that those certified members who vote “No” exceeds 50% of all CBAs (those voting plus those not voting), the Committee’s vote will be overruled and the proposed change will die for lack of support. Otherwise, the change will be adopted as of the first day of the month following the date copies of the amendments are provided to all members.

1.30 Signing Reports. Each written report must be signed by the appraiser and any other appraisers, including those signing as a “Review Appraiser” or “Collaborating Appraiser”, shall accept responsibility for the full content of the report. [In the event of a dissenting opinion, see Standard 1.23(a).]

(a) Exception. Should the policy of a given firm be that all reports are to be signed by a person authorized to sign reports on behalf of the firm, an exceptions to Standards 1.30 and 1.25 is permitted. However, in this event:

(i) The designated signer <u>shall</u> take technical responsibility for the full content of the report; and

(ii) The report may not be considered a “Certified Appraisal Report” unless a Certified Business Appraiser taking technical responsibility signs the report.

(iii) The fact that a given appraisal report is signed under 1.30(a) is not intended in any way to justify or excuse deviation from any standard that would otherwise apply.

STANDARD TWO

2.0 ORAL APPRAISAL REPORTS

2.1 Usage. In general written reports are preferred; however, oral appraisal reports are permitted when ordered by the client.

2.2 Mandatory Content. When presenting an oral report, the business appraiser shall in a manner that is clear and not misleading communicate the following:

(a) Introduction. Identify the client, and set forth the property being appraised, the purpose and function of the appraisal, the definition of the standard of value, and the effective date of the appraisal.

(b) Assumptions and Limiting Conditions. Disclose any extraordinary assumptions or limiting conditions that in the appraiser's judgment affected the value.

(c) Disinterestedness. That the appraisal was performed on a basis of non-advocacy, including a statement that the appraiser has no present or contemplated interest in the property appraised and has not personal bias with respect to the parties involved, or a complete disclosure of such interest or bias [See Standard 1.3]

(d) Valuation Conclusion. Represents a concluding opinion of value expressed as:

(i) a statement of a specific opinion of value; or

(ii) a range of values; or

(iii) a preliminary estimate which must include a statement that an opinion of value resulting from a formal report might be different and that difference might be material. (See also Standard Six, Preliminary Reports)

2.3 Conformity. Oral appraisal reports should comply with all applicable sections of Standard One, Professional Conduct and Ethics.

2.4 Written Follow-up. By its nature, the oral report is less detailed than the written report. Therefore, whenever feasible, it is suggested that oral reports be followed by a written presentation of the salient features of the oral report. In general, the written follow-up should include:

(a) Assumptions and Limiting Conditions. All applicable assumptions and limiting conditions.

(b) Support. In general, a brief presentation of the information considered, the appraisal approaches used and the research and thought processes that support the appraiser's analyses, opinions and conclusions.

(c) Appraiser's Certification as specified in Section 1.25.

2.5 Recordkeeping. An appraiser should retain written records of appraisal reports for a period of at least five (5) years after preparation or at least two (2) years after final disposition of any judicial proceeding in which the appraiser gave testimony, whichever period expires last.

STANDARD THREE

3.0 EXPERT TESTIMONY

3.1 Definition. Expert testimony is an oral report given in the form of testimony in a deposition and/or on the witness stand before a court of proper jurisdiction or other Trier of fact.

3.2 Mandatory Content. The appraiser shall answer all questions put to him in a manner that is clear and not misleading. When giving testimony, the appraiser shall not advocate any position that is incompatible with the appraiser's obligation of non-advocacy; i.e., it is unethical for the appraiser to suppress any facts, data, or opinions which are adverse to the case his client is trying to establish, or to over-emphasize any facts, data, or opinions which are favorable to his client's case, or in any other particulars become an advocate. The expert witness must at least comply in a manner that is clear and not misleading with the following:

(a) Introduction. Identify the client, and set forth the property being appraised, the purpose and function of the appraisal, the definition of the standard of value, and the effective date of the appraisal.

(b) Assumptions and Limiting Conditions. Disclose any extraordinary assumptions or limiting conditions that in the appraiser's judgment affected the value.

(c) Disinterestedness. That the appraisal was performed on a basis of non-advocacy, including a statement that the appraiser has no present or contemplated interest in the property appraised and has not personal bias with respect to the parties involved, or a complete disclosure of such interest or bias [See Standard 1.3]

(d) Valuation Conclusion. Represents a concluding opinion of value expressed as:

(i) a statement of a specific opinion of value; or

(ii) a range of values; or

(iii) a preliminary estimate which must include a statement that an opinion of value resulting from a formal report might be different and that difference might be material. (See also Standard Six, Preliminary Reports)

3.3 Conformity. Expert testimony reports should comply with all applicable sections of Standard One, Professional Conduct and Ethics.

3.4 Recordkeeping. An appraiser should retain written records of appraisal reports for a period of at least five (5) years after preparation or at least two (2) years after final disposition of any judicial proceeding in which the appraiser gave testimony, whichever period expires last.

STANDARD FOUR

4.0 LETTER FORM WRITTEN APPRAISAL REPORTS

4.1 Definition. An appraiser's written report can be in the form of a letter report of a formal report. The letter report, which is shorter than the formal report, presents conclusions together with brief generalized comments. This type of report is often referred to as a short-form report, letter opinion, or an informal report.

By its nature, the letter form report is an instrument of brevity. It should contain at least a summary of the material factors that led to its conclusions, but it is usually intended by the parties to reduce the normal appraisal burden of writing a comprehensive report and thereby allow the client to realize some economic benefit. However, the appraiser is still required to perform materially the same investigation and analysis as would be required for a comprehensive formal report and maintain in his file the work papers necessary to support the conclusions stated in the letter report.

4.2 Conformity. The letter form written report must comply with all applicable provisions of Business Appraisal Standards, Standard One, Professional Conduct and Ethics.

4.3 Mandatory Content. All letter form written appraisal reports shall minimally set forth in a manner that is clear and not misleading:

(a) Identify the client, and set forth a description of the business enterprise, security or other tangible and /or intangible property being appraised.

(b) Form of the organization and if incorporated, the state of incorporation, together with a description, adequate to the assignment, of all classes of securities outstanding and a list of shareholders whose interest should, in the appraiser's judgment be specified. If a partnership, the type and the state of filing, together with a list of those partners, whether general or limited, whose interest should, in the appraiser's judgment, be specified.

(c) The purpose (standard of value) of the appraisal.

(d) The function (use) of the appraisal.

(e) The definition of the standard of value that is the purpose of the appraisal.

(f) The effective ("as of") date of the appraisal.

(g) The date the appraisal report was prepared.

(h) The report's assumptions and limiting conditions.

(i) Any special factors that affected the opinion of value. Such factors include, but are jot limited to, buy-sell agreements, restrictive stock agreements, corporate articles, bylaws and resolutions, partnership agreements, litigation, regulatory compliance, or environmental hazards.

(j) Applicable discounts and premiums such as minority interest, control, marketability or lack thereof.

(k) A certification consistent with the intent of section 1.25

4.4 Distribution of Report. The letter report <u>should</u> include a clear statement of the expected distribution of the report.

4.5 Valuation Conclusion. The letter report <u>must</u> include a clear statement of the appraiser's concluding opinion of value expressed as appropriate to the assignment:

(a) a statement of a specific opinion of value; or

(b) a range of values; or

(c) a preliminary estimate which <u>must</u> include a statement that an opinion of value resulting from a formal report might be different and that difference might be material. (See also Standard Six, Preliminary Reports.)

4.6 Transmittal Letter. If a transmittal letter is used, it <u>should</u> include a summary of the engagement. It may be structured in the form of a letter, an executive summary, or a similar rendering. However, regardless of the structure used, if a transmittal is used, it <u>shall</u> refer to the report in a manner sufficient to discourage any attempt to remove and use the transmittal without the report.

4.7 Recordkeeping. An appraiser <u>should</u> retain written records of appraisal reports for a period of at least five (5) years after preparation or at least two (2) years after final disposition of any judicial proceeding in which the appraiser gave testimony, whichever period expires last.

STANDARD FIVE

5.0 FORMAL WRITTEN APPRAISAL REPORTS

5.1 Definition. The formal appraisal report is a comprehensive business appraisal report prepared to contain at a minimum, the requirements described within this standard. It is sometimes called the long form, narrative or comprehensive report.

5.2 Conformity. The formal written report must comply with all applicable provisions of Business A0ppraisal Standards, Standard One, Professional Conduct and Ethics.

5.3 Mandatory Content. All formal appraisal reports shall minimally set forth the following items in a manner that is clear and not misleading, including detail sufficient to permit the reader to reasonable replicate the appraiser's procedures:

(a) Identify the client, and set forth a description of the business enterprise, security, or other tangible and/or intangible property being appraised.

(b) Form of the organization and if incorporated, the state of incorporation, together with a description, adequate to the assignment, of all classes of securities outstanding and a list of shareholders whose interest should, in the appraiser's judgment be specified. If a partnership, the type and the state of filing, together with a list of those partners, whether general or limited, whose interest should, in the appraiser's judgment, be specified.

(c) The purpose (standard of value) of the appraisal.

(d) The function (use) of the appraisal.

(e) The definition of the standard of value that is the purpose of the appraisal.

(f) The effective ("as of") date of the appraisal.

(g) The date the appraisal report was prepared.

(h) The report's assumptions and limiting conditions.

(i) The principal sources and references used by the appraiser.

(j) The consideration of relevant data regarding:

(i) The nature and history of the business.

(ii) The present economic conditions and the outlook affecting the business, its industry, and the general economy.

(iii) Past results, current operations, and future prospects of the business.

(iv) Past sales of interest in the business enterprise being appraised.

(v) Sales of similar businesses or interests therein, whether closely-held or publically-held.

(vi) The valuation approaches/methods considered and rejected, the approaches/methods utilized, and the research, sources, computations, and reasoning that supports the appraiser's analyses, opinions and conclusions.

(vii) Any special factors that affected the opinion of value. Such factors include, but are not limited to, buy-sell agreements, restrictive stock agreements, corporate articles, bylaws and resolutions, partnership agreements, litigation, regulatory compliance, or environmental hazards.

(viii) Applicable discounts and premiums such as minority interest, control, marketability or lack thereof.

(ix) When valuing a majority interest in a business on a "going concern" basis, consider whether the business' highest value may be achieved on a liquidation basis.

(k) A Certification consistent with the intent of section 1.25

5.4 Distribution of Report. The formal report <u>should</u> include a clear statement of the expected distribution of the report.

5.5 Valuation Conclusion. The formal report must include a clear statement of the appraiser's concluding opinion of value expressed as appropriate to the assignment:

(a) a statement of a specific opinion of value; or

(b) a range of values.

5.6 Transmittal Letter. If a transmittal letter is used, it should include a summary of the engagement. It may be structured in the form of a letter, an executive summary, or a similar rendering. However, regardless of the structure, if used, the transmittal shall refer to the report in a manner sufficient to discourage any attempt to remove and use the transmittal without the report.

5.7 Recordkeeping. An appraiser should retain written records of appraisal reports for a period of at least five (5) years after preparation or at least two (2) years after final disposition of any judicial proceeding in which the appraiser gave testimony, whichever period expires last.

STANDARD SIX

6.0 PRELIMINARY REPORTS

6.1 Definition. A brief oral or written report reflecting the appraiser's limited opinion.

A Preliminary report must clearly identify any valuation as a "limited" opinion of value as the appraiser has not performed the detailed investigation and analysis essential to a cogent appraisal. [See Standard 6.5]

6.2 Conformity. The preliminary report must comply with all applicable provisions of Business Appraisal Standards, Standard One, Professional Conduct and Ethics.

6.3 Usage. The preliminary report has use when a client desires the appraiser's limited opinion.

6.4 Disclosure. The presentation of a preliminary opinion without disclosing its limitations is unethical.

6.5 Departure. If an appraiser makes a preliminary report without including a clear statement that it is preliminary, there is the possibility a user of the report could accord the report and its limited opinion of value a greater degree of accuracy and reliability than is inherent in the preliminary report process. Therefore, all preliminary reports shall include a Statement of Departure in accordance with Standard 1.21(b). The Statement of Departure shall include a statement that the report is preliminary and the conclusion subject to change following a proper appraisal and that said change could be material.

6.6 Oral v. Written. All preliminary reports whether oral or written are subject to Standard Six.

6.7 Recordkeeping. An appraiser should retain written records of appraisal reports for a period of at least five (5) years after preparation or at least two (2) years after final disposition of any judicial proceeding in which the appraiser gave testimony whichever period expires last.

STANDARD SEVEN

7.0 CONDUCTING A BUSINESS APPRAISAL ASSIGNMENT

7.1 Description of the Assignment

In describing the appraisal engagement, the professional shall consider, document, and communicate

(a) the subject of the appraisal

(b) a summary description of the business interest

(c) the purpose and intended use of the appraisal

(d) the standard and premise of value

(e) the relevant market segment

(f) the date of valuation

(g) the ownership and control of the business

(h) the scope of the assignment

(i) the format of the report

(j) relevant definitions

(k) the principal sources of information

(l) all assumptions and limiting conditions

As to assumptions and limiting conditions, the professional shall disclose in the communication of the conclusion of value

(i) information requested by the professional which was not supplied

(ii) all scope limitations placed on the assignment

(iii) restrictions on time, budget, or format

The professional shall consider, document, and disclose all prior, existing and/or contemplated professional or personal relationships with the subject company and its owners, and any economic interest in the subject company.

7.2. Economic Conditions and Industry Data

In assembling and analyzing information about pertinent economic factors and the industry in which the subject company operates, the professional shall consider, document, and communicate

(a) pertinent overview of the Global/International economy

(b) pertinent overview of the State/Province and local economy

(c) outlook for the subject company's industry or profession

(d) outlook for the demand for the subject company's product or service

(e) outlook for the customer or service base for the subject company's industry or profession

(f) outlook for the customer or service base for the subject company

(g) competition in the industry or profession

(h) the business cycle for the industry or profession

(i) regulatory issues with present or possible future impact

(j) outlook for pricing strategies for the subject company's products or services

7.3 Survey of the Subject Firm

In assembling and analyzing information about the business to be valued, the professional shall consider, document, and communicate

(a) the company history

(b) the form of organization

(c) restrictions on the sale of the subject interests

(d) prior ownership transactions

(e) subsidiaries and affiliates

(f) ownership management and employee structure, depth and qualifications of management, key person(s), and successor plan(s)

(g) ownership, management, and employee compensation and perquisites

(h) business development, sales and marketing of the subject company and its products or services

(i) the products or services offered

(j) vendors and suppliers

(k) the customer base

(l) the competitive environment

(m) environmental, regulator, or other conflicts

(n) contingent and one-time events in the company history or outlook

(o) the physical plant or offices

(p) public standing and reputation of subject company, products and services

7.4 Financial Performance of the Subject Company

In assembling and analyzing information about the business to be valued, the professional shall consider, document, and communicate

(a) the documentation of the financial performance of the company

(b) comparative ratio analysis

(c) the quality of the financial statements and records

(d) adjustment to the financial statements including

(i) adjustments to the balance sheet
(ii) normalized operating tangible equity
(iii) normalized intangible equity
(iv) adjustments to the income statement
(v) normalized income statement

(e) growth expectations over the anticipated business cycle

(f) the collection history of the company

(g) the credit and lending status of the company

(h) the availability and cost of capital

7.5 Valuation of the Subject Company

In performing a valuation of the business to be valued, the professional shall consider, document, and communicate

(a) all valuation approaches and methods considered and rejected, and the basis for their rejection

(b) all valuation approaches and methods considered and applied and the basis for their selection

(c) In considering application of the asset/cost based approach and the impact of the assets on other valuation approach based methods, the professional shall consider, analyze, document, and communicate

(i) the economic value under the pertinent standard of valuation of the tangible and intangible assets to be discretely valued (separately and in comparison to the book value of the tangible and intangible assets

(ii) the liquidation value of the tangible and intangible assets

(iii) the liquidity of the tangible and intangible assets

(iv) the depreciation and amortization of the tangible and intangible assets

(v) the nature, scope, and duration of restrictions on the transfer of assets

(vi) operating and non-operating assets

(vii) expected rates of return for tangible and intangible assets and the basis for their derivation

(viii) the liabilities of the subject

(d) In considering application of the income approach and the impact of the income stream on other valuation approach based methods, the professional shall consider, analyze, document, and communicate

(i) the reason(s) for selection and utilization of a multiple period discounting or single period capitalization basis for the valuation analysis

(ii) whether the professional's consideration of reported returns for prior years should be weighted for relevance or representation of trends in forecasting the future economic benefit stream of the subject company

(iii) expected rates of return for similar guideline investments and the basis for their derivation

(iv) the degree of certainty that is reasonable to assume that the projected revenues will be recognized

(v) systematic risks inherent in the subject industry or profession

(vi) non-systematic risks specific to the subject business

(vii) such other factors related to the economic benefit stream of the subject company as are deemed to be significant and material to the analysis

(e) In considering the application of a market approach and the impact of the market on other valuation methods, the professional shall consider, analyze, document, and communicate

(i) the availability of market data

(ii) the quality of available market data

(iii) the reliability of available market data

(iv) the applicability of data on publicly traded companies and private company transactions

(v) the degree to which the subject business is marketable compared to its peer group

(vi) the degree to which the subject interest is marketable compared to its peer group

(vii) the control available to the valued interest on business planning, decisions, and operations, as well as the capital structure of the subject

7.6 Presentation of Conclusions

In presenting the value conclusion, whether a single dollar amount or a range, the professional shall consider, analyze, document, and communicate

(a) the reliability of the data available and utilized and the degree of its applicability to the facts and circumstances of the subject analysis

(b) the degree of consideration accorded to each of the indications of value derived from the respective valuation methods considered and utilized, and the reasons for those decisions