

# VIEW ON VALUATION

A NEWSLETTER FROM BDO VALUATION ADVISORS

## NEWS FLASH

## BLACK SCHOLES MODEL NOT AN OPTION

The SEC delivered a speech at the annual AICPA SEC Conference in December discussing how the Black-Scholes Option Pricing Model ("BSOPM") may not be an acceptable valuation model for warrants and other financial instruments with non-standard terms and features. Being a closed form option pricing model, the BSOPM model is less flexible than open form option pricing models, such as a binomial lattice model or Monte Carlo simulation analysis. For example, in valuing warrants, it does not take into account embedded features such as, but not limited to, down-round protection, anti-dilutive features, variable strike prices or market-based performance metrics.

Recent trends in SEC comment letters of reviews of issuers' filings suggest that the staff has focused on the method used for valuing complex financial instruments (including warrants and bifurcated conversion options) and has questioned the use of the BSOPM in such situations. We expect this to continue to be the subject of an increasing number of SEC inquiries.

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BDO Valuation Advisors, LLC has helped many companies navigate these issues to the satisfaction of the SEC. Please contact us to see how we can help you.

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