

## Damages Measurement for New Economy Firms

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In forensic accounting practice, damages are calculated using before-and-after, yardstick, and market model methods. As our economy moves toward an e-business environment, there are new challenges to forensic accountants in computing damages. In using the market model, the plaintiff's forensic accountant and other experts will have to convince the court that their financial model reflects the firm's business model operating in a market. Using a taxonomy of e-business models can be an effective technique for positioning the firm in a market. In calculating lost profits, understanding an e-business' cost structure is complicated by IT infrastructure costs and scalability issues. If the defendant's alleged actions damaged the firm's value, the expert will have to understand the firm's business model and the firm's value creation process as a basis for preparing a financial model.

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### INTRODUCTION

The information revolution has produced a continuous flow of new technologies. In the 1990s the new economy became a reality. The Internet was the most visible enabling technology. E-business created new challenges for bricks and mortar firms. Internet stocks captured the investing public's imagination. America Online's IPO in 1992 launched the Internet stock era. Within seven years after AOL's IPO, Internet stocks grew to be the third largest technology sector measured by market value. The NASDAQ stock index soared. Many new economy firms were formed with business plans to seek venture capital and eventually go public. Many financial market writers and experts predicted that the 'Internet Bubble' would eventually burst (e.g. Perkins and Perkins, 1999). From February to May 2000, the market capitalization of U. S. publicly traded Internet stocks declined more than 40 percent. Subsequently, the NASDAQ severely plummeted.

While the excitement over the new economy and e-business may have faded with the declining stock market, the impact of the information revolution is irreversible. While many Internet firms disappeared, many remained or were acquired. We are moving toward a networked economy. Clicks and mortar firms are integrating upstream in the supply chain, which is business to business (B2B). They are also are integrating downstream in the sup-