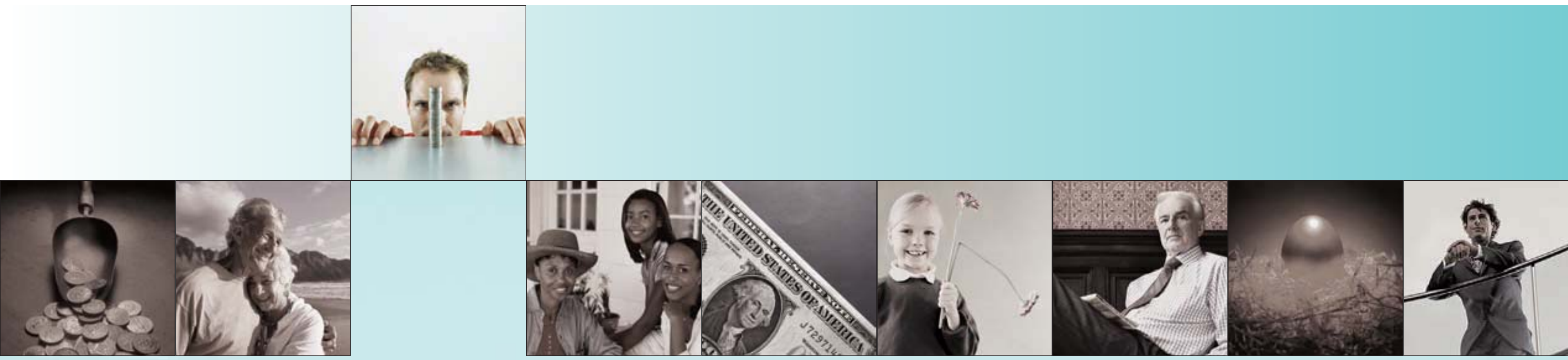
Business Valuation Strategies



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INTRODUCTION TO VALUATION CONCEPTS

Why do you need to know the value of your business, estate or assets? It might be to negotiate a sale, secure credit, settle a legal dispute or determine your tax liability. Or, as you'll see below, it might be for one of many other reasons — some of which you may not have even considered. Whatever your need, the valuator's task is the same: to use professionally accepted methods to arrive at a well-reasoned and defensible estimate of value.

In this booklet we explain basic valuation concepts, plus issues and strategies in the contexts of business, estate planning and litigation. The essential point to keep in mind is that value is determined by many different factors. For this reason, it's important to work with a valuation professional skilled in selecting and applying the appropriate methodology.

The information we present here is intended not as a substitute for professional valuation advice, but rather as both an introduction and a guide to the complex topic of business valuation. We encourage you to look it over and then call us with any questions you may have about the topics discussed, or about your own valuation needs. We would welcome the opportunity to be of assistance.

WHY YOU NEED PROFESSIONAL VALUATION SERVICES

Valuations can be helpful in many situations, including some you may not have even thought about:

You want to buy or sell a business. If you own a business, you may need to establish a reasonable estimate of what you could expect to receive in a sale. Similarly, if you are considering buying a company, you may benefit from a valuation in order to set an asking price. Valuators often use several methods to reflect how different types of potential buyers may view the business.

You are divorcing. In a divorce, valuation helps determine the distribution of assets between spouses. Divorces are often not amicable, and asset valuations can become the focus of the parties' animosity, so well-founded valuations that will withstand legal challenges are key.

You use gifts as a tax strategy in your estate plan. Transferring potentially appreciating assets by outright gifts or by using a family limited partnership is a common estate planning strategy. An objective valuation that adheres to IRS regulations can help your gifts withstand IRS scrutiny.

You are liquidating your business. If you're declaring bankruptcy or seeking protection to reorganize, a valuation is necessary to determine creditor settlements and the availability of assets for distribution.

You are the executor of an estate. The estate property may include a business interest that requires an independent valuation if filing an estate tax return is required.

You are setting up a buy-sell agreement. You'll need to contractually determine what happens to company stock in the event of the death or disability of a shareholder or in cases of shareholder disputes.

You are seeking business financing. An independent valuation can provide objective evidence of the value of your business and assets that can help you obtain financing from lenders and investors.

Lenders and investors often require a second opinion regarding the value of a business, especially when larger businesses are involved.

You are doing strategic planning. A business valuation can give you a good picture of your company's progress, strengths and weaknesses to help you develop realistic strategic objectives.

You require a fairness opinion. A fairness opinion usually addresses whether a proposed transaction is fair to shareholders or a group of noncontrolling shareholders from a financial point of view.

You need to comply with certain FASB standards. If you've merged with or acquired another company, a business valuator can help you allocate your purchase price among the company's tangible assets, goodwill and other intangible assets in

THE MANY FACES OF VALUATION

You may need valuation services in even more situations than you expect. For instance:

TRANSACTION ANALYSIS

- Transaction planning for acquisition and divestiture
- Pricing
- Structuring buy-sell agreements
- Fairness or related-party opinions
- Employee Stock Ownership Plans (ESOPs)

FINANCIAL ADVISORY SERVICES

- Private offering document preparation for sale or for investors
- Financing studies for credit or a loan
- Target identification in an acquisition or merger
- Initial public offerings or incentive stock option plans

MANAGEMENT REQUIREMENTS

- Stock options and restricted securities
- Economic value added
- Financial restructuring
- Corporate governance
- Strategic and market analysis
- Business plans
- Financial and regulatory reporting and business interruption

LITIGATION SUPPORT AND DISPUTE RESOLUTION

- Breach of contract
- Infringement
- Fraudulent conveyance
- Bankruptcy or reorganization
- Marital dissolution
- Product liability
- Dissenting stockholder or partner issues

TAXATION

- Gift and estate planning or tax returns
- Purchase price allocation
- Transfer pricing
- Executive compensation
- Capital cost segregation

the most advantageous way possible. Moreover, a valuation professional can help you satisfy accounting standards requiring that you determine your intangible assets' fair value and the extent of their impairment on an ongoing basis. Your valuator can also help you properly record discontinued operations and the disposal of long-lived assets.

You are converting your C corporation to an S corporation. A valuation is necessary to establish a basis for the company's common shares of stock and its potential built-in gain, which is subject to taxes.

HOW TO RECOGNIZE A GOOD VALUATION REPORT

Valuation is as much art as science. Yet valuation is also a highly technical field. The ability to judge which valuation method is best suited to a company's needs and apply it to get an accurate picture of value requires experience and skill. Relying on a value determined by someone who doesn't have this expertise can lead to unpleasant surprises.

When you hire a valuator, ask to see his or her credentials, brochures, copies of articles and publications authored by the valuator, and information on past valuation experience in businesses similar to yours. Also, get to know the basics of what goes into a good valuation report so you can make well-informed decisions about your valuation needs. (See "Valuation report at a glance" on page 5.) The valuator's objectivity is another important criterion.

Basic elements

A well-written valuation report usually begins with these elements:

A table of contents. An extensive amount of material is typically included in a full written report, so look for a table of contents to help you find specific items. The table of contents should include any item with a material effect on the valuation report.

An opinion letter. This should set forth basic information concerning the valuation engagement and its results. The opinion letter must:

- Identify the entity being valued,
- Contain the effective date of the valuation and date of issuance,
- Explain the purpose of the valuation,
- Identify the standard and premise of value,
- Describe the interest being valued,
- Present the valuation conclusion,
- Describe any report use limitations, and
- Be signed by the valuator.

A statement of limiting conditions and signed certification. The valuator needs to identify any limiting conditions regarding his or her estimate of value. Each valuation's specific limiting conditions vary and may be extensive. The valuator must also verify that he or she complied with several requirements, including that he or she performed the valuation independently, that the fee isn't contingent on the valuation result, and whether he or she has a present or prospective interest in the property.

The body of the report

To support the valuation conclusion presented in the opinion letter, a valuator's report must include sufficient information to clearly communicate the thoughts, reasoning, methods, and information or data he or she relied on to reach it. Look for these items in the body of the report:

Purpose of the valuation. This is critical to the engagement. Although the valuator has stated the purpose in the opinion letter, restating it in the body of the report avoids confusion. For instance, if the opinion letter is misplaced or separated from the report and the report doesn't restate the purpose of the valuation, the report may be inadmissible as evidence and the valuator may be unable to serve as an expert witness in court.

Discussion of the valuation process and methodology. In addition to a description of the process and methods used in performing the valuation, this section should include the reasons the valuator selected them as well as the source or basis for determining key variables.

Description of the business and its history. Pertinent facts about the business are important to many users of the report. The valuator should describe the type of business entity (wholesaler, distributor, retailer), its history and organizational form (corporation, partnership), its services and products, its competition, the location of its operations, its markets, its management depth, and any other items relevant to a description of the business.

VALUATION REPORT AT A GLANCE

Here's a list of items a valuation report should include. Does the report have:

- An introduction, including the report's purpose, approach, limiting conditions and scope limitations?
- The company's background, including its history, ownership, management and physical facilities?
- An industry analysis, including the industry's structure, background and development as well as its current conditions, leaders and workforce?
- A local, national and international economic outlook?
- The valuation methods used, whether asset-based, market or income approaches?
- Valuation methods considered but not used and the reasons for not using the methods?
- A financial analysis, including the results of operations and a balance sheet review of liquidity, leverage, efficiency and profitability?
- A discount analysis, including public offering studies and restricted stock studies regarding marketability discounts, as well as a minority discount analysis considering restrictive agreements, closed-end fund studies and other pertinent factors?
- An estimate or conclusion of value incorporating an overview of control, minority interest and marketability factors as well as an explanation of the valuation methods used?
- A discussion of other items considered?
- An assessment of the company?

Description of ownership interests and related restrictions and agreements. Issues involving control, marketability, minority interest and restrictions on transfer directly affect value and should be analyzed and discussed.

Financial analysis. This should include the financial statements and other financial data the valuator used in the analysis, the source of the financial data, whether the data was adjusted and, if so, what the adjustments were, the reasoning behind them, a description of the period the data covers, and the degree to which the valuator relied on the data. The valuator should discuss key factors concerning management performance, financial position and results of operations, as well as evaluating a company's operating efficiency, leverage and profitability. The analysis should also discuss how the company's financial ratios and performance compare to industry benchmarks.

Keep it simple

A valuator needs to present the results of the valuation so that a layperson can easily understand them. If the judge, jury or IRS agent is unable to follow the logic in a valuation report, the results won't seem as credible as those from a report based on logic they do understand. Thus, a well-reasoned, well-presented valuation is essential.

In fact, the basic question about any valuation report is whether the information and documentation are sufficient to enable you to understand the report.

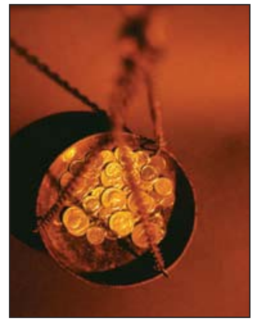
Ask yourself:

- Is the report logical?
- Does the report progress clearly from start to finish?
- Does the report contain any inconsistencies?
- Does the report support the conclusion of value?

THE VALUATION PROCESS

Let's take a closer look at types of value, the valuation process, factors affecting value, valuation methods and rules of thumb.

Value goes by many names



"Value" is a worthless term by itself because it can mean so many different things. A value found for one purpose may be entirely different from the value for another. Relying on the wrong type of value can be an expensive mistake. Understanding the differences between standards of value can help you interpret their relative worth in your situation:

Book value isn't a standard of value at all. It's an accounting term for the total net assets minus total liabilities on the balance sheet. Intangible assets are usually excluded from book value.

Fair market value is defined as "the price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts." The IRS set this definition and the standards for fair market value in Revenue Ruling 59-60. The fair market value standard is used for most valuations, including tax valuations for federal and state matters — gift, estate, income and inheritance taxes.

Fair value is an ambiguous term. In one context, fair value refers to the statutory standard of value usually used in court cases involving dissenting shareholders and other types of litigation. In this scenario, there is usually a willing buyer, but an unwilling seller. State case law or statutes typically determine how fair value is to be interpreted and defined. In another context, fair value refers to a standard that's used to determine the value of assets and liabilities in regard to business combinations for financial reporting purposes.

Liquidation value is derived from the piecemeal sale of assets. The sale can be orderly or forced, which can affect the value. This value is typically at the low end of the value spectrum.

Intrinsic value (also called fundamental value) is an analytical judgment of value based on the perceived characteristics inherent in the investment, without regard to the identity or characteristics of a particular investor. It represents the "true" or "real" value of an asset. Security analysts compare the intrinsic value of a stock with its trading price to assess buying and selling opportunities.

Investment value is the value to a particular buyer or investor considering his or her specific personal circumstances and knowledge of the transaction and potential synergies it will create. Investment value can be higher or lower than fair market value.

Invested capital value/enterprise value is the fair market value of 100% of the equity plus the market value of long-term debt.

Equity value is the market value of all the assets of a business, including intangible assets, less liabilities — in other words, the value of a business to its common shareholders.

Minority value is the value reflecting an ownership position of less than 50% or the inability to make final decisions concerning the company. A 50% owner may have control since he or she is in a position to stop actions by the other owners.

Noncontrolling value is the value of any nonvoting interest, such as limited partnership interests or nonvoting stock.

Control value is the additional value inherent in a majority or otherwise controlling interest, reflecting the power of control over the business.

Marketable value is the value of an equity assuming a pre-established market where that equity can be exchanged.

Private company value incorporates a discount from the marketable value owing to limitations on the equity's marketability. Know what base type of value you're starting with before any discounts or premiums are applied.

A valuation — step by step

Just how does a professional valuator decide which value he or she is looking for, sift through the vast amounts of data, and arrive at an appropriate value for a business or asset? To give you an idea, let's look at the basic steps involved in the typical valuation of a closely held business:

1. Define value. The first step is to define what value you're seeking. This definition depends, in part, on the valuation's purpose. If you don't clearly define what value you're seeking, you may end up with a value that doesn't fit the purpose. (See "Value goes by many names," beginning on page 6.)

2. Gather data. The valuator gathers historical and projected financial, operational and economic information about the business, including the company's financial statements, tax returns, history of ownership changes and resumés of current management. The valuator examines the company's:

- Equipment and facility appraisals,
- Buy-sell agreements,
- Corporate records, budgets or forecasts,
- Customer and vendor lists,
- Detailed depreciation schedules,
- Copies of the notes payable,
- Documentation for any related party loans or leases,
- Officers' compensation,
- Schedule of capital requirements,
- Articles of incorporation, and
- Schedule of all intangible assets.

In addition, the valuator obtains information concerning any previous offers to buy the company or previous transactions in the stocks.

3. Determine the value. The valuator determines which valuation method or methods will provide the most accurate value for the company as a whole, based on the specifics of the situation. (See "What methods do valuators commonly use?" on page 9.) He or she then analyzes all of the information gathered about the business itself. At this point, the valuator may look at the value established for similar businesses as well as the economic climate for the industry and the region the company operates within.

4. Adjust the value. The valuator considers attributes that affect the value of the specific shares in question. These include their marketability, their attached voting rights, whether they represent a controlling interest in the company and any special circumstances relating to that company.

In addition, the valuator makes adjustments to convert historical balance sheets and profit and loss statements to more accurately reflect the company's actual financial performance. Why? Closely held businesses often have discretionary expenses, such as an owner's personal auto and insurance as well as excess officers' compensation, that a willing buyer wouldn't have to pay if he or she owned the business. These adjustments are made, therefore, for purposes of objectivity.

Factors affecting value

When buying or selling a business, cash flow is important. But you may be surprised at other factors that affect the price:

Economic trends. Economic conditions, especially costs of materials and availability of capital, can profoundly affect a company's continued profitability. Businesses whose goods are subject to widely fluctuating demand may be more vulnerable to economic trends than businesses whose goods are staples or commodities.

Industry factors. A particular industry's economic outlook can have an impact on the value of a business. In addition, markets and channels of distribution as well as changes in production technology can greatly affect a company's future potential and have a major impact on value.

Competition. The number and nature of current and potential competitors and their ease of entry into a company's market can profoundly affect a company's success. A business buyer will certainly want to check out these factors.

Regulations. From a valuation standpoint, compliance requirements and restrictions to market entry may be particularly important. Also, current or anticipated zoning and licensing restrictions can substantially affect price.

Market position. Reputation, pricing policies and diversification of customer base all significantly affect a company's ability to generate earnings.

DETERMINING THE VALUE OF HUMAN RESOURCES

Companies that compete on the basis of the quality of workers' capabilities know the importance of good personnel to a company's success. In fact, the value of a skilled workforce is often the primary reason companies showing losses can be sold. Therefore, making a case for this value can be critical. On the other hand, if one person is so key to the business' success that his or her loss would severely hinder operations, the value of the company may be greatly reduced. No clear-cut formula for putting a price tag on human resources exists. A valuator must assess both the value and the risks of the company's workforce when determining its value.

Intangibles. Intangibles such as an established name and reputation, a customer base, a skilled workforce and many others are what increase the value of a business above its tangible assets' fair market value. They can greatly increase a company's profitability.

Internal controls. The functioning of accounting and operational controls affects risk. If internal controls are faulty, financial and other data could be as well.

What methods do valuators commonly use?

Why can't a company's value be determined by looking at its financial statements alone? First, business financial statements are usually prepared in accordance with Generally Accepted Accounting Principles (GAAP). GAAP relies on the historical cost of assets — or their market value at the time of acquisition — when determining costs. This conservatism works as an accounting principle but doesn't necessarily reflect the assets' current market value.

To determine value, the business is first analyzed and then a valuation method is selected based on the analysis, the interest being valued, and the purpose of the valuation.

Your financial statements are a starting point when setting a value for your company. But important information will be missed if the analysis relies solely on the financial statements.

Valuators select their valuation methods based on their analysis and all other facts and circumstances. Typically, a valuator considers one primary method to derive the asset's value, and one or two others to serve as checks or supports of that value. The process of valuing a business is necessarily somewhat subjective. Valuation professionals may vary in their estimates. In using the various methods, even the same valuator may come up with several estimates. Here are some of the most common valuation approaches and methods:

Income approach. This approach capitalizes the company's expected income or cash flow stream by determining the rate of return on investment required by a potential investor, and it sets the value at the amount appropriate to generate that rate of return. This method is often used in conjunction with a discounted cash flow analysis to estimate the present value of the future stream of net cash flows generated by the business. The valuator forecasts net cash flows or earnings for an appropriate time period and then converts them to present value using a discount rate or capitalization rate that reflects the company's risks.

The discounted cash flow or earnings method recognizes that a dollar today is worth more than one received in the future. Under this approach, a company's projected earnings are discounted to adjust for real growth, inflation and risk. Variables to consider include:

- ***Starting point.*** Is the base period financial position (usually the current year) a representative year?
- ***Projected forecast.*** Is the company's future performance expected to be a continuation of established trends?
- ***Years projected.*** A normal forecast period is either three, five or 10 years. For a cyclical business, the forecast must incorporate a full cycle.
- ***Discount rate.*** The discount rate represents the rate of return that an investor would require, given the risk associated with the business. It represents the expected return that the market requires to attract funds to a particular investment.

Market approach. This approach gathers data from acquisitions of similar businesses or from the stock prices of comparable publicly traded companies. The valuator adjusts the data to account for differences between the subject company and comparable firms. An adequate number of comparable companies is necessary to produce credible results.

To compute valuation multiples derived from an analysis of these companies, a valuator makes adjustments for comparability to the subject company. Some important factors include:

- ***Choice of companies.*** Two companies are rarely so similar that they can be directly compared. Therefore, the valuator should be ready to defend the selections by showing how the company is similar and how its fair market value has been adjusted to reflect differences.
- ***Adjusted value of companies.*** In deciding on a comparable company, the valuator must consider differences in location, size, structure, diversification, growth, profitability, market size, financing or other features.

Asset-based approach, also called adjusted book value method. This approach requires establishing the value of all assets and liabilities as a method of valuing the entire business. This method is often used when a business's earnings and cash flow don't materially contribute to its value. The identification and valuation of intangible assets is the most challenging aspect of this method. (See "Valuing intangible assets" on page 12.)

Rules of thumb: Know the limits of valuation formulas

In deciding to sell their companies, many owners look for an easy way to determine value: a rule of thumb or formula. Hoping to avoid the expense and trouble of hiring a professional valuator, they use a value formula common to their business type. They assume determining a company's value can't be all that complicated. While you can use a rule of thumb to develop a rough test price and provide a weak form of market comparison for your small business, relying solely on this approach can cause serious problems. Remember, this is probably the most significant financial transaction of your life. If you overprice your business, you could lose qualified buyers, and if you underprice it, you could lose money. (See Case study I above.)

At best, a rule of thumb is merely a check on a properly derived value. If you need to know the value of your business, be sure to get professional valuation advice.

Case study I

HEARD IT THROUGH THE GRAPEVINE

Business owners using rules of thumb that they heard through the grapevine may be in trouble. For instance, suppose Teresa, a business owner, hears from an associate that Stan, Teresa's competitor, sold his business for three times earnings.

Teresa believes the "three times earnings" rule of thumb without asking questions. But Teresa doesn't know what type of earnings Stan used. Was it:

- Earnings before tax,
- Earnings after tax,
- Owner's discretionary cash flow, or
- Earnings before or after subtracting the owner's compensation?

Teresa also doesn't know the terms of Stan's deal. Were they all cash, or 10% down plus a personal note to the seller with no interest? Stan also might have under- or overreported the amount he received for the business, or the specific details of the transaction may have been lost when the story was retold.

For these and other reasons, using the rule of thumb she heard will lead Teresa to a highly erroneous estimate of her company's value.

VALUING A NONCOMPETE AGREEMENT

The key to valuing a noncompete agreement is to determine the value of the earnings that might be lost if a former owner competes against the business. The valuator must consider such elements as the seller's age and health, the seller's importance to the business, and the reasonableness of the covenant's terms.

The value of a business' stock is closely tied to the ability to obtain a noncompete agreement from the seller. Failure to obtain the agreement may greatly diminish the value of the business.

VALUING INTANGIBLE ASSETS

What is an intangible asset? Webster's dictionary defines it as something "that represents value but has either no intrinsic value or no material being." The fact that intangible assets are lacking in material being makes identifying them and pinpointing their value difficult, yet such assets often play an important role in a company's value. So how do you determine the value of intangible assets? Let's consider some of the issues.

Types of intangible assets

Many companies have intangible assets, and no list could ever be complete because intangibles can be unique to a specific business. But some are fairly common and can be found in many companies. These include:

Proprietary lists. Proprietary lists can include customer or client lists, patient lists or even mailing lists, whether they are made up of customers or prospects. Lists can be especially valuable to a business if the relationships they represent are ongoing. Consider, for example, a magazine's list of advertisers. The magazine may get 75% of its advertising revenue from the companies on that list, making it critical to the magazine's future profitability.

Beneficial contracts. Long-term contracts can add value to a company. For instance, a company may have a contract that allows it to sell its product or service for a higher-than-normal markup or to buy or lease items below market.

Patents and applications for patents. The worth of patents depends on the strength of the patent claim (which can be difficult to determine if the patent hasn't withstood litigation) and the patent's economic and legal life.

Copyrights. Copyrights are trickier to value than patents because, while they may have a long legal life, their practical value may be for only a short period. This is especially true for technical works that quickly become dated. The value of a copyright also depends on the author's previous success.

Trademarks and brand names. A brand name or trademark has value if it lets a company sell its product for a higher price or in greater quantity than its competition.

Subscriptions and service contracts. Subscriptions are especially important for newspapers, magazines and cable companies, because they derive most of their revenues from subscriptions. The longer both subscriptions and service contracts have been in effect, the more they're worth.

Franchise agreements. Franchises with long track records and well-recognized names have significantly greater value than newer, less well-known franchises. This is especially true in some industries, such as the hotel industry, that are dominated by franchises.

Software. Many companies have developed proprietary software that's specific to their business. If this software provides efficiencies and benefits that the business wouldn't have without the software, it's a separate asset and may have additional value.

Goodwill. Goodwill is the result of a company's name, reputation, customer loyalty, location, products and other intangible attributes not separately identifiable. Under current accounting standards, the value of goodwill must be separated from other intangible assets and tested annually for impairment (instead of being amortized over a 40-year period, as previously required).

Why value intangibles?

Intangible assets may need to be valued for a variety of reasons, including determining a fair license rate, calculating an amortization deduction, quantifying a charitable deduction, calculating an intercompany transfer price (related to federal or state income taxes), estimating damages in an infringement case or complying with certain FASB standards.

Valuing intangible assets can also be an important part of determining the value of a business for marital dissolutions, gift tax determination, estate planning, shareholder rights cases, conversion from C corporation to S corporation status or sale of a business.

SUCCESSION AND ESTATE PLANNING

For the owners of many closely held companies, succession planning and estate planning are seen as largely synonymous. Business owners are bombarded with warnings about the large bite that estate taxes will take out of their assets when they die and are urged to give up control of their companies now to avoid these consequences. And with all of the estate tax law changes over the past several years, one thing is certain: Having a good estate plan is essential. (For the purposes of this section, we are assuming business owners could face at least some estate tax liability.)

Plus, for those who have spent their lives building a business, retiring may not be easy. Many business owners don't have company-sponsored pension plans and have most of their money tied up in their business. If you're facing this situation, now is the time to start developing an exit strategy and estate plan that will maximize the value you receive from the business while minimizing the tax bite.

EXIT STRATEGIES

An exit strategy involves developing a plan for passing on responsibility for running the company, transferring ownership and extracting your money. Because a stable business is worth more than an unstable one, creating a seamless transition is essential to maximize the value of your investment. This requires planning while the company is in good economic health. Here are the most common exit options:

Succession within the family. Many owners of closely held companies plan to pass their business on to family members or close relatives by:

- ***Giving interests to family members.*** By giving part of the business to the family members who are actively involved in it, you can reward them for their involvement. Then you can sell the remaining interest in the business and distribute money earned to the uninvolved family members.
- ***Selling the business to family members.*** This may be a good option if the family member succeeding you isn't in your immediate family or if only one family member is involved in the business. Selling the business to that member will free up assets to be distributed more equitably throughout the family. This is also a good option if you need the proceeds of the sale for retirement. Selling to family members will keep the business in the family and may provide for a smoother transition.

Nonfamily succession. Sometimes ownership succession within the family isn't an option. Even when looking outside the family for ownership succession, it's still important to begin planning early to maximize your business's value at the time of sale. (See "Selling a business" on page 19 for more information.) Here are two other nonfamily options:

- ***Management buyout.*** Allowing management the option to buy your shares in the business is an excellent way to transfer ownership to a group that's dedicated to the business. This may be preferable to having an outside party assume ownership, especially if you're interested in having your business continue in the direction you had envisioned. Management buyout may provide for a smooth transition and little or no learning curve for the new owners.
- ***Employee Stock Ownership Plan (ESOP).*** Like the management buyout, an ESOP leaves the business in the hands of people you know are committed to the company. Whether you're planning for liquidity, looking for a tax-favored loan or supplementing an employee benefit program, an ESOP can offer you many advantages. But because valuation issues for an ESOP are unique, having a valuation done specifically for the ESOP is especially important before making a decision.

Whether the succession is a family event or not, succession planning should be structured around the business owner's retirement needs (annual retirement income, investments, etc.). It's important, therefore, to tie in a succession plan with your retirement plan.

BUY-SELL AGREEMENTS

Many owners realize the importance of having buy-sell agreements, but few realize the problems caused by poorly thought-out agreements. Failing to clearly define how the value is to be determined, and how often, can lead to messy disputes.

A buy-sell agreement can address contingencies such as the death or disability of a shareholder or the desire of one or more shareholders to buy or sell their shares during their lives.

It's also a powerful tool to help control a company's future. Contractually determining what happens to the company stock after a triggering event can help avoid shareholder disputes and can also solve owners' estate planning problems.

But a poorly thought-out buy-sell agreement may cause more problems than it solves. No single, surefire method of determining the price exists, nor is the price necessarily the same in all situations. But having a well-thought-out and regularly updated valuation of the business is essential. Owners can set a price in several ways:

Objective formula. Many people like having a formula they can generally apply in an easy and inexpensive manner. While a formula has the advantage of being objective, it can pose difficulties because it may not capture the many subjective factors involved in arriving at a value.

Independent valuation. Because objective formulas can't adequately capture all relevant valuation factors, many owners agree to use fair market value for the purchase price. They usually select one or more outside valuators who will objectively determine the company's fair market value. This is especially important if IRS issues are involved. If you choose this route, address how you'll select the valuator and how many you'll engage. If you're using more than one and they disagree, which result will you use?

Agreement by parties. If feasible, given the situation and personalities involved, you may want to have the parties sit down periodically and agree to a value. You can use a formula or outside advisors to help determine a price, and the amount you agree on becomes the value used for the buy-sell agreement. But what if the last time everyone agreed to the value was six years ago? Since then, the business may have changed dramatically. You may want to include a stopgap measure that says, for instance, if the parties have not agreed to a value for 18 months or more, the most recently determined value should be adjusted for any changes.

It would be wonderful if the future just took care of itself. But in the case of buy-sell agreements, the future depends on how you act today. Carefully crafting a buy-sell agreement for your business now — and periodically reviewing it going forward — will ensure that the future won't pose unexpected and difficult problems.

CONSIDER ALL POSSIBLE TRIGGERS

Most people are familiar with having a shareholder's death trigger a buy-sell agreement, but they often fail to consider other events that can affect the future of the business, such as when:

- An owner or shareholder becomes disabled,
- Married owners or shareholders divorce,
- A minority owner is fired, or
- An owner faces personal bankruptcy.

Another triggering event can be conviction for committing a crime or involvement in a scandal. Buy-sell agreements are often structured to force an owner guilty of such an indiscretion to sell at a lower price.

TAKING ADVANTAGE OF DISCOUNTS

When your estate planning involves a business valuation, you need to be clear about the business interest being valued. Commissioning a valuation of the entire company, then arbitrarily dividing it into segments yourself, could distort the results and leave your heirs facing substantial unplanned consequences.

> **PREMIUMS ALSO PLAY AN IMPORTANT ROLE**
>
> Some situations go in the opposite direction and require applying a premium to the value of an asset. This may be the case if you own more than a 50% equity interest. The premium reflects the fact that an acquirer will have greater control over the company than a minority shareholder. For example, a controlling shareholder can hire and fire management, buy and sell assets, set compensation policy, and declare dividends, among other factors.

Tell your valuator exactly what your intentions are when making gifts so he or she can carefully select the appropriate discounts to apply to your business interest. Further, because market conditions, valuation theory, tax laws and case law frequently change, valuations can become quickly outdated. So don't recycle an old valuation report for future gifts. Let's examine some of these issues.

How discounts work

Family limited partnerships (FLPs) have continued to emerge as a planning strategy for reducing estate tax because they can take advantage of discounts. The rationale behind the strategy is simple: When family or business assets are placed in a partnership, the partnership's ownership interests are more difficult to sell than the assets themselves. FLPs may also allow the older generation to retain control over the assets while transferring some ownership to the younger generation. Retention of control, however, has resulted in a loss of discounts in some cases. The limited partnership interests that are given away may be worth less, owing to a lack of control (the control factor) and reduced marketability (the liquidity factor). Because investors prefer liquid assets that they control, they won't pay as much for a relatively illiquid asset that they don't control.

The first step a valuator takes in determining the value of a limited partnership interest is to find the net asset value, which is the equivalent of the company's or other assets' (including real estate's) fair market value if ownership weren't divided. Based on his or her analysis and professional judgment, the valuator may decide to use the net asset value as a method, or may choose an income or market methodology, or a combination of methods.

Once a valuation method has been established, the valuator must determine what adjustments, if any, are appropriate for control and marketability of the limited partnership interest being valued.

Eventually, the IRS must approve any discount a valuator applies to an asset. If the valuator has improperly applied these discounts, you may find yourself facing a tax liability that you aren't prepared for.

The most common discounts are for a minority interest and the lack of marketability of an interest. These discounts are separate, and are applied for different purposes, though they may overlap somewhat. No IRS rule or court precedent guarantees any discount, and no easily applied rules of thumb exist for determining the amount of a discount. Each situation is different and a valuation professional needs to carefully consider which discounts, if any, apply and to what extent.

Important factors affecting discounts

Several factors affect the amount of discount that may be applied when valuing a business. The determination of a discount for both a minority interest and a lack of marketability operates on the presumption of "willing seller and willing buyer." The valuator determines the rest by considering the surrounding facts and situations. Let's look at some of the factors that may influence the size of the discount:

Availability of willing buyers and sellers. An owner of a minority interest in a business will find selling shares easier if many potential buyers exist. For example, a business with a hot new product may have several buyers willing to take even a small piece of the action. But a business well entrenched in the status quo, even if profitable, may not have as many people interested in owning a noncontrolling share. The more potential buyers that exist for a minority interest, the smaller the discount those shares are entitled to.

The opposite holds true if many minority shareholders want to sell their shares at the same time. The more interests on the market, the harder it is to sell any one of those interests, thus increasing the size of the available discounts.

Profitability of the business. The better a business or asset is performing, the more attractive it is to an investor. Thus, a smaller discount is allowed for lack of marketability.

In some cases a business that has appreciated significantly and is subject to a high built-in capital gains tax will be subject to a higher lack of marketability discount. That's because a potential investor would consider potential tax consequences in the decision-making process.

Number of owners. A business with many owners is more likely to be involved in a sale or merger than a business with only a few owners because a diverse group of owners has different objectives and needs. The higher the probability (and ease) of a sale, the lower the amount of discount you're eligible for. But if the controlling interest holders' objectives and views on how to run the business differ significantly, larger discounts may be justified.

Case study II

PENALTIES CAN DO MORE DAMAGE THAN YOU MAY THINK

Although a professional appraiser told Jill that her company, J Corp., was worth $4 million, she chose instead to place the company's value at $1 million in her buy-sell agreement. When Jill died, the value of J Corp. made up her entire estate. Because she hadn't used any of her lifetime gift tax exemption, her entire estate tax exemption was available. The estate paid no taxes on the $1 million value because it didn't exceed her available estate tax exemption. But then the IRS audited Jill's estate and prevailed in having the company's value increased to $4 million. As a result, the estate owed significant estate tax. And, because of the substantial understatement in value, the IRS tacked on a hefty penalty. Thus, Jill's estate ended up paying the tax that would have been due had the property been properly valued in the first place, plus the penalty — in addition to litigation costs and interest on the under-payment. As a result, the heirs to J Corp. were forced to sell the business.

On the other end of the scale, if a business is controlled by one person or family, a minority owner's objectives and needs are less significant. The potential market for selling the minority interest is smaller. This situation tends to increase the amount of minority interest or lack of marketability discounts.

Number of similar transactions. If a lot of merger and acquisition activity in a certain industry has occurred in similar companies, this type of activity involving your business may be more likely. This may increase a minority interest holder's prospects for liquidating his or her interest and lowers the amount of discounts available.

Size of ownership interest. In general, small minority interests have higher relative transaction costs than larger interests have, which can have an adverse effect on their marketability. On the other hand, although small minority interests have higher relative transaction costs, a large block of stock is even harder to sell because of the limited number of potential buyers (a phenomenon also referred to as the "blockage effect"). As a result, larger blocks of stock typically warrant higher marketability discounts.

PERILS OF UNDERVALUATION

The natural inclination of many business owners and executors is to undervalue their companies for gift and estate taxes. But what they fail to consider are the risks involved. The stakes are high: Uncle Sam is likely to penalize a business owner or estate caught with its hands in the undervaluation cookie jar — plus there can be interest on back taxes, court costs and time lost in an extended legal battle.

The tax penalty for undervaluation is either 20% or 40%, depending on the magnitude of the understatement: the greater the understatement, the higher the penalty. A business that's undervalued in an estate by 35% or more (that is, which has a reported value of 65% or less than its correct value), for example, would be assessed a penalty of 20% of the unpaid estate tax (in addition to the unpaid tax itself), while a business undervalued by 60% or more (that is, which has a reported value of 40% or less than its correct value), would increase the penalty to a 40% levy on the unpaid tax — again, in addition to the tax itself. (See Case study II on page 18.)

The financial consequences of undervaluation can be devastating, especially to a family-owned business. In order to pay unplanned-for estate taxes and the penalties resulting from undervaluation, heirs to a company may be forced to:

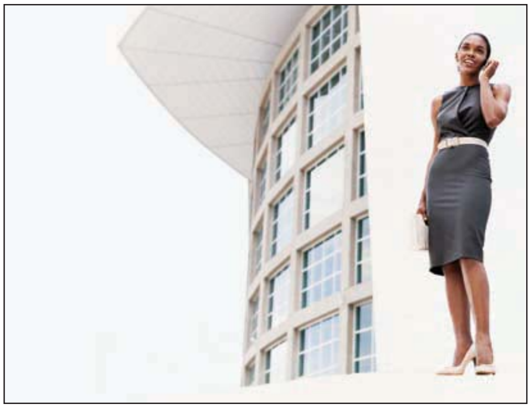
- Burden the business with large debts,
- Sell significant shares of stock to outsiders, or
- Divest the business entirely.

In determining the fair market value of a business, the IRS wants to see much more than a number: It wants to see the methodology, theory and evidence (that is, professional judgment) behind the number.

Instead of relying on perceived value, business owners and executors should legitimize the appraisal process by engaging a qualified valuator to value the business. Using a valuator will help ensure that the value determined is supportable should the IRS question it.

BUYING AND SELLING A BUSINESS

Whether you want to acquire, merge with or sell a business, you need to know its value in the marketplace. Many factors are involved in this determination. Let's look at these factors and considerations from both a seller's and a buyer's point of view.



SELLING A BUSINESS

Focus on what your company is really worth. Prospective buyers are interested in companies that have value to them. It's important to have a current and accurate valuation done on your business before you begin to market it.

For instance, if your business is closely held, some of the financial strategies you followed to put yourself in a better position for tax purposes may cause your business's income to appear lower than it really is. You may need to recast your financial statements to more accurately reflect the company's real income. (See Case study III on page 20.) Similarly, you may need to account for special rental or supply arrangements that will change after the sale.

Case study III

TRANSFORMING AN APPARENT LOSER INTO A WINNER

Alibaba Magic Supplies' sales were growing, and the business controlled much of the market nationwide. Alibaba's owners, brothers Harry and Henry Hoodeen, were both living comfortable lifestyles.

Harry and Henry decided that it was time to think about retiring. Because no one in the family had shown an interest in taking over, the brothers decided to sell and needed to determine an asking price. When their valuator, Sam Smith, sat down with them to determine the business's value, he saw that Alibaba's books showed that the company was losing money. Was the company's alleged prosperity really all smoke and mirrors?

Actually, the situation at Alibaba is one that can be found in many small companies. Let's look at the adjustments Sam made to Alibaba's income statements.

Method of accounting. Alibaba was still reporting on the cash basis. So Sam converted the business's income statement to an accrual basis by properly recording assets and liabilities that weren't shown on cash basis financial statements. These included accounts receivable, payable prepaid expenses and accrued liabilities, among other items.

Salaries to officers and related persons. Alibaba paid a large annual bonus to Harry and Henry to avoid corporate taxes. Sam adjusted these expenses back to a normal salary for an employee manager.

Employee benefits. Many of Alibaba's employees were given company luxury cars, deluxe accommodations during company travel and wireless phones that they were allowed to use without restrictions. In addition, Alibaba threw extravagantly expensive holiday parties for its employees. Sam adjusted these expenses to more normal levels.

Method of inventory. Alibaba used the last-in, first-out (LIFO) method to value its inventory. It had a LIFO reserve of $400,000 at the beginning of the year and $500,000 at the end. Sam adjusted the income statement to reflect this $100,000 difference.

After considering and adjusting these and other items, Sam was able to show that Alibaba was indeed a profitable company and determine a defendable and reasonable asking price.

Adjusting the income statement

Many aspects of a company's financial statements may need to be adjusted to reveal the company's correct value. The purpose of financial statement adjustments is to eliminate one-time transactions and personal expenses that won't continue into the future. Let's look at some of the common adjustments made to income statements:

Method of accounting. Businesses not using a CPA may report on a basis — such as the cash basis or tax basis — that doesn't properly measure their economic performance. As a result, it's necessary to convert the business's financial statements to an accrual basis.

Salaries to officers and related persons. Often owners of closely held businesses pay generous salaries to themselves to avoid paying corporate taxes. These expenses don't necessarily represent normal expenses for the business in the eyes of a hypothetical willing buyer. If this is the case, officers' compensation should be adjusted to fair market value.

Employee benefits. A certain level of employee benefits is probably a reasonable expense for any business. But some companies offer excessive perks to their employees.

Method of inventory. The method of accounting for inventory can affect the value recorded.

It's important to make all appropriate adjustments because the future earnings capacity of the company is based on the normalized earnings or cash flows. (See Case study III on page 20 to see the difference that adjusting the income statement can make.)

Writing a compelling company profile

If you're thinking of selling your company, an effective company profile is an important tool. If your business is just like everyone else's, why should buyers bother with it? Set your company apart from other offerings by finding and marketing those strengths specific to your company. Most potential buyers respond positively to an emphasis on the future of the company and its growth potential. Some of the strengths to look for in a company are capable and efficient management, strong distributor relationships, quality products at reasonable prices, commitment to service and quality, name recognition, good employee relations, and well-furnished facilities.

A good offering memorandum will give credit to everything that contributes to your company's success. What should you include in an offering memorandum? Here are some general elements:

- A list of the products or services your company provides,
- A company history, including years of operation, recent performance trends, profitability and future potential,
- A statement of management's reason for the sale and future plans,
- An organizational chart,
- Resumés of management and key personnel,
- Market share and general competitive information,
- An overview of the labor situation,
- A list of assets, and
- The proposed price and terms (if this data is to be disclosed).

The better your company is organized, the more profitable and easier to operate it will be, which will result in a higher value.

ACQUIRING OR MERGING WITH A BUSINESS

It's a well-known fact: Most mergers fail. And what may seem on the surface to be a great deal could reveal itself on closer examination as a situation fraught with problems. Make sure you don't end up buying a company that's more trouble than it's worth. Let's look at a few of the important steps in the acquisition process.

Screening candidates

You're likely to increase your chances of quickly finding a good acquisition candidate if you're willing to work with your advisor to develop a screening process. Although screening potential acquisition candidates can be complex, a good advisor tailors the process to the buyer's needs, while simultaneously considering the marketplace for acquisitions. Here are some of the criteria you can individualize to reflect your preferences:

Below-average performance because of poor management. A company may be performing below its earning potential and therefore sell for a bargain price. You may want to seek companies with weak performance that new management can revitalize.

Poor performance because of cyclical economic factors. Either the company or the entire industry may have been hit by unfavorable economic conditions. When these conditions are cyclical, your screening process should be able to identify those firms at the trough of the wave. You can then buy at a lower price and ride the wave up to higher value.

Hidden cash balances. Undervalued companies may have excess cash reserves or marketable securities, or too much invested in inventory. These excess assets (assets in excess of normal working capital needs) may have additional value. Thus, a potential buyer may be able to use them to boost income significantly for greater profits.

Market niche or other market advantages. You may want to acquire a company that occupies a special market niche, holds substantive patents or trademarks, or is protected from competition in other ways.

Synergy. If you're looking for a merger candidate, firms that complement your company can have greater value to you than in the general marketplace. For example, if your firm is strong in developing new products, you may want to find a company in your field that has a large sales force. If your firm manufactures a seasonal product, such as skis, you may want to acquire a complementary company, such as a manufacturer of lawn mowers, to balance your cash flow and seasonal selling cycle.

Examples of potential synergistic benefits include cost cutting, such as elimination of middle management positions or other labor costs, use of established distribution channels, and a reduction in advertising costs.

Reinforcement. A merger candidate that reinforces your company's strengths can also be advantageous. For example, consider a company that has compatible services, product lines, sales force or management.

Hidden costs. Consider that an acquisition candidate's "sticker price" may not reflect its true cost. Examples of possible hidden costs include shareholder opposition, competition from other buyers and taxes on the transaction. If you anticipate any of these hidden costs, factor them into the price you're willing to pay for the company.

Due diligence: Start from the beginning

A valuator can play a major role on the due diligence team that advises buyers in an acquisition. Why? If you're buying a company, you need insight into the target's financial picture as well as access to knowledge of tax laws and accounting rules for business combinations. A valuator can also help you discover little-known land mines that can kill a deal, including significant pension plan liabilities, hidden workers' compensation costs, past tax problems, and accounting rules for business combinations.

Review the target. After you have identified an attractive target and its owners have indicated a willingness to discuss a sale, the valuator can preliminarily review the company. Using new research or information you already have about the company, the valuator can determine whether synergy exists with the target company. The potential seller's goals, style of management and ways of doing business must be similar enough to make a productive combination. At the same time, the targeted company's price must fit the buyer's financial situation and plans for the new organization.

Look beyond financial statements. Historical financial statements disclose a target's financial position, results of operations and cash flows in accordance with GAAP. But GAAP offers preparers several accounting alternatives that can affect the company's earnings picture. Depreciation, inventory valuation methods, the choice of revenue and expense recognition, and other variables can affect the bottom line. For example, how aggressively is the company recognizing obsolete and slow-moving inventory? You may want to have your valuator look at the company's sales figures by customer to track selling patterns. This may reveal whether the company keeps its good customers or merely has good salespeople. Also, a valuator can track sales by product to reveal where products are in their life cycles.

Review projections. Usually, the seller will prepare projections of operating results and cash flows. A valuator on the due diligence team can review the appropriateness of the assumptions used in the projections and assist with their reasonableness. You may want your valuator to review the target's annual projections and compare them with the company's multiyear strategic plan, if available, to determine any differences in assumptions or business strategy. If possible, the due diligence team should review old business plans to see if past objectives were accomplished.

A valuator can also provide an objective opinion that the company's financial statements and disclosures are in order, discover unrecorded liabilities and assess the reasonableness of projections. But the valuator's role doesn't end there.

He or she can also help you structure a purchase agreement with provisions that allow the buyer to "cash flow" the acquisition, while minimizing negative tax consequences.

LITIGATION SERVICES

Your litigation team can benefit from the services of a valuation professional. A good litigation services professional brings experience and insight into the financial intricacies of the business that an attorney — who focuses on the intricacies of the law — doesn't have time to delve into. The valuator can serve as either expert witness or consultant. Let's look at some of the services that can benefit attorneys and others involved in business valuation-related litigation.

SITUATIONS THAT REQUIRE A VALUATION EXPERT WITNESS

You may require a valuation expert witness in many situations:

- Economic loss for damage claims,
- Divorce,
- Dissolution of business,
- Breach of contract,
- Partner disputes, and
- Dissenters' rights.

Here we look at a few of these situations and how valuation advice can help:

Divorce. On top of all the other complex, difficult processes involved in a divorce, if one or both spouses own a business, it's also time for a valuation. In divorce valuations, there's no widely accepted standard of value. Many of the considerations are the same as those used in determining fair market value, but there are some substantial differences from state to state. For instance, the family courts in many jurisdictions require experts to separate a company's value into three components: tangible assets (and other identifiable intangible assets), personal goodwill and enterprise goodwill.

Assessing damages. Valuators are often asked to assess damages. These can be difficult to quantify and require the expertise of an experienced valuator. The need for damage assessment may occur in a variety of situations, including contract breaches, intellectual property infringement, employment discrimination, personal or business-related injury, product liability, and insurance claims.

Bankruptcy. In bankruptcy, there usually is too little to go around. But how much actually is available? Debtors and creditors often differ about an asset's worth. As a result, valuation may be necessary for many purposes in bankruptcy:

- To assess the value of a creditor's secured claim,
- To make adequate disclosure in support of a reorganization plan,
- To evaluate offers for property sold out of the ordinary course of business,
- To gauge the economic feasibility of any reorganization plans, or
- To determine whether a creditor's position was improved within the preference period before a case begins.

Bankruptcy is difficult enough for both debtor and creditor without arguments about the value of assets. Prudent business people will come to mutually agreeable valuations so that they can turn their attention to the formulation, negotiation and confirmation of a reorganization plan that serves everyone's interests. All involved are better off if they value their claims and interests rather than leaving it to the court.

HOW TO CHOOSE AN EXPERT WITNESS

After deciding that you need to find a valuator, how do you choose the best one? You need a screening process. Some questions to ask include:

- Is the valuator a professional in the area where you need expertise?
- Is the valuator respected as an authority? Has he or she ever been published in this area of expertise?
- Does the valuator have significant experience in testifying? Is any of it in the area where you require assistance?
- Does the valuator possess good presence of mind and effective communication skills?
- What professional designations does the valuator have? Has he or she received continuing professional training in the area where you need expertise?
- What percentage of the valuator's time is devoted to business valuation? How long has he or she been a professional business valuator?
- Does the valuator have any possible links with the client or opposing party that might call his or her testimony into question?
- What has the valuator's previous testimony at trials and depositions been?
- Are good references readily available for the valuator?

These are just a few of the basics to consider when choosing a litigation support professional to help with your case.

HAVE SOMEONE WITH FINANCIAL EXPERTISE IN YOUR CORNER

The benefits a valuation professional can provide an attorney during litigation go beyond just performing a valuation or serving as an expert witness. A valuator has knowledge not available to the general public that can prove invaluable.

What a valuator can do for you

Because they understand the intricacies of a business, valuation professionals can add depth of knowledge that other team members lack. For example, a buy-sell agreement involving a complicated business and estate requires specialized knowledge of passive losses, capital gains and loss

analysis, consideration of the timing of income and deductions, planning exit strategies, and taxation. Many valuation professionals have this knowledge.

Some of the services a professional valuator can provide include:

- Interpreting a company's financial statements and other pertinent information,
- Preparing experts for trial, planning the cross-examination of the opposition's experts and developing rebuttal arguments,
- Exploring the strengths and weaknesses of both sides' cases,
- Gathering and analyzing facts, developing strategies and reaching conclusions based on the information available,
- Determining which discovery documents may be useful or necessary for analysis,
- Applying business and financial expertise to the case,
- Exploring the potential tax and investment consequences of settlement options, and
- Freeing up time for the attorney to devote to the case's legal aspects.

FINDING WEAKNESSES IN THE OPPOSING EXPERT'S ARGUMENTS

A valuation consultant can provide answers to questions like the following to help you pinpoint weaknesses in the opposing expert's arguments:

- How did the opposing expert establish the facts?
- What methods did the expert use in determining his or her opinion?
- What specific documents did the expert use, and what was their effect on his or her analysis?
- What changes in the assumptions led to changes in the financial result?
- How is the expert's report inconsistent with his or her earlier reports?
- How is this report inconsistent with the professional literature on methodology?

Your valuator can also play the role of advisor, helping you understand the relevant financial issues of the case as they relate both to the facts and the financial analysis.

But don't confuse the valuation consultant with a valuator serving as an expert witness. These roles aren't the same, and can have different implications for your case.

An expert witness must perform assigned duties with complete objectivity. Expert witnesses are advocates for their testimony (and/or report), which must be based on empirical data. A valuation consultant, however, is an advocate for the client's position (see below) and can't serve as an expert witness. These are two different roles for the valuator, and the client and his or her attorney must decide which of these services best fits their needs.

Benefits of retaining a consultant

Using a valuator in addition to testifying experts gives attorneys many advantages. (See "Finding weaknesses in the opposing expert's arguments" on page 26.) As a consultant, the valuation professional is free to act as an advocate for the attorney and client and to work actively toward a winning solution for your side. As an advocate, the valuator can pursue options that will provide the best results for the client and determine a strategy for achieving those results. With a financial advocate on the litigation team, the outcome of the case is more likely to provide positive results. Whether you choose to bring a professional valuator to your team depends on the facts and circumstances of the case and your attorney's needs.

DETERMINING YOUR VALUATION NEEDS

Now that you have a broad picture of the many situations in which business valuation services may be helpful, you can make better decisions about your valuation needs. Of course, the value of an asset constantly fluctuates in response to changing market and other external and internal conditions.

We can provide snapshots of value at key times to back up your business and estate planning decisions or to support your litigation. These snapshots can give you an accurate picture of the current status of your assets to help you comfortably project your financial future.

We would be pleased to answer any questions you have about business valuation or to discuss your specific valuation needs. To facilitate our response, please use the valuation worksheet on the next page to identify your needs and the topics you'd like to know more about. Then copy and fax or mail the completed form to our office. Or simply call us at the number indicated. We would welcome the opportunity to help you establish an appropriate value for your business, estate or other assets.

VALUATION WORKSHEET

Use this form to identify your valuation needs and request more information or assistance. Then copy and fax or mail it to our office, or call us to discuss your situation. We would be glad to more fully explain the valuation process and provide our professional assistance in achieving your objectives.

YOUR VALUATION NEEDS

Please check all boxes that apply to your situation and fill in any relevant information.

I need to establish value to:

- ❑ Sell, buy or liquidate a business
- ❑ Settle a divorce or other legal dispute
- ❑ Secure financing or issue stock
- ❑ Implement an exit strategy or estate plan
- ❑ Develop a business plan
- ❑ Obtain a fairness opinion
- ❑ Other________________________

The assets to value include:

- ❑ A business
- ❑ Intangibles
- ❑ Real estate
- ❑ Securities
- ❑ Art, jewelry and other valuables
- ❑ Other________________________

I am the:

- ❑ Owner/seller
- ❑ Buyer
- ❑ Creditor
- ❑ Litigant
- ❑ Other________________________

I would like to consult a valuation professional regarding:

- ❑ Expert testimony
- ❑ Preparing for trial
- ❑ Due diligence procedures
- ❑ Gathering and analyzing financial information
- ❑ Damage assessments
- ❑ Other________________________

FOR MORE INFORMATION

Please fill in the following to let us know how we can be of assistance.

I would like more information about:

- ❑ Valuation reports
- ❑ Different types of value
- ❑ Valuation methodology
- ❑ Valuation process
- ❑ Minority discounts
- ❑ Selecting a valuator
- ❑ Valuing intangibles
- ❑ Litigation support
- ❑ Exit strategies
- ❑ Acquisitions and mergers
- ❑ Other ________________________

I have a question about:

____

____

NAME

TITLE

ORGANIZATION

ADDRESS

CITY STATE ZIP

PHONE FAX

E-MAIL