

Professional Valuation Services



Askey Askey &
Associates, CPA, LLC

23507 Hollywood Road, P.O. Box 662
Leonardtown, MD 20650
T (301) 475-5671
F (301) 475-9108
Email: admin@aaacpa.com
Website: www.aaacpa.com



When Value Is the Issue, You Need a Valuation Professional

Recognizing the Need for a Business Valuator

Successfully operating a business enterprise and making sound financial decisions in today's fast-paced, complex world presents significant challenges. These challenges create a need for a specialized professional—the business valuator! The specific role of the business valuator is to determine the value of tangible and intangible assets held by businesses or individuals. Valuation professionals provide a broad array of services to meet the unique needs of businesses and independent clients. A business valuator may be necessary for financial, legal, business, family or personal reasons. Qualified business valuers must have expertise in accounting, tax, finance, economics, litigation support, valuation theory and application—and more.

Scope of Business Valuation Services

Understanding the full scope of business valuation services is important in identifying specific areas of interest and need. Business valuation clients come from all professions and industries. Included are attorneys, judges, financial planners and institutions, insurance companies, Certified Public Accountants, business consultants, business owners, real estate appraisers and business brokers. Reasons to hire a professional business valuator may include:

- Adequacy of Life Insurance
- Allocation of Acquisition Price
- Bankruptcy and Foreclosures
- Buy/Sell Agreements
- Charitable Contributions
- Employee Stock Ownership Plans (ESOPs)
- Estate and Gift Taxes
- Fairness Opinions
- Family Partnerships
- Financing
- Franchise Valuation of Evaluation
- Gifting Programs
- Incentive Stock Option Programs
- Initial Public Offerings (IPOs)
- Intellectual Property
- Lease versus Buy
- Liquidation or Reorganization
- Litigation Support
 - Disruption of a Business
 - Dissenting Shareholder Actions
 - Divorce
 - Economic Loss Analysis
 - Eminent Domain
 - Partner Disputes
 - Pensions, 401(k), Benefits
 - Wrongful Death
- Mediation and Arbitration
- Mergers and Acquisitions
- Purchase/Sale of a Business
- Split-ups and Spin-offs
- Succession Planning
- And many more!

Independent and Objective Analysis

Independence is a primary reason for engaging a business valuator. Problems involving a lack of independence, fairness, competence, and disputes among interested parties may be avoided through third-party objectivity. The goal of the business valuator is to provide you with an independent, knowledgeable, credible valuation without personal or emotional issues influencing the analysis and conclusions.



Professional Quality and Standards

A skilled business valuator must meet rigid professional training and testing requirements. Many business valuers earn accreditation through professional organizations such as the National Association of Certified Valuation Analysts (NACVA®). NACVA's credentialed analysts have completed in-depth and advanced training necessary to competently provide a wide range of business valuation services, using recognized industry standards.

Understanding How Value Is Determined

Most clients seek a business valuation in order to determine an appropriate value of their business or personal assets. Different approaches must be used to determine values of businesses and property, depending on the specific purpose for the valuation. Value is usually expressed in terms of fair value, fair market value or investment value. Business valuers are specifically trained to identify and determine the most appropriate standard of value for the valuation engagement.

Benefits Offered by the Business Valuator

Business valuation professionals provide many intangible benefits to their clients. Some of the benefits provided include:

Determination of Value	Selecting the most appropriate approach to determine value based on the purpose of the business valuation engagement.
Professional Affiliations	Many reputable business valuers are members of professional organizations.
Confidentiality	Engaging business valuation services assures that the details of your business remain confidential.
Litigation Support	Minimizing the potential risk of litigation is a primary objective. In the event litigation is unavoidable, the valuator can assist as an expert witness or recommend another qualified expert.
Third-Party Objectivity	Avoiding problems that can arise from questions of independence and objectivity is critical to ensuring a credible valuation. Compliance with Standards of Professional Practice provides assurance that the business valuator will treat your engagement consistently and without bias.
Specialized Training	Business valuation services are provided by professionals who are specifically trained through specialized educational programs, including those provided by NACVA.
Certifications	Many top business valuers have received special recognition by obtaining one of the premier business valuation designations offered through the National Association of Certified Valuation Analysts.

Reasons for Obtaining a Business Valuation

Tax Related

Gift and Estate Taxes

Gift and estate tax issues are becoming more complex. Wealth attained through business operations, transfers, and inheritance invariably results in tax liabilities. This issue is compounded with gifting of closely held stock, family limited partnerships, or charitable contributions. A credible valuation can minimize taxes and reduce the potential for IRS audits or other legal disputes.

Employee Stock Ownership Plans (ESOPs)

Tax law changes require some businesses to undertake a business valuation. The Tax Reform Act of 1986 requires that a qualified independent business valuator provide a stock valuation upon the formation of an Employee Stock Ownership Plan (ESOP), and each year thereafter. The valuation must reflect consideration of the treatment of leverage, control premium, minority interest considerations and repurchase liabilities. Conforming to the Employee Retirement Income Security Act (ERISA) and Department of Labor (DOL) regulations, along with other industry standards, is required. The complexity of these issues suggests you need a business valuation professional with the expertise to analyze the information and comply with all of the regulations.

Allocation of Acquisition Price

The Revenue Reconciliation Act of 1993 established additional benefits through proper allocation of the purchase price to personal, real and intangible property. Fair market valuations are required on various purchased properties in certain asset and stock acquisitions. At times, it may be advantageous to allocate the purchase price among various legal entities as part of the lump-sum purchase transaction.

Prudent Business Purpose

Buy/Sell Agreements

The prudent rule prior to entering a business is to establish a formal agreement for getting out of the business relationship. Buy and sell agreements allow the business owner to transfer an interest in the business to other owners or to the business itself. The agreement can guarantee a buyer for the business and eliminate difficulties associated with transferring the business upon death or disability of one or more of the owners. Conflicts among interested parties to the business may be minimized by clearly establishing the definition of market value prior to the time of need.

Fairness Opinions

Providing a fairness opinion minimizes exposure by meeting the Business Judgement Rule. Due diligence reports, or fairness opinions, are required by the Securities and Exchange Commission (SEC) in transactions involving public stock offerings. Boards of directors will ask for a fairness opinion to comply with their fiduciary duty to shareholders by providing outside, third-party objectivity. Fairness opinions are also called for in mergers/acquisitions, determination of controlling versus non-controlling interests, and when fairness may be questioned by interested parties to a transaction.

Finance

Valuation needs frequently arise when attempting to secure financing or when renegotiating a current existing obligation. Business valuations include a determination of the value of tangible assets and intangible assets. Tangible assets may include buildings, land, equipment, inventory or receivables. Intangibles may include goodwill, customer lists, trademarks, non-compete agreements, patents or leaseholds, to name a few. Determining the market value of the company's capital assets will help determine the ability of the business to cover its current obligations and/or projected future debt.

Situations of Need and Adversity

Bankruptcy and Reorganization

When considering bankruptcy or reorganization, the primary question is whether the company is worth more as a going concern or worth more in liquidation. Consideration must be given as to the best and most valuable use of the firm's assets. One of the most challenging aspects is determining the value of the intangible assets. Analyzing the firm in a variety of operating scenarios will assist you in structuring the most appropriate reorganization or liquidation plan.

Marital Dissolution-Divorce

Marital dissolution is a major force in determining the need for a business valuation. Many cases involving divorce will require a business valuation for each marital partner. Determining an accurate assessment of value may minimize the need for litigation. If litigation is required, a variety of valuation issues must be considered. Issues include intrinsic value versus fair value, personal goodwill, fair and reasonable owner's salary, discounts and premiums for minority versus control positions, and lack of marketability to sell the business.

Management Support

Business Plans

Business valuers provide valuable assistance in developing a comprehensive business plan for new and well-established businesses. Expert financial analysis allows company managers to confidently focus on their business goals and be responsible to new opportunities and change. Business valuers may also be helpful in reviewing and assessing business plans of companies that offer an investment or partnership opportunity. Prospective investors may gain further perspective and insight as to the value of the business opportunity.

Strategic and Market Analysis

Detailed market analysis will help the business owner or management better focus marketing resources. Making solid strategic decisions for the future will help ensure the long-term viability of the business enterprise. Advanced analysis and forecasting of market supply and demand, production capacity, market share and competitive pricing will assist management in organizing and interpreting data leading to a solid business plan of action. Decisions regarding expansion, locations, split-ups/spin-offs of business units, or new business unit creation will be simplified through strategic analysis by the business valuation professional. Determining depth and breadth of existing management can facilitate increased operational efficiencies and leverage existing management resources.

Uses of Valuation Services

Tax Purposes

- Adequacy of Life Insurance
- Allocation of Acquisition Price
- Charitable Contributions
- Employee Stock Ownership Plans (ESOPs)
- Estate and Gift Taxes
- Executive Compensation
- Gifting Programs

Litigious Situations

- Disruption of a Business
- Dissenting Shareholder Actions
- Divorce
- Economic Loss Analysis
- Partner Disputes
- Eminent Domain
- Mediation and Arbitration
- Wrongful Death

Business Reasons

- Buy/Sell Agreements
- Mergers and Acquisitions
- Fairness Opinions
- Financing
- Bankruptcy and Foreclosures
- Liquidation or Reorganization
- Initial Public Offerings (IPOs)
- Franchise Valuation or Evaluation
- Sale/Purchase of a Business
- Split-ups/Spin-offs
- Succession Planning

Management Support

- Business Plans
- Strategic and Market Analysis
- Lease versus Buy
- Incentive Stock Options
- Performance Measurement

Common Questions About Business Valuations

Can I Use Rules of Thumb to Value My Company?

Industry rules of thumb used by business owners to determine the value of a company usually give misleading results. Rules of thumb are formulas based on industry averages of companies sold, using their sales price compared to either annual sales revenues or profits. As such, the actual sales price of an individual company is either higher or lower than the average. Seldom does a company's value fall right on the average. Furthermore, the value determination for a company up for sale will be different than the value determination made for purposes of divorce or for an estate tax calculation. These distinctions relate to the purpose of a valuation, which affects methodology and certain assumptions made by the valuator. All these distinctions impact value determination.

How Much Time Does It Take to Prepare a Business Valuation?

To perform a thorough analysis, make a qualified value determination, and prepare a proper report communicating the results of the business valuation easily requires 40 to 60 hours of work. Peculiar circumstances such as difficulties obtaining information, a unique and/or specialized industry, or a litigious situation requiring special care and preparation will often require more time to prepare the valuation.

Is Book Value a Good Indicator of Company Value?

Book value is almost never a good indicator of the value of a business, and usually much lower than the true value. Book value generally reflects only the cost of the company's tangible assets net of depreciation and liabilities, ignoring appreciated asset values and company intangible values such as goodwill.

Do Values of Privately Held Companies Correlate with Values of Public Companies?

Values of privately held enterprises are generally not comparable to publicly held enterprises for at least two distinct reasons. One: There is not a ready market of investors to buy stock in a private company. As such, in the value determination the valuator oftentimes deducts a "Lack of Marketability Discount" from the company value determined to adjust for the cost required to take a company public and/or sell the business through a broker. Two: Most privately held companies are much smaller in size than public companies. This increases the risk of ownership, or investment, in the enterprise. Consequently, the expected rates of return used by an investor, or prospective owner, to value a privately held business are typically higher than returns anticipated with ownership in a public company.

Can I Really Expect to Receive Much Value out of My Company When I Retire?

Historically, owners of private companies have looked to cash flows and tangible assets for company value, with little consideration given to the goodwill of the enterprise. Consequently, at retirement they get less value than what otherwise might be possible, by selling only the tangible assets of the business or simply liquidating inventories and closing their doors. The fact of the matter is, much of America's wealth is tied up in privately owned companies and is attributable to business goodwill. These observations are further supported in a study of privately held companies conducted by Robert Avery and Michael Rendall at Cornell University and referenced by the Wall Street Journal in June 1996, with the following quote: "The greatest transfer of wealth in history will occur in this country over the next decade; an estimated \$10 trillion is expected to change hands, and much of this wealth is tied up in family business stock."



CURRICULUM VITAE

CATHERINE A. ASKEY, CPA, CVA

Background

Graduated from the University of Maryland in 1983 with a B.S. in Accounting; Certified Public Accountant, State of Maryland, 1984.

Member of the American Institute of CPA's, Maryland Association of CPA's and the National Association of Certified Valuation Analysts, and the Leonardtown Rotary Club.

Certified Valuation Analyst, National Association of Certified Valuation Analysts, 2004; worked in the tax departments of Watkins, Meegan, Drury & Company in Bethesda, Maryland from November, 1983 through June, 1986 and Snyder, Newrath & Company in Bethesda, Maryland, June, 1986 through October, 1989. After moving to St. Mary's County and working with Cox, Long & Colvin, CPA in Leonardtown, Maryland for three years, became an owner in January, 1992 until opening a practice with her husband in November, 1996 as Askey, Askey & Associates, CPA, LLC (a nine member CPA firm in Leonardtown, Maryland). Primarily a tax and auditing firm, in the last 5 years the firm has grown in management of growing businesses and valuing them for sale.

Industries for which valuations have been performed:

- Commercial Heating and Air Conditioning Contractors (HVAC)
- Residential HVAC Contractors
- Large Day Care Operations
- Small Day Care Operations
- Real Estate Appraisal Operations
- Plastic Manufacturers
- Restaurants
- Hardware Stores
- Management Consulting
- Residential Construction Contractors

Catherine teaches business owners and managers on many topics of interest including:

- Business Valuations
- Succession Planning
- Four Ways to Grow Your Business
- Managing Your Cash Flow
- Mining Your Customers
- SWOT: Your Business Health Check
- Working ON rather than IN your Business
- Recruiting Good People
- Leadership As a Management Tool
- Creating a Sales System
- Improving Systems and Processes
- Time Management
- Benchmarking for Profitability
- Key Performance Indicators-Tools for Business Performance Management
- Strategic Planning
- Customer Relationship Management
- Perceived Indifference Disease – Are You Suffering from It?
- Unique Core Differentiators