

VALUATION OBSERVATIONS

*Some practical observations from a practicing
business appraiser.*



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Vol.4, No. 10

SITUATIONS THAT REQUIRE A BUSINESS VALUATION

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 we'll see below, it might be for one of many other reasons — some of which you may not have even considered.

You want to buy or sell a business. If you own a business, you may need to establish a reasonable estimate of what you can expect to receive. 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 to reduce your estate is a common estate planning strategy and still important to consider even with the changes under the Economic Growth and Tax Relief Reconciliation Act of 2001. An objective valuation that adheres to IRS regulations can help your gifts withstand IRS scrutiny.

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

You are setting up a buy-sell agreement. Contractually determining what happens to company stock after a triggering event can help you avoid shareholder disputes and solve estate planning problems.

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.

You are doing strategic planning. A business valuation can give you a good picture of your company's progress, strengths and weaknesses. It can provide a foundation for your planning that will 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 non-controlling shareholders from a financial point of view.

But those aren't the only situations in which you may need valuation services. 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.

If you would like additional information, or have a question, please do not hesitate to call.

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Terri Lastovka is the founder of Valuation & Litigation Consulting, LLC. Her practice focuses on business valuations and litigation consulting in the areas of domestic relations, gift and estate tax, probate, shareholder disputes, economic damages, and forensic accounting. She draws from a wide range of experiences, including public accounting, law, banking, and CFO. She has received extensive training from the American Society of Appraisers in the area of business valuation and works closely with members of the bar to effectuate practical settlements. Terri also serves as the Director of Legal & Finance for Journey of Hope, a grass roots non-profit organization providing financial support to cancer survivors.