

VALUATION OBSERVATIONS

*Some practical observations from a practicing
business appraiser.*

VLC

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HOW DO YOU SELECT A BUSINESS VALUATION EXPERT?

Business Valuation Experts are a different type of bird. Inside we are part eagle, part owl and part swan. Outside we come with differing appearances. Despite these differences we are business appraisal birds and not accounting or brokerage birds. Therefore, when selecting one of us, you should know how to recognize our feathers, colors and beaks so you do not pick the wrong kind of bird to protect your nest. American Business Appraisers

In the practice of law, accounting and medicine, one cannot claim and promote expertise without adequate training, rigorous testing, and sufficient experience. This is not necessarily true with respect to business valuation. There is no business valuation specific college major, and there are no requirements which must be met for one to claim to be a business appraiser. As a result, there are many who promote and perform business valuations without the knowledge and experience requisite of an expert – in many instances without being even minimally competent.

For years, judges, lawyers and others logically assumed a CPA was a competent business valuator. In 1997, the governing body of CPA's, the American Institute of Certified Public Accountants established a credential for CPAs who practice business appraisal. Even though those CPAs who took the exam generally had been active in business valuation, approximately 1/3 did not pass, meaning they could not meet their own profession's standard of business valuation competence. Take this one step further, and recognize that the leading business valuation societies have even higher standards that must be met to achieve business valuation credentials.

Before selecting a business valuation expert, obtain the practitioner's business valuation specific qualifications and professional activities, as contrasted to qualifications and activities related to accounting, consulting, brokerage, or other professions incidental to business valuation.

Compare that CV to the attached exhibit to develop a feel for the "degree of difficulty" associated with obtaining the business valuation credentials, if any, that they hold. Generally speaking, practitioners who have obtained the designations you judge to be among the tougher to obtain and who actively participate in the business valuation profession will be the full-time business appraisers with the greatest competence and credibility. Attorneys and judges can use these criteria to differentiate parties who represent themselves to be business valuation experts.

Additionally, you should consider what practice areas the business appraiser concentrates in. Your business appraiser should be familiar with the laws in which your current case is dealing with. For example, a business appraiser may have extensive experience in valuations for M&A and financing transactions, but little if any experience in divorce or litigation.

Speaking from my own personal experiences, I spend a lot of time educating opposing experts because many professionals who claim to be experts really only have a cursory understanding of how the valuation process works, what the standards are, and how to utilize them once they are completed.

If non-experts are utilized as “experts”, you could have disastrous results. More than ¼ of the divorce cases in Ohio that go to Appeals due to business valuation issues lose on expert credibility. Do your homework up front and hire a qualified expert.

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.