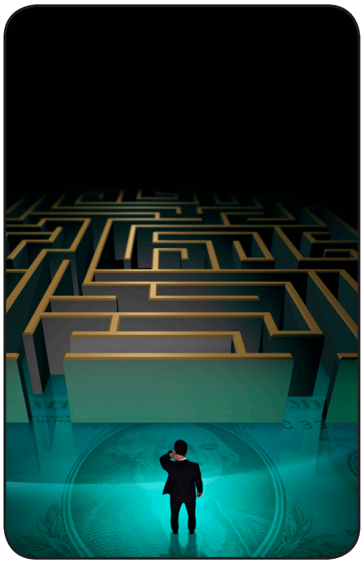


Business Valuation

Tax and Business Update

Portney & Company, CPA's
70 Grand Ave Ste 107
River Edge, NJ 07661
201-862-0500

Business Valuation Terms

Appraisal	The act or process of determining value, an appraisal is an opinion of the value of an asset or an ownership interest of a business enterprise. However, a business's value can depend on the circumstances.
Book Value	This accounting term refers to a specific asset's historical cost less any allowances for depreciation, amortization, unrealized losses or impairment. For a business, book value is its owners' equity (the excess of total assets over total liabilities on the balance sheet).
Fair Market Value (FMV)	The most widely recognized and accepted standard of value. Many provisions in the Tax Code refer to FMV, which is the price of property as it changes hands between a willing buyer and a willing seller when the former is under no compulsion to buy and the latter is under no compulsion to sell and both parties have reasonable knowledge of the relevant facts. This definition is commonly used by the IRS, the courts and valuation consultants. It assumes a hypothetical arm's length sale without regard to a specific buyer or seller.
Fair Value	In valuations, the term is not the same as in accounting literature. Rather, it stands for the statutory (or court-determined) standard that generally applies in dissenting-shareholder suits and in corporate dissolutions under some states' laws. In some states, if a business agrees to a merger, sale, etc., and the minority owners believe they will not get adequate consideration, they may have their interests appraised and receive fair value in cash. In these cases, the valuation consultant considers the factors established by relevant statutes and case law, which may include market values, individual asset values, methods commonly used in the financial community and other factors. It is important to obtain legal advice in connection with a fair value valuation.
Going-Concern Value	Based on the business being valued as a viable operating entity. It may also refer to the intangible elements of a business arising from such factors as having in place a trained, qualified work force; an operating plant; and the required licenses, systems and procedures.
Intrinsic Value	Some consultants use this term interchangeably with investment value. Others consider intrinsic value to be based on the analysis and judgment of an independent security analyst, investment banker or financial manager. In court cases, it often is not defined clearly and may refer to FMV, fair value or some other type of value. Valuations based on this term need a clear definition of the meaning.
Investment Value	The value of an asset or business to a specific owner or a prospective owner. Accordingly, this considers the owner's or prospective owner's knowledge, abilities, expectations of risks and earning potential and other factors. The key point is that investment value is an owner-specific concept.
Liquidation Value	Sometimes called breakup value, it assumes a company's operations will cease and its individual assets will be sold (or otherwise disposed). It usually is determined by a liquidation. An orderly liquidation means selling the assets over a reasonable period to maximize sales proceeds. A forced liquidation (auction value) means selling the assets as quickly as possible, such as at an auction. Liquidation value (orderly or forced) considers not only the proceeds from selling the assets, but also the selling costs, the costs to hold the assets until their sale and other expenses. Typically, this represents the lower limit of value.

Business Valuation Purposes

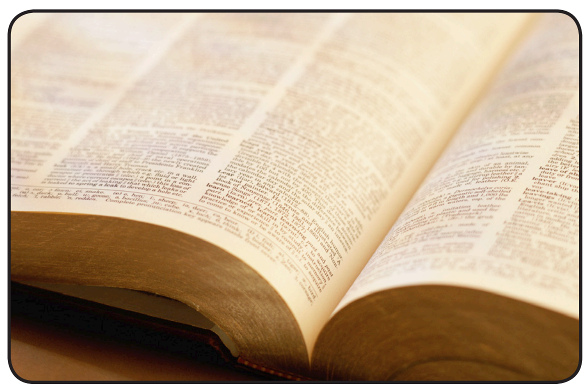
- The purchase or sale of part or all of a business.
- Buy/sell agreement purposes.
- Charitable contributions.
- Valuation of an interest for estate or gift tax purposes.
- Divorce proceedings.
- Financial reporting.
- Valuation for personal financial statements or to obtain financing.
- Mergers, recapitalizations and dissolutions.
- Valuation for condemnation, business interruption or other damage or loss.
- Property tax valuation protests.

Valuation Report Characteristics	
Thorough	It includes all relevant data and analyses that affect the determination of value.
Balanced	It discusses both positive and negative factors affecting value. Although the client may have a vested interest in the value being relatively high or low, the consultant should remain unbiased. Accordingly, the consultant's report should be an impartial discussion of all relevant factors.
Readable	All the report's readers should be able to follow the work done and the conclusion reached. That means the report should be clear and concise. Technical jargon should be defined. Any data presented in the report should be adequately described. Most readers will not be financial analysts or accountants.
Coherent	The report should flow logically from the data presented to the final conclusion. Also, the report's conclusions and analyses should be internally consistent.
Well-Supported	The report normally should present enough detail that a reader can reconstruct the consultant's valuation process and reach the same conclusion. That means presenting detailed calculations and identifying the data sources.

Notes

Valuation Approaches and Methods

Approach	Method
Income—value is determined by estimating future ownership benefits and discounting them to present value.	**Capitalized returns:** • Capitalization of earnings • Capitalization of net cash flow **Discounted future returns:** • Discounted net cash flow • Discounted future earnings
Market—value is determined by analyzing recent sales of comparable companies.	**Value multiples using guideline company data or transactions:** • Price/earnings (P/E) • Price/dividends • Price/gross cash flow • Price/book value • Price/revenues • Price/net asset value
Asset-Based—value is based on the values of the individual assets of the business.	**Underlying assets:** • Net asset value • Liquidation value
Other	• Excess earnings • Rules of thumb • Multiple of discretionary earnings • Business specific methods



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