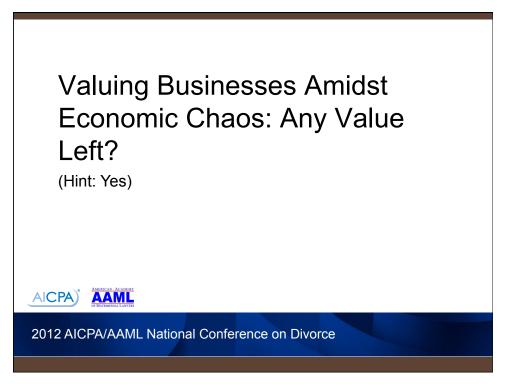
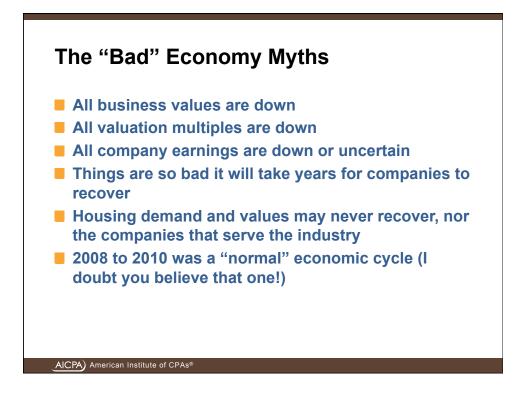
Copyright 2012, American Institute of Certified Public Accountants and American Academy of Matrimonial Lawyers. Reprinted with Permission. Speech powerpoint authored by George B. Hawkins, ASA, CFA, Banister Financial, Charlotte, North Carolina, for his speech to the 2012 AICPA/AMML National Conference on Divorce. To learn more about attending this or future AICPA/ AAML conferences visit www.AICPA.org. For a business valuation contact George Hawkins, at Banister Financial at 704-334-4932, or go to www.businessvalue.com









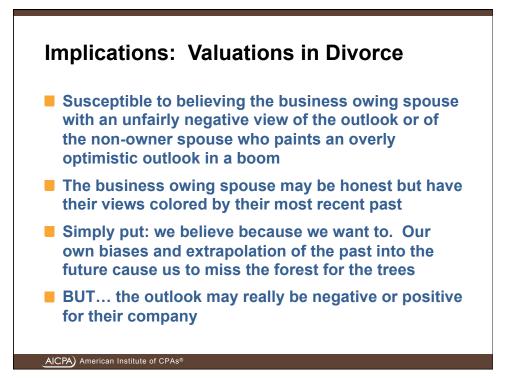


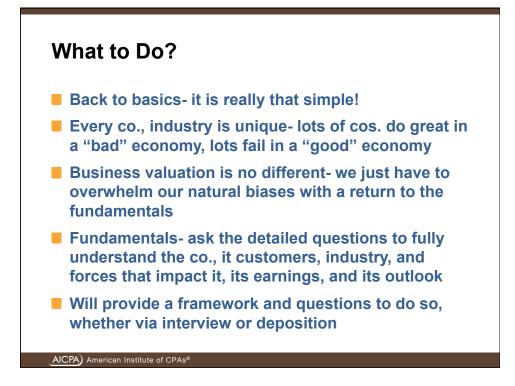
Effects of a "Good" or "Bad" Economy (cont.)

"Bad" economies put many competitors out of business- sets up the chance for those remaining to "ton it" when conditions turn around!

"Bad" economies cause companies to get rid of unnecessary fat/expenses so they can do well when things rebound

- "Good" economies mask inefficiencies and excesses
- Good economies make all managers look like geniuses, even the mediocre ones



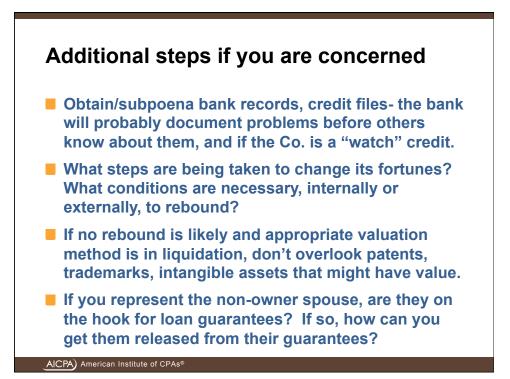




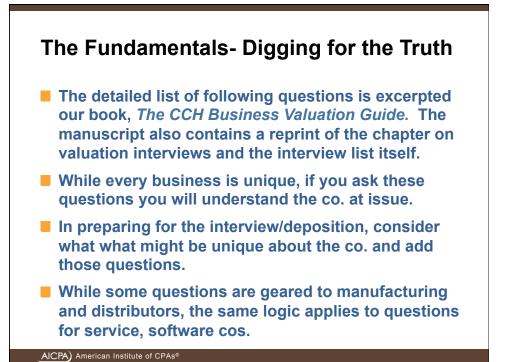
Before the Fundamentals- Warning Signs (cont.)

Large losses

- At or near limits on line of credit
- Non-compliance with loan covenants that may lead to a cutoff of credit
- Frosty banking relationship
- Losses of long-time or key customers or suppliers
- In contractors: difficultly obtaining project bonding
- In contractors: a shrinking backlog
- Books show large negative cash balances, but positive cash balances in the bank









SPECIAL THANKS TO CCH FOR REPRINT

- The following interview/deposition questions are based in part on questions in our book, *The CCH Business Valuation Guide*, co-authored by George Hawkins, ASA, CFA, and Michael Paschall, ASA, CFA, JD, both of Banister Financial, Inc., Charlotte, NC. © Copyright 2011, CCH Incorporated. Reprinted with permission.
- The interview questions are also included at the end of the manuscript. The manuscript contains two chapters from *The CCH Business Valuation Guide* on "Preparing to Interview a Company's Management" and "Interviewing a Company's Management." This will also assist in preparing for a deposition.
- For information on *The CCH Business Valuation Guide*, visit Banister Financial's website (<u>www.businessvalue.com</u>)("Book" tab). Includes table of contents, index and purchase details.





Interview/Deposition Questions

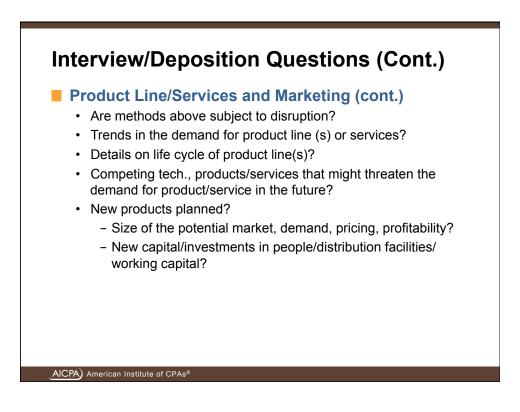
BACKGROUND AND HISTORY

- · History of the Co. including:
 - Length of time Co. has been in business?
 - Who founded?
 - When incorporated and where?
 - Current entity status (corporation, partnership, LLC, sole proprietorship)?
 - Current tax status/anticipated changes)(i.e., C corporation, S corporation, LLC)?
 - Initial lines of business?
 - Evolution of the lines of business over time?
 - Current lines of business?
 - Background/history of key management, shareholders?



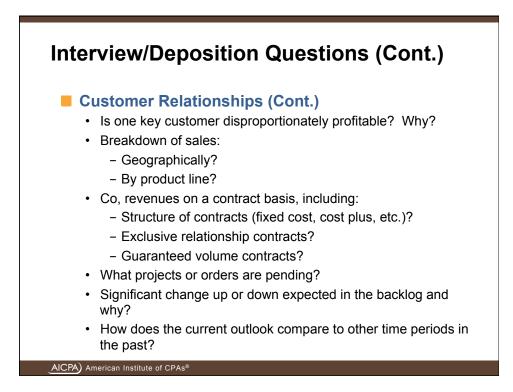
Product Line/Services and Marketing (cont.)

- Manufacturing process (if not purchased from others):
 - How manufactured (if not purchased from others)?
 - Locations of manufacturing facilities?
 - Rate of change in manufacturing technology?
- Amount and nature of research and development (R&D) undertaken/required?
- · Profitability/profit margins by product line and why?
- Types of customers by product line?
- · How does the Co. market and distribute its products?
 - Marketing strategy?
 - Advertising strategy?
 - How is the product actually sold?
 - Method of distribution and delivery?



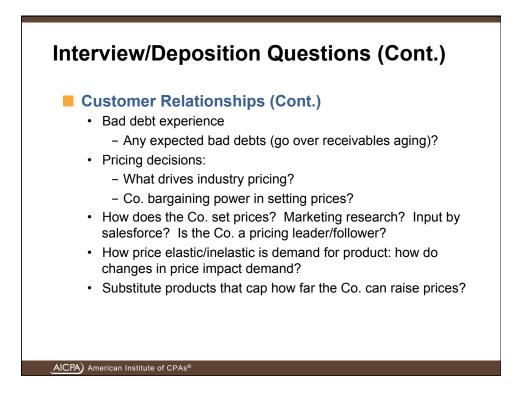
Customers

- · What attracts customers to the Co.'s product/service?
- · What drives the purchase decisions of customers?
- · Employee(s) who developed relationships?
- · Whether relationships are competitively bid or not?
- Reasons for Co. selection (e.g., lowest bidder, pers. relationship, proprietary technology, etc.)?
- Any customers whose annual volume equals or exceeds 10% of total sales volume?
 - Who, risk of losing?
 - Impact of key customer loss on Co.?
 - Changes in the concentration by customer over time?
 - Significant customer addition/loss recently/expected?



Customer Relationships (Cont.)

- · Cyclical forces:
 - Is demand for the product or service cyclical? How?
 - Where does the industry stand in the industry cycle?
 - Year of last bottom of cycle and how it impacted Co.?
 - What is management's early warning signal of downturn/ upturn in the industry?
- Customer terms of sale:
 - Details on terms (net 30, net 60, etc.)
 - Expected shifts in terms/discounts customers?
 - Does the Co require customers to pay on a pre-set date through electronic data interchange (EDI)?



Customer Relationships (Cont.)

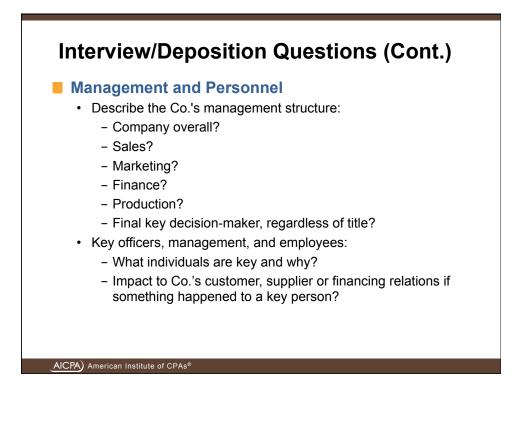
- Are just-in-time inventory order methods required to meet customer needs or demands?
 - Days of inventory required in days of sales/dollars?
 - Any shifts occurring that will increase or decrease working capital requirements to meet customer needs?
- · Details on receivables of questionable quality:
 - Reasons for/dollar amts. of anticipated write-offs?
 - Reasons for patterns in the receivables aging?
 - Reasons for variations in receivables turnover (days) in financial statement ratio analysis?
 - Details on historic trends in charge-offs?
 - Are any receivables contract receivables? When is receivable earned and due?

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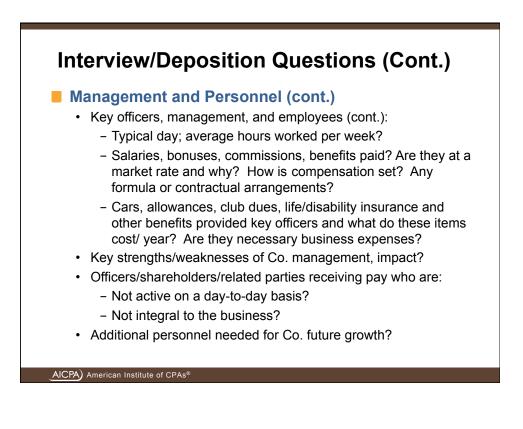
Suppliers (cont.)

- · Details on typical terms offered by trade suppliers.
 - Net 30 days? 2% 10 net 30? Etc. Any extended terms?
 - How fast is Co. actually paying suppliers? Any suppliers unhappy? How might this impact Co.?
- Expected shifts in terms offered by suppliers? Impacts to Co?
- Long-term contracts at advantageous/disadvantageous prices?
- How long for suppliers to ship needed products?
- Does Co. commit to purchases in advance of knowing demand for its products? Will supplier take excess purchases back?
- Risk of disruption (supplier/shippers, shortages, etc.)?
- · Alternatives to current suppliers?
- · Long-term outlook for supply availability, prices?
- · Possibility of future competition from Co. suppliers?



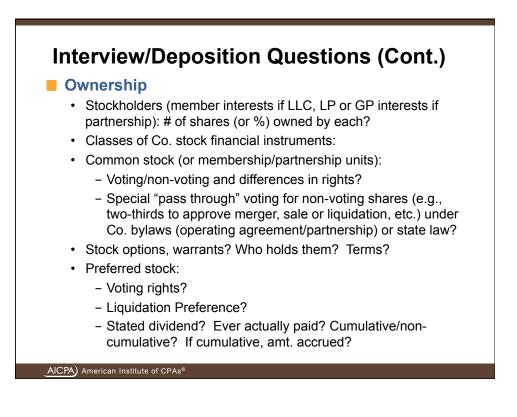
Management and Personnel (cont.)

- · Key officers, management, and employees (cont.):
 - Key personnel in poor health/expected to leave Co? Any key personnel recently died/left the Co? Impact?
 - Key person life insurance, in what amounts, whom?
 - Successor management to take over in the event of the loss of a key person? Experience in the Co. and readiness for the role?
 - Job title, position, and duties?
 - Approximate tenure with Co.?
 - Education, industry experience, age?
 - Key employees covered by employment agreements, or covenants-not-to-compete?



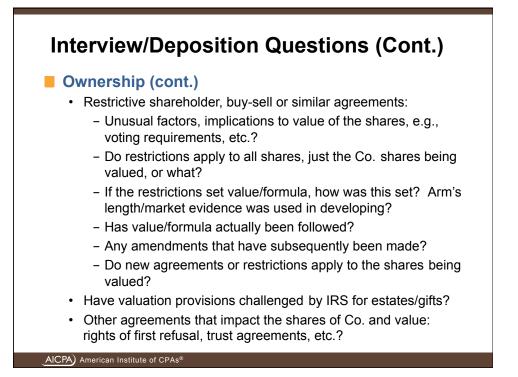
Management and Personnel (cont.)

- Employee needs fixed in the short/intermediate term, versus variable with growth in volume/revenues and why?
- Merit/inflationary pay increases typically given?
- Unionization:
 - Is the Co.'s workforce unionized? Attempted in the past?
 - Risk of unionization in the future?
 - Are competitors unionized?
- Benefit plan financial obligations/contingent liability to the Co. (e.g., defined benefit plans, deferred comp, retiree health insurance, unfunded plans, self-funded health insurance, etc.)? Impact to Co. now/in future?
- · Labor supply/pricing constraints that will impact Co.?



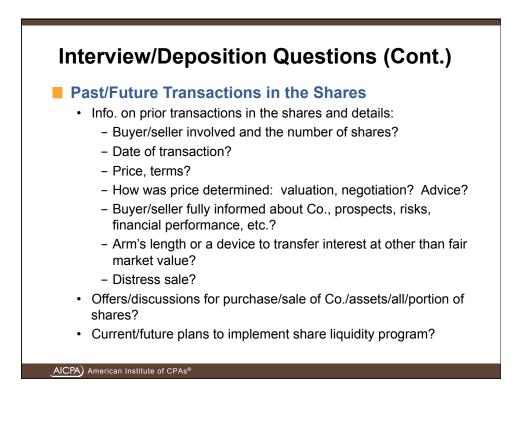
Ownership (cont.)

- Preferred stock (cont.)
 - Basis and circumstances for Co. redemption?
 - Is preferred convertible into common? Terms?
- · Subordinated or convertible debt outstanding?
 - Voting rights?
 - Liquidation or other preferences?
 - How/when converted into common equity?
- · Board representation- any holders have special rights on Board?
- Phantom stock?
- Put rights- Do any of the Co.'s securities have any "put rights" which enable the holder to require Co to redeem them? Terms?
- Bylaws (Operating Agreement if LLC)- Unusual factors/ implications to the value, e.g., voting requirements, etc.



Ownership (cont.)

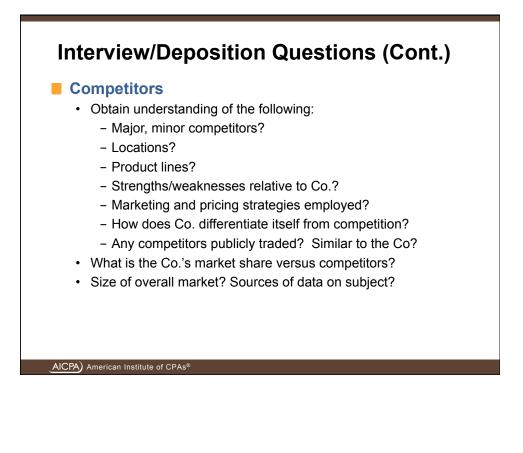
- If the Co. is an S corporation, partnership, LLC:
 - Buy-sell/partnership/bylaws/other agreement that requires Co. make distribution to pay personal taxes?
 - Has Co. historically distributed sufficiently to pay taxes?
 - Loan covenants preclude sufficient distributions?
 - Shareholder disputes that have arisen re: distributions?
- Distribution of ownership:
 - Relationships between family owners (if any)?
 - Are there any swing blocks held?
 - Do shares valued have the potential for influence?
 - What changes in the distribution are possibly/likely?
- Shareholder contentment/contentment?
- Employee Stock Option Plan (see detailed list for questions)?

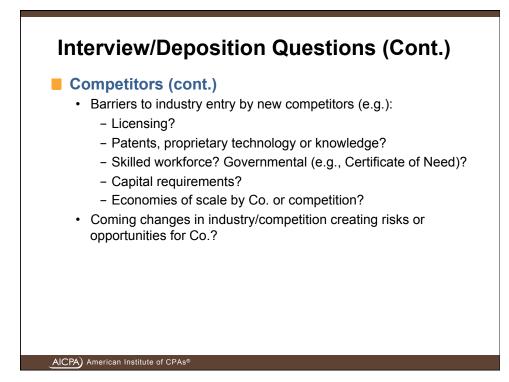


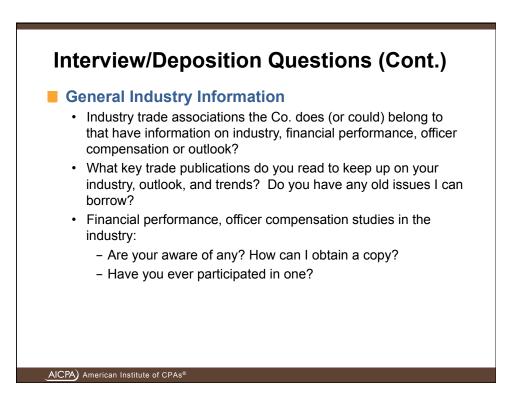


Past/Future Transactions in the Shares (cont.)

- Has the Co. ever considered, is it currently contemplating, or might it consider in the future, a public or private offering of the Co.'s shares or an outright sale?
- · Aware of any sales of similar companies? Who? Details?
- Business brokers/merger/acquisition specialists who have sold companies in your industry or who specialize in their sale?
- · Determine if the Co. has any of the following and review:
 - Strategic plan, management/succession plans?
 - Consultant report?
 - Business plan?
 - Offering Memorandum?
 - Other similar documents?

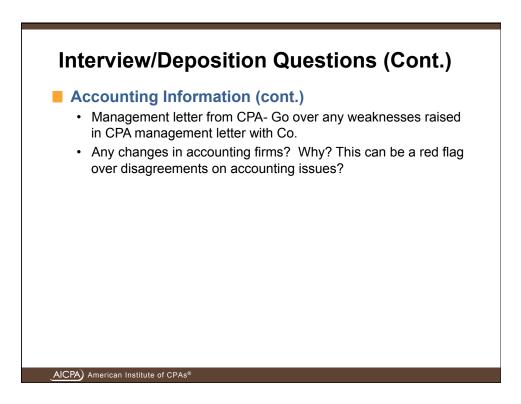






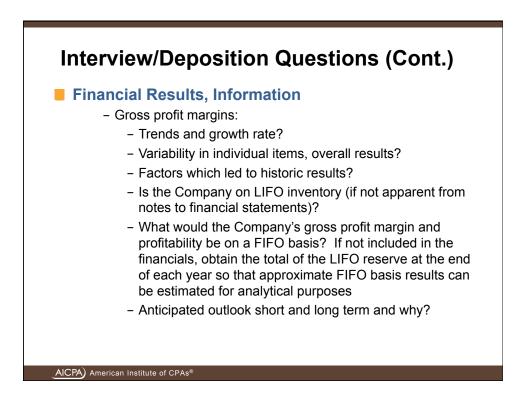
Accounting Information

- Recognition of revenues, expenses:
 - When does the Co. recognize a sale/expense on year-end financial statements?
 - How differing for interim financial statements?
- Cash versus accrual basis- Are year-end and interim YTD financials on a cash or accrual basis?
- What adjustments are made to year-end financial statements that are not reflected in interim results?
- · How reliable are YTD year-end internally prepared financials?
- · Historic changes in accounting methods?
- What kinds of reports, financial information do you use to help manage your business and why?
- · Strengths/weaknesses of the information system?



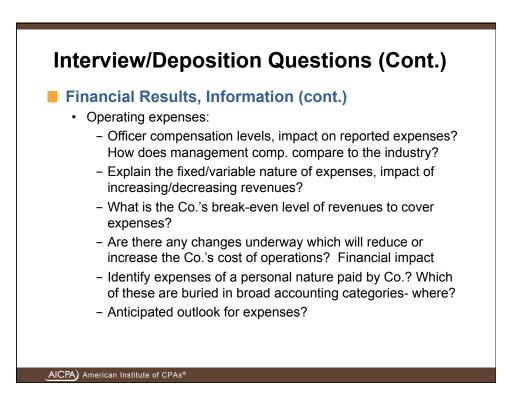


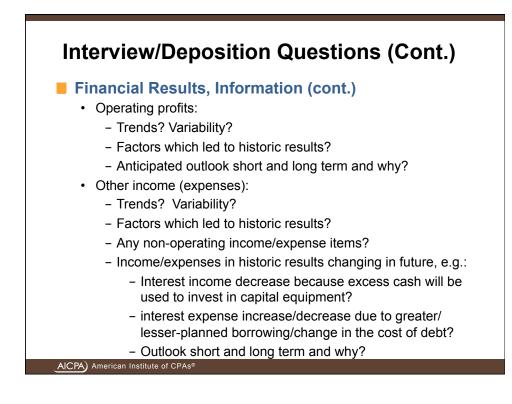
- Must have historic financial statements spread before the interview/deposition- otherwise you're flying blind! Pages 7015 through 7020 in the manuscript contain a simple example of spreads, with the chapter also discussing an analysis of them.
- Income statement and profitability analysis Go over key factors in historic income statements, including:
 - Overview of key factors impacting past results
 - Revenues:
 - Trends and growth rates?
 - Variability in individual items, overall results?
 - Factors which led to historic results?
 - Any unusual/non-recurring revenue?
 - Anticipated future growth rate? Short, long term- why?

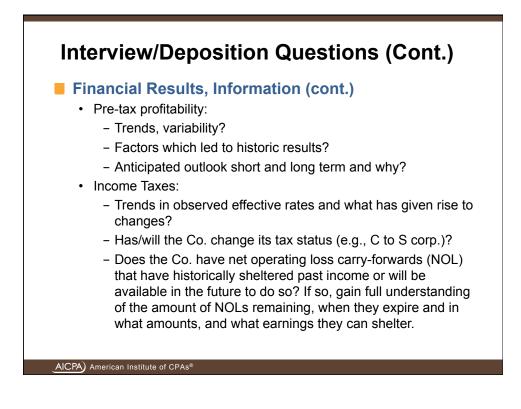


Interview/Deposition Questions (Cont.) Financial Results, Information (cont.) Operating expenses: Trends and growth rates? Variability in individual items and overall observed results? Factors which led to historic results? Unusual/non-recurring/extraordinary expenses (lawsuit, environmental cleanup, etc.) that impacted results or are not needed in the day-to-day operations of the Co.? Level of bad debts: Any unusual past bad debts in a given year? What is a normal bad debt experience? Does Co. accrue a reserve for bad debts? Is the reserve

adequate? Are any large bad debts expected?



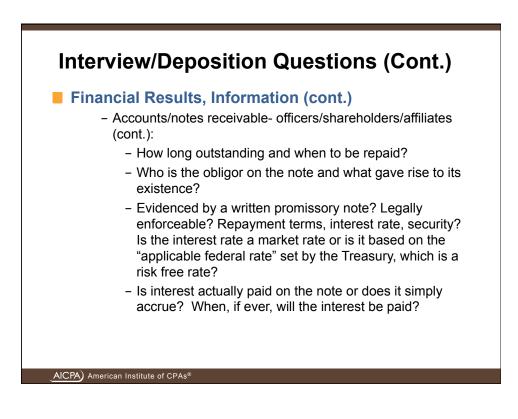


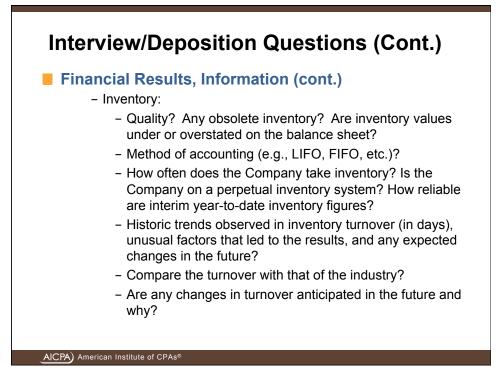


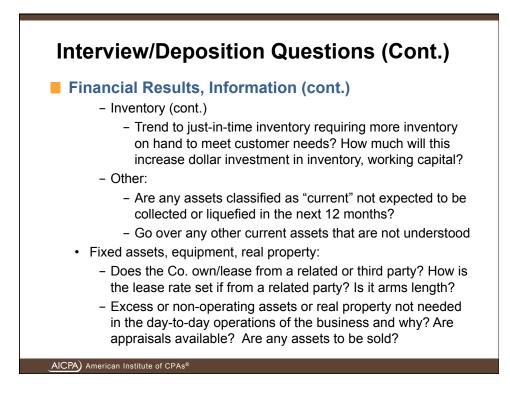
Financial Results, Information (cont.)

Balance Sheet Analysis-Go over key factors affecting results observed in the balance sheets, including:

- Current assets:
 - Working capital needed as a minimum to operate?
 - Seasonal influences during year that cause working capital needs to materially vary?
 - Trends observed in current assets and why?
 - Variability of individual items?
 - Receivables:
 - Compare turnover with industry
 - Any changes in turnover anticipated in the future, why?
 - Accounts/notes receivable- Officers/shareholders/affiliates:
 - How long outstanding and when to be repaid?

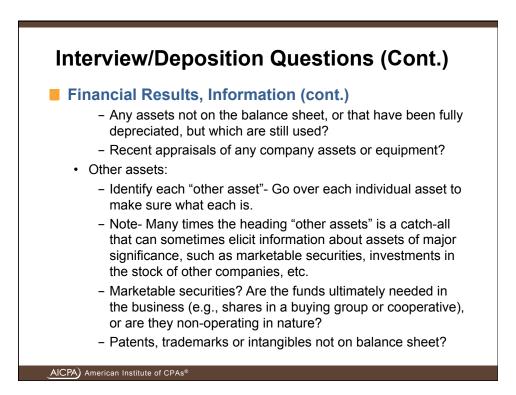




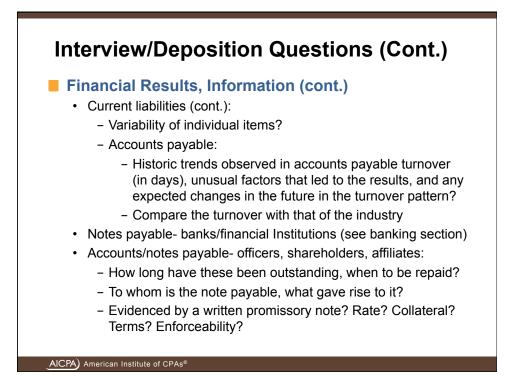


Financial Results, Information (cont.)

- Overview of the Co.'s investment in fixed assets, equipment and real property. How changed over time, why? Go over key changes observed in the balance sheet
- Any assets obsolete/need of replacing due to age, technological obsolescence, etc.?
- How do your needs for equipment and fixed assets vary with growth in revenues? How much further can you grow without material expansion of this asset base?
- What is your expected level of capital expenditures by year in the future (short term, intermediate, long term)?
- What depreciation policies are used (If not in the notes to the financial statements)? Are any accelerated or tax basis? Do the depreciation policies approximate the useful life of the assets, or over or understate them and why?

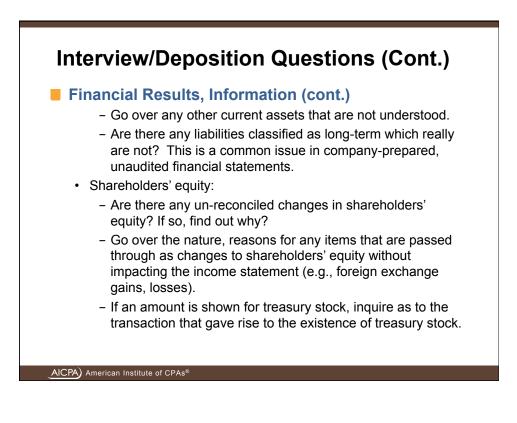


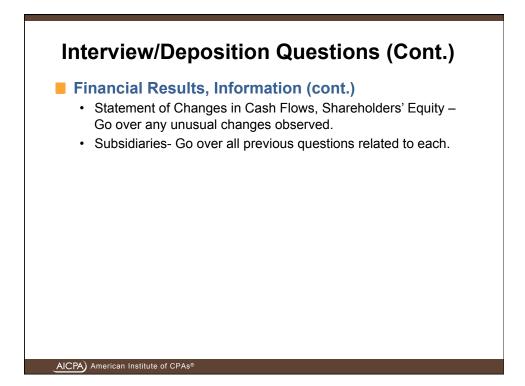
Interview/Deposition Questions (Cont.) Financial Results, Information (cont.) Investments: - What the investments represent, ownership? - How does the Co. account for the investment (equity method, cost method)? - Do the investments generate a current return, or are there provisions for capital calls where Co. may have to make additional cash infusions? - What do you believe the investments are worth and why? Have there been any valuations or appraisals of them? - Does Co. have any other investments or subsidiaries not shown on the balance sheet? Current liabilities: - Trends observed in current liabilities and why? AICPA) American Institute of CPAs®

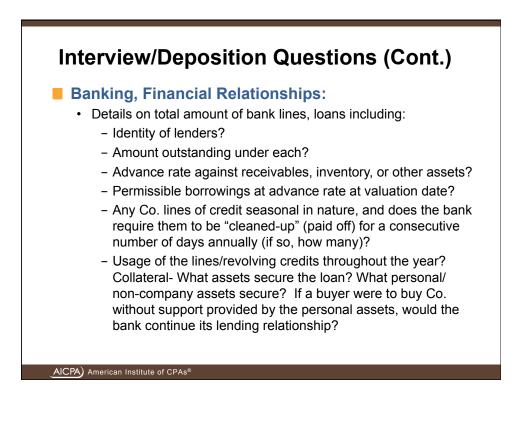


Financial Results, Information (cont.)

- · Accounts/notes payable- officers, shareholders, affiliates (cont.):
 - Is the interest rate a market rate or based on the "applicable federal rate" set by the Treasury, which is a risk free rate?
 - Interest actually paid on the note, or simply accrue? When, if ever, will the interest be paid?
- Any liabilities classified as current that really are not? This is a common issue in co.-prepared, unaudited financial statements.
- · Long-term liabilities:
 - Trends observed and why?
 - Variability of individual items?
 - Long-term- banks/financial Institutions (see banking section)
 - Long-term debt- officers, shareholders, affiliates (see earlier questions on current notes payable)

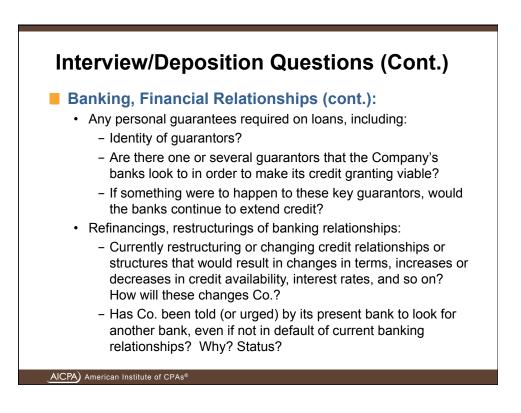






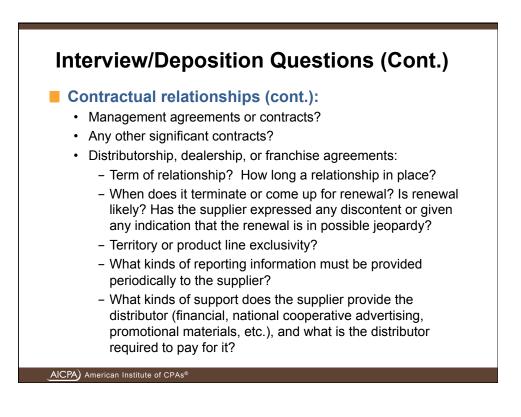
Banking, Financial Relationships (cont.):

- · Loan covenants and the Company's compliance with them?
- Negative pledges that would preclude Co. from using uncollateralized assets to obtain additional borrowings?
- Limitations on dividends, distributions and capital expenditures, and impact on Co. ability to operate/pay returns to owners?
- Any factors that place the Co. in jeopardy of possibly not meeting covenants or other factors that may cause it to default on its loan or financing agreements? Possible bank action?
- · Any pending or threatened acceleration of loans?
- History of banking relationships, including:
 - Willingness of lenders to supply additional credit needed?
 - Character of relationship (good or bad) and why?
 - Increase in financing needed for growth? Will bank provide?



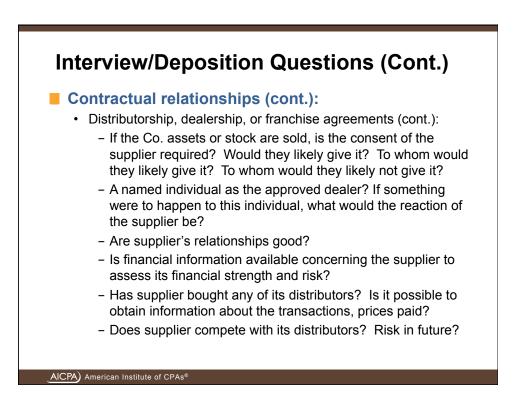
Contractual relationships:

- · Explanations of any existing contracts such as:
 - Employment agreements?
 - Covenants not-to-compete? Who/duration/geographic scope?
 - Supplier and franchise agreements?
 - Customer agreements- terms, ability to cancel and on what notice, status of any renewal, changes in terms and impact?
 - Royalty agreements?
 - Equipment lease or rental contracts? If with related parties, how is the rate determined and is it arms length?
 - Real property leases. If with related parties, how is the rate determined and is it arms length?
 - Labor contracts?

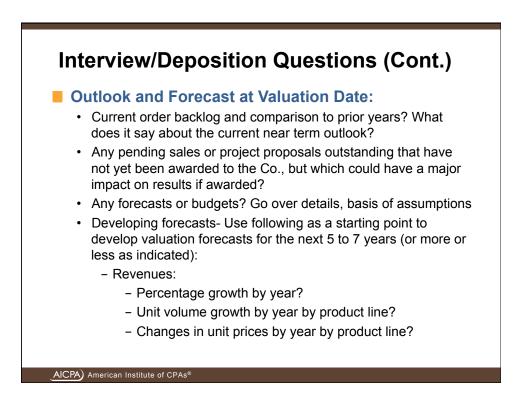


Contractual relationships (cont.):

- · Distributorship, dealership, or franchise agreements (cont.):
 - Does the supplier prepare financial ratio and performance studies that it periodically sends to its dealers?
 - Does the supplier sell directly to large "national accounts" in the distributor's territory? If so, what kind of fee does the distributor receive, if any, for the sale? What servicing of the account is the distributor expected to provide, and how is the distributor reimbursed for it?
 - Are there any required performance goals? Is the Co. in compliance with them?
 - Any pending or threatened loss of rights?
 - Can they be assigned? Under what circumstances?

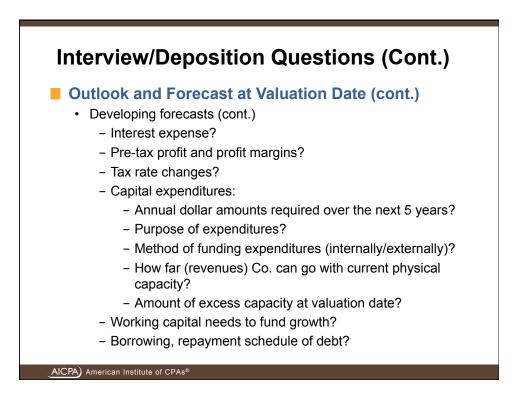






Interview/Deposition Questions (Cont.) Outlook and Forecast at Valuation Date (cont.): Developing forecasts (cont.)

- Revenues (cont.):
 - Large or unusual factors contributing to future revenues?
 - Likelihood of achieving forecast?
 - Breakdown of anticipated growth between growth of market in total and Co.'s growth in market share?
- Gross profit:
 - Gross profit margin percentage trends by year, product?
 - Comparison to past actual performance?
- Selling, general and administrative expense:
 - Fixed/semi-fixed costs (do not vary proportionately with volume or revenues)?
 - Variable costs?



Litigation and Other Material Factors

- Details on any contingent or off-balance sheet assets or liabilities, including:
 - Pending or threatened lawsuits?
 - ERISA compliance requirements?
 - Warranty or other product liability?
 - Workers' compensation claims not covered by insurance?
 - Hazardous waste, other environmental problems?
 - Regulatory compliance issues/problems (OSHA, EPA, etc.)?
 - Letter of credit liabilities?
 - Guarantees of other indebtedness?
 - Other material factors?
 - Status of current or past IRS, state, or local audits?
 - Judgments or filings of record and status?

