Banister Financial, Inc. Business Valuation Interview List
(Needs to be Made Specific to Unique Issues of Actual Entity)

For Questions Contact:

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Note: Every Company is unique and will have special issues and factors that warrant exploration that may not be present in other companies. Therefore, the issues that need to be addressed may be much broader or shorter than this list. This list is general in nature and can be helpful in putting together a tailored list of issues on which to question management in a specific valuation assignment.

BACKGROUND AND HISTORY

1. **History of the Company including:**
   a. Length of time Company has been in business.
   b. Who founded?
   c. When incorporated and where?
   d. Current entity status (corporation, partnership, LLC, sole proprietorship, etc.)
   e. Current tax status (and anticipated changes) (i.e., regular C corporation, S corporation, LLC)
   f. Initial lines of business?
   g. Evolution of the lines of business over time?
   h. Current lines of business
   i. Background and history of key management and shareholders.

PRODUCT LINES (SERVICES) AND MARKETING

1. **Overview of the nature of the Company's business and operations, including:**
   a. Products manufactured and/or sold.
   b. Services provided.

2. **Manufacturing process (if not purchased from others):**
   a. Explanation of how manufactured (if not purchased from others).
   b. Locations of manufacturing facilities.
   c. Rate of change in manufacturing technology.
   d. Effect on Company of manufacturing technology changes.
   e. Amount and nature of research & development undertaken or required.
   f. Differences in profitability and profit margins by product line and why.
   g. Differences in the types of customers by product line.

3. **How does the Company market and distribute its products?**
   a. Marketing strategy.
   b. Advertising strategy.

c. How is the product actually sold (e.g., direct sales via own salesforce, external independent sales representatives, and independent stocking distributors, Internet, etc.)?
d. Method of distribution and delivery (in-house trucking, external trucking, rail, etc.) to the customer.
e. Are any methods above subject to disruption (strike, etc.)? Has this ever occurred, and, if so, what was the impact on the company? Are alternative delivery methods available?

4. **What are the trends in the demand for Company's product line (s) or services?**

5. **Details on life cycle of Company's product line(s).**

6. **Are there any competing technologies, products, or services that might threaten the demand for the product or service in the future?**

7. **Are there any new products planned or ready to be introduced? If so, what is the expectation regarding the size of the potential market, demand, pricing, profitability? What kinds of new capital and other investments in people, distribution facilities, additional working capital and other items will be required to accomplish its manufacturing and sale?**

CUSTOMER RELATIONSHIPS

1. **What attracts customers to the company's product or service and why?**

2. **What drives the purchase decisions of customers?**
a. Employee(s) who developed relationships.
b. Whether relationships were bid or not.
c. Reasons for Company selection (e.g., lowest bidder, personal relationship, proprietary technology, etc.)

3. **Does the Company have any customers whose annual volume equals or exceeds 10% of total sales volume?**
a. Who?
b. Risk of losing?
c. If a key customer were lost, what would the impact be on the Company?
d. Have there been any major changes in the concentration of sales by customer over time?
e. Have there been any significant new customer additions or deletions recently or are any expected?

4. **Is one key customer relationship disproportionately profitable? If so, why?**

5. **Breakdown of sales:**
a. Geographically.
b. By product line.

6. **Details on Company revenues on a contract basis, including:**
a. Structure of contracts (fixed cost, cost plus, etc.)
b. Details of exclusive relationship contracts.
c. Details of guaranteed volume contracts.
d. What projects or orders are pending?
e. Is any significant change up or down expected in the backlog and why?
f. How does the current outlook compare to other time periods in the past?

8. Cyclical forces:

a. Is the demand for the product or service cyclical in any way? If so, how?
b. Where does the industry currently stand in the industry cycle?
c. What year was the last bottom of the cycle and how did it impact the Company?
d. What does management use as an early warning signal of a cyclical downturn in the industry?

9. Customer terms of sale:

a. Details on terms offered customers (net 30, net 60, etc.).
b. Any there any expected shifts in terms or discounts offered customers and why? Impacts to Company?
c. Does the Company require customers to pay on a pre-set date through electronic data d. interchange (EDI)? If so, how?
e. Bad debt experience.
f. Any expected bad debts (go over receivables aging with Company).

10. Pricing decisions:

a. What drives industry pricing?
b. Does the Company have important bargaining power in setting prices?
c. How does the Company set prices? What marketing research is done? What inputs are given by the salesforce? Is the Company a pricing leader or follower in the industry?
d. How price elastic or inelastic is the demand for the product by customers? In other words, how do changes in price impact demand?
e. Are there substitute products that cap how far the Company can raise prices?

11. Are just-in-time inventory order methods required to meet customer needs or demands?

a. How many days of finished goods inventory are required in terms of days' worth of sales and dollars?
b. Are any shifts occurring that will increase or decrease working capital requirements to meet customer needs?

12. Details on receivables of questionable quality on or about the valuation date, including:

a. Reasons for and dollar amounts of any anticipated write-offs.
b. Reasons for particular patterns in the receivables aging.
c. Go over reasons with management for any variations in accounts receivables turnover (days) patterns identified in the financial statement ratio analysis and why.
d. Details on historic trends in charge-offs.
e. Are any receivables contract receivables? At what point is the receivable earned and due?

SUPPLIER RELATIONSHIPS

1. Suppliers to Company.

a. Who are they?
b. What is purchased from whom?
c. What bargaining or negotiating power does the Company have with suppliers?
d. What considerations led to the suppliers presently used? Quality? Price? Unique abilities?
e. Are there any contractual supply relationships?
f. Do any current supply relationships impart an element of competitive advantage to the Company that its competitors might not possess and why?

2. Details on degree of Company dependence on key suppliers.

a. Who?
b. Reasons supplier is replaceable or irreplaceable?
c. Impact on Company from the loss of a key supplier?
d. Has the Company recently lost a key supplier? Does it foresee losing a key supplier? Impact?

3. Details on typical terms offered by trade suppliers.
a. Net 30 days? 1% 10 net 30? 2% 10 net 30? 1% 10th prox? Other?
b. Are any extended terms (dating) offered on any products?

4. How long does the Company actually take to pay its suppliers versus its terms? Are any suppliers unhappy with the Company's payment experience? If so, how might this impact the Company in the future and its access to supplier products and credit?

5. Any there any expected shifts in terms or discounts offered by suppliers and why? Impacts to Company?

6. Details on long-term supply contracts at advantageous or disadvantageous prices.

7. How long does it take suppliers to ship needed products?

8. Does the Company have to commit to large purchases well in advance of knowing the demand for its products? How often does the Company materially miss its estimated demand and what problem does this cause? Will the supplier take excess purchases back?

9. Is there any risk or threat of a disruption of supply (e.g., a strike at a key supplier facility or with shippers, raw material shortages, or other reasons)?

10. Alternatives to current suppliers.

11. Long-term outlook for supply availability and prices.

12. Details on the possibility of future competition from Company suppliers. Are there any trends toward vertical integration by suppliers where they could become a competitor?

MANAGEMENT AND PERSONNEL

1. Describe how the Company's management and organizational structure operates.
a. How are the following managed and by whom:
 i. Company overall?
 ii. Sales?
 iii. Marketing?
 iv. Finance?
 v. Production?
 vi. Who is the final key decision-maker, regardless of title?

2. Key officers, management, and employees:
a. What individuals are key and why?
b. What would happen to the Company, or its customer, supplier or financing relationships if something happened to a key person?

c. Are any key personnel in poor health or expected to leave the Company? Have any key personnel recently died or left the Company? What was or is the expected impact?
d. What key person life insurance is in place, in what amounts and on whom?
e. What successor management is in place or would take over in the event of the loss of a key person? What is their degree of experience in the Company and readiness for the role?
f. Job title, position, and duties.
g. Approximate tenure with Company.
h. Education, background, industry experience, and age.
i. Details on any key employees covered by employment agreements, or covenants-not-to-compete.
j. Time spent in typical day; average hours worked per week.
k. Go over the levels of salaries, bonuses, commissions, benefits paid each and whether or not they approximate a market rate and why. How is compensation set? Are there any formula or contractual arrangements?
l. What cars, car allowances, club dues, life insurance, disability insurance and other benefits are provided key officers and what do these items cost each year? Are they required or not needed in the day-to-day operations of the business?

3. Describe what you believe are the key strengths and weaknesses of your Company's management and why and how this impacts it.

4. Please provide specifics on any officers, shareholders or their related parties who receive pay from the company but are:

a. Not active on a day-to-day basis.
b. Not integral to the business.

5. Describe any additional personnel needed due to the Company's current or future growth?

6. What portions of the Company's employee needs are fixed in the short or intermediate term, versus variable with growth in volume or revenues and why?

7. What kinds of merit and inflationary pay increases does the Company typically give annually?

8. Unionization:
a. Is any portion of the Company's workforce unionized? Details.
b. Has it been attempted in the past? Details?
c. Are many competitors in the industry unionized? If so, how has this impacted their competitiveness?
d. Is there a risk of unionization in the future? If so, what impact would unionization potentially have on the Company?

9. What employee benefit plans are in place that create a continuing financial obligation or contingent liability to the Company, such as qualified retirement plans (defined benefit plans), deferred compensation plans, retiree health insurance liabilities, unfunded benefit plans, self-funded health insurance, and so on? What are their ramifications to the Company now and in the future?

10. Are retirement, 401(k), and profit sharing plans required in the industry to attract or retain qualified employees, or are they really discretionary in nature?

11. What labor supply and pricing constraints have or will have an impact on the Company and why?

OWNERSHIP

1. List of stockholders with number of shares (or percentage interest) owned by each (if not previously provided).

2. Details on all classes of Company stock and financial instruments, including:

a. Common Stock:

i. Voting and Non-Voting Common Stock and Differences in Rights?
ii. Are there any special “pass through” voting rights for non-voting shares (e.g., two-thirds required to approve a merger, sale or liquidation, etc.) required under Company bylaws or under State law? (NOTE- MAY NEED TO CONSULT COMPANY LEGAL COUNSEL TO ANSWER THIS QUESTION)
iii. Stock Options, Warrants? If so, who holds them and what are their terms?

b. Preferred Stock Outstanding? If so:

i. Voting Rights?
ii. Liquidation Preference?
iii. What is the stated dividend? Has it ever actually been paid? Is the dividend cumulative or non-cumulative? If cumulative, how much has accrued?
iv. On what basis and circumstances can the Company redeem the preferred?
v. Is the preferred convertible into common equity? If so, how?

c. Subordinated or Convertible Debt Outstanding?

i. Voting Rights?
ii. Liquidation or Other Preferences?
iii. On what basis and circumstances can it be converted into common equity?

d. Board Representation:

i. Do any of the holders of any securities have or do the securities themselves provide for special rights of representation on the Company’s Board of Directors?

e. Phantom Stock:

i. Does the Company have any type of phantom stock or security?
ii. If so, to what measure is it tied for its value and what kinds of financial obligations or risks does this place on the Company, now or in the future?

3. Put Rights- Do any of the Company’s securities have any “put rights” which enable the holder to require the Company to redeem them? If so, what, how and on what terms?

4. Bylaws- Go over any unusual factors and their implications to the value of the shares, such as voting requirements, etc.

5. Restrictive Shareholder, Buy-Sell or Similar Agreements:

a. Go over any unusual factors and their implications to the value of the shares, such as voting requirements, etc.
b. Do these restrictions apply to all shares, just the Company shares being valued, or what?

c. If the restrictions set a value or formula for value, how was this set? What arm's length or market evidence was used in developing the approach?
d. If the restrictions set a value or formula for value, has it actually been followed? If so, when was it last used to set the value per share, and how was it calculated?
e. Go over any amendments that have subsequently been made.
f. Will any new agreements or restrictions apply to the shares being valued? Be sure to obtain a copy.
g. Have the valuation provisions been respected or challenged in the past by the IRS for purposes of estate and gift valuation issues? Why or why not?
h. Discuss any other restrictive agreements or factors that impact the shares of the company and its value, including: rights of first refusal, trust agreements, or other documents of any kind.

6. If the Company is an S corporation or a partnership:

a. Are there contractual features in any corporate buy-sell, partnership or other document that provides that the entity must distribute sufficient proceeds to pay personal taxes due on entity earnings?
b. Has the Company historically distributed sufficient proceeds to pay taxes, and does it intend to continue doing so in the future?
c. Are there any bank or similar loan restrictions that preclude the Company from distributing sufficient resources to shareholders?

7. Dividend policy:

a. Is there a formal or understood policy with respect to the payment of dividends?
b. Has the Company historically paid dividends (get a copy of their payment history)? If so, how were they determined and by whom?
c. Is any major change in dividends paid or dividend policy anticipated in the near or intermediate future?
d. Describe any shareholder disagreements that have arisen concerning dividend policy?

8. Distribution of ownership:

a. Details on relationships between family owners (if any).
b. Are there any swing blocks held?
c. Do the shares being valued have the potential for influence in any way?
d. What changes in the distribution of ownership are possibly or likely?

9. Shareholder Contentment/Discontentment:

a. Is there any evidence of this?
b. Do the shares being valued have the potential for influence in any way?
c. What changes in the distribution of ownership are possibly or likely?
d. How have or will these issues in the future affect the management, operations, or performance of the Company?
e. Describe any shareholder litigation that has occurred or is expected or pending?

10. If Company has an Employee Stock Option Plan (ESOP), be sure to go over all key ESOP plan issues including:

a. Trustees of the ESOP- Identity and involvement in and relationship to the Company or its shareholders?
b. Determination (by attorney) if the ESOP put agreement is valid and enforceable.
e. Financial ability to meet put requirements?

f. Describe any feature in the ESOP plan documents that provides for any right of the ESOP to acquire additional shares of the Company?
g. Has, is, or will the ESOP be acquiring additional shares over time?
h. What is the current breakdown of ownership in the ESOP shares by plan participants?
i. Who holds large share balances?
j. How would the ESOP or company pay to redeem the larger balances in the event of a death or departure from the Company?
k. Is any insurance or other funding in place?
l. Have any actuarial studies been prepared to estimate repurchase liability?

PAST AND FUTURE TRANSACTIONS IN THE SHARES

1. Provide information on any prior transactions in the shares of the Company that have occurred, including:

a. Details of terms, including:
  i. Buyer and seller involved and the number of shares.
  ii. Date of transaction.
  iii. Price, terms: Financing, down payment required, interest rates, repayment schedule, and security.
  vi. How was the price determined? Valuation? Negotiation? Were the parties advised in the negotiations by valuation or similar advisors? Were the buyer and seller both fully informed about the Company and its prospects, risks, financial performance, etc.?
  v. Was it truly arm's length or a device to transfer ownership at other than fair market value?
  vi. Was a distress sale involved that would cause the price to differ from fair market value?

2. Describe any offers or discussions (even preliminary) regarding the purchase or sale of the Company, its assets, or all or a portion of its shares.

3. Describe any current or future possible plans by the Company to implement a share liquidity program.

4. Has the Company ever considered, is it currently contemplating, or might it consider in the future, a public or private offering of the Company's shares or an outright sale? Details.

5. Are you aware of any sales of similar companies? Who are they? Are you aware of the details involved or how they might be determined?

6. Are you aware of any business brokers or merger and acquisition specialists who have sold companies in your industry or who specialize in their sale?

7. Determine if the Company has any of the following, and if so, obtain copies and review:

a. Strategic plan.
b. Management or succession plans.
c. Consultant report.
d. Business plan.
e. Company summary.
g. Offering Memorandum.
h. Other similar documents.

COMPETITORS IN THE INDUSTRY

1. **Obtain the following information on competitors:**
   a. Major competitors.
   b. Minor competitors.
   c. Locations.
   d. Product lines.
   e. Strengths and weaknesses relative to the Company. What would your competitors describe as its weaknesses and strengths?
   f. Marketing and pricing strategies employed.
   g. How does the Company differentiate itself from the competition?
   h. Are any competitors publicly traded? If so, are they reasonably similar to the Company?

2. **What is the Company's market share in its product line(s) versus that of competitors?**

3. **How large is the overall market? What sources of data are available on this subject (e.g., studies, trade association reports, industry journals)?**

4. **Are they any barriers to industry entry by new competitors, such as:**
   a. Licensing?
   b. Patents or proprietary technology or knowledge? If so, what are they and how long will they insulate the company from competitive threats?
   c. Skilled workforce?
   d. Governmental limitations (e.g., Certificate of Need or Public Necessity)?
   e. Capital requirements?
   f. Economies of scale realized by Company or its competitors.
   g. Other?

5. **Are there any coming changes in the structure of the industry and competition that create risks or opportunities for the Company?**

GENERAL INDUSTRY INFORMATION- IDENTIFYING RESOURCES

1. **What industry trade associations does (or could) the Company belong to that could provide information on the industry, financial performance, officer compensation, and outlook? What are their phone numbers and the name of a key contact?**

2. **What key trade publications do you and your competitors read to keep up on your industry, outlook, and trends? Do you have any old issues I can borrow?**

3. **Financial performance and officer compensation studies in the industry?**
   a. Are your aware of any that are periodically prepared? Is so, how can I obtain a copy?
   b. Have you ever participated in one?
   c. Are there any consulting firms that specialize in financial performance, compensation, or executive recruitment in your industry? If so, do you have their names and phone numbers?

4. **What other sources of information are you aware of that you feel would help in understanding or analyzing the outlook and competitive forces in your business and industry?**

ACCOUNTING METHODS

1. **Recognition of Revenues and Expenses.**
   a. At what point does the Company recognize a sale and an expense on year-end financial statements? (tax returns and book financial statements)
   b. How does this differ for interim financial statements?

2. **Cash versus Accrual Basis- Are year-end financial statements and interim year-to-date financials on a cash or an accrual basis?**

3. **Year-end adjustments- What adjustments are made to year-end financial statements that are not reflected in interim results?**

4. **Reliability- How reliable are interim financial statements? How reliable are year-end internally prepared financial statements?**

5. **Historic Changes in Accounting Methods- What changes have been made historically in the accounting methods utilized, and how did they impact results? What changes might be made in the future?**

6. **What kinds of reports and financial information do you use frequently to help manage your business and why?**

7. **What are the strengths and weaknesses of your information system?**

8. **Management letter from CPA- Go over any weaknesses raised in CPA management letter with the Company.**

9. **Who has historically been the Company's accounting firm? Have there been any changes in firms? Why? (This can sometimes be a red flag over disagreements in accounting policy and so on.)**

FINANCIAL RESULTS AND INFORMATION

NOTE- This section presumes that the valuator has spread the historic financial results of the Company, has prepared common sized income statements and balance sheets, and computed key financial statement ratios. Additionally, this section presumes that the results have been analyzed and key trends, variations and unusual factors have been noted in advance of the Company interview. Unique questions will arise for any individual valuation that will be over and above the general questions noted here. However, the following questions provide a framework to force the valuator to question what led to the results observed and to identify key issues.

1. **Income Statement and Profitability Analysis – Go over key factors affecting results observed in the historic income statements, including:**
   a. Overview of key factors impacting past results.
   b. Revenues.
      i. Trends and growth rates.
      ii. Variability in individual items and overall observed results.
      iii. Factors which led to historic results.

iv. Is there any unusual or non-recurring source of revenue that might not recur?
v. Anticipated future growth rate. Short and long term and why?

c. Gross profit margins.
   i. Trends and growth rate.
   ii. Variability in individual items and overall observed results.
   iii. Factors which led to historic results.
   iv. Is the Company on LIFO inventory (if not apparent from notes to financial statements)? What would the Company's gross profit margin and profitability be on a FIFO basis? If not included in the financials, obtain the total of the LIFO reserve at the end of each year so that approximate FIFO basis results can be estimated for analytical purposes.
   v. Anticipated outlook short and long term and why?

d. Operating expenses.
   i. Trends and growth rates?
   ii. Variability in individual items and overall observed results.
   iii. Factors which led to historic results.
   iv. Identify any unusual, non-recurring, or extraordinary expenses incurred of any kind (lawsuit, environmental cleanup, etc.) that impacted results?
   v. Are there any discretionary expenses which impacted results or which are not needed in the day-to-day operations of the business?
   vi. Level of bad debts. Have there been any unusual past bad debts in a given year? What is a normal bad debt experience? Does the Company accrue or establish a reserve for bad debts? Is the reserve adequate? Are any large bad debts expected?
   vii. Officer compensation levels and the impact on reported expenses. How does management compensation compare to the industry?
   viii. Explain the fixed versus variable nature of expenses and the impact of increasing and decreasing revenues.
   ix. What is the Company's break-even level of revenues to cover expenses? How has this break even point changed over time and why?
   x. Are there any changes underway which will reduce or increase the Company's cost of operations and why? What will be the financial impact on the Company?
   xi. Identify any expenses of a personal nature paid by the Company? Which of these expenses are not obvious or buried in broad accounting categories and where?
   xii. Anticipated outlook for expenses?

e. Operating profits.
   i. Trends.
   ii. Variability.
   iii. Factors which led to historic results.
   iv. Anticipated outlook short and long term and why?

f. Other income (expenses).
   i. Trends.
   ii. Variability.
   iii. Factors which led to historic results.
   iv. What other non-operating income or expense items are included in the other income (expense) category?
   v. Are there sources of income or expenses observed in historic results that will be changing or eliminated in the future? For example, will interest income decrease because excess cash will be used to invest in capital equipment? Will supplier rebates be

ending? Will interest expense increase or decrease due to greater or lesser-planned borrowing or changes in the cost of borrowing?

vi. Anticipated outlook short and long term and why?

g. Pre-tax profitability.
- i. Trends.
- ii. Variability.
- iii. Factors which led to historic results.
- iv. What other non-operating income or expense items are included in the other income (expense) category?
- v. Anticipated outlook short and long term and why?

h. Income Taxes.
- i. Trends in observed effective rates and what has given rise to changes.
- ii. Has or will the Company change its tax status (e.g., C to S corp.)?
- iii. Does the Company have net operating loss carry-forwards (NOL) that have historically sheltered past income or will be available in the future to do so? If so, gain full understanding of the amount of NOLs remaining, when they expire and in what amounts, and what earnings they can shelter.

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

a. Overview of key factors impacting past results.

b. Current Assets.
- i. How much working capital do you feel you need to maintain as a minimum to operate?
- ii. Are there seasonal influences throughout the year that cause working capital needs to materially vary? If so, at what times during the year do the Company's high and low points occur in terms of its working capital needs? (Note- If the interview is based on year-end balance sheets, it is possible that this may not represent the low or high point and lead the analyst to draw the wrong conclusions about the permanent level of working capital needed).
- iii. Trends observed in current assets and why.
- iv. Variability of individual items.
- v. Accounts Receivable
  - -How strong do you believe your accounts receivable are and why?
  - -Aging- Go over with management and identify patterns, concentrations to one or several large customers, and bad debts.
  - -Historic trends observed in accounts receivable turnover (in days), unusual factors that led to the results, and any expected changes in the turnover pattern.
  - -Compare the turnover with that of the industry and why the Company is different from the norm, if this is the case.
  - -Are any changes in turnover anticipated in the future and why?
- vi. Accounts/Notes Receivable- Officers, Shareholders, Affiliates.
  - - How long have these been outstanding and when will they be repaid?
  - - If the item is a note receivable:
    - -Who is the obligor on the note and what gave rise to its existence?
    - -Is it evidenced by a written promissory note? (If so, obtain copy and see if it has sufficient provisions to make it legally enforceable, repayment terms, interest rate, security, etc.)
    - -Is the interest rate a market rate or is it based on the “applicable federal rate” set by the Treasury, which is a risk free rate?

- Is interest actually paid on the note or does it simply accrue? When, if ever, will the interest be paid?

vii. Inventory

-Quality? Any obsolete inventory? Are inventory values under or overstated on the balance sheet?

-Nature of method of accounting for inventory (e.g., LIFO, FIFO, etc.)?

-How often does the Company take inventory? Is the Company on a perpetual inventory system? How reliable are interim year-to-date inventory figures?

-Historic trends observed in inventory turnover (in days), unusual factors that led to the results, and any expected changes in the future. How does turnover differ by raw materials, work-in-process, and finished goods inventory, and why?

-Compare the turnover with that of the industry and why the Company is different?

-Are any changes in turnover anticipated in the future and why?

-Are there any trends toward just-in-time inventory where you will have to maintain more inventory on hand to meet customer needs? How much will this increase your dollar investment in inventory and working capital?

viii. Are any assets classified as "current" that really are not expected to be collected or liquefied in the next 12 months?

ix. Go over any other current assets that are not understood.

c. Fixed Assets, Equipment, Real Property.

i. Real Property- Does the Company own or lease from a related or third party? How is the lease rate set if from a related party? Is it arms length?

ii. Are there any excess or non-operating assets or real property not needed in the day-to-day operations of the business and why? Are appraisals available? Are any assets to be sold?

iii. Provide an overview of the Company's investment in fixed assets, equipment and real property. How has this changed over time and why? Go over key changes observed in the balance sheet with management.

iv. Are any of these assets obsolete or in need of replacing due to age, technological obsolescence, etc.?

v. 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? At what point do you hit a capacity constraint and why?

vi. What is your expected level of capital expenditures by year in the future (short term, intermediate, long term)?

vii. 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? Have depreciation policies changed over time? If so, how has this impacted the reported results?

viii. Are there any assets not on the balance sheet, or that have been fully depreciated, but which are still used?

ix. Can you provide recent appraisals of any company assets or equipment?

d. Other Assets.

i. Identify each "other asset"- Go over each individual asset to make sure what each is. Note- Many times the heading "other assets" is a catch-all that can sometimes elicit information about assets of major significance, such as marketable securities, investments in the stock of other companies, etc.

ii. Marketable securities. If the Company has them, what stocks are they and what are their current market values? Does the Company intend to sell them? Are the funds ultimately needed in the business, or are they non-operating in nature?

iii. Investments.

-Identify what the investments represent and the amount of ownership.

-How does the Company account for the investment (equity method, cost method)?

-Do the investments generate a current return, or are there provisions for capital - calls where the Company 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 the Company have any other investments or subsidiaries not shown on the balance sheet? If so, please explain.

e. Current Liabilities.

i. Trends observed in current liabilities and why.

ii. Variability of individual items.

iii. Accounts payable.

-Historic trends observed in accounts payable turnover (in days), unusual factors that led to the results, and any expected changes in the future in the turnover pattern.

-Compare the turnover with that of the industry and why the Company is different from the norm, if this is the case.

-If the Company's payables turnover (in days) is much slower than its supplier trade terms and the industry average, is the Company at risk of being cut off by its suppliers? Are its relationships with suppliers currently strained? Are any shipments to it now made on a COD basis? How far past supplier trade terms can the Company go without hurting supplier relationships?

-Are any changes in turnover anticipated in the future and why? How will this impact the level of working capital the Company must maintain on hand?

vi. Notes Payable- Banks and Financial Institutions (see banking section).

vii. Accounts/Notes Payable- Officers, Shareholders, Affiliates.

-How long have these been outstanding, and when will they be repaid?

-If the item is a note payable:

-To who is the note payable and what gave rise to its existence?

-Is it evidenced by a written promissory note? (If so, obtain copy and see if it has sufficient provisions to make it legally enforceable, repayment terms, interest rate, security, etc.)

-Is the interest rate a market rate or is it based on the "applicable federal rate" set by the Treasury, which is a risk free rate?

-Is interest actually paid on the note, or does it simply accrue? When, if ever, will the interest be paid?

viii. Go over any other current assets that are not understood.

ix. Are there any liabilities classified as current that really are not? This is a common issue in company-prepared, unaudited financial statements.

f. Long-term liabilities.

i. Trends observed and why.

ii. Variability of individual items.

iii. Long-term- Banks and Financial Institutions (see banking section).

iv. Long-Term Debt- Officers, Shareholders, Affiliates:

-How long have these been outstanding and when will they be repaid?
-To whom is the debt payable and what gave rise to its existence?
-Is it evidenced by a written promissory note? (If so, obtain copy and see if it has sufficient provisions to make it legally enforceable, repayment terms, interest rate, security, etc.)
-Is the interest rate a market rate or is it based on the "applicable federal rate" set by the Treasury, which is a risk free rate?
-Is interest actually paid on the note, or does it simply accrue? When, if ever, will the interest be paid?

v. Go over any other current assets that are not understood.
vi. Are there any liabilities classified as long-term which really are not? This is a common issue in company-prepared, unaudited financial statements.

g. Shareholders' Equity.
i. Are there any un-reconciled changes in shareholders' equity? If so, find out why?

ii. Go over the nature and reasons for any items that are passed through as changes to shareholders' equity without impacting the income statement (e.g., foreign exchange gains and losses).
iii. If an amount is shown for treasury stock, inquire as to the transaction that gave rise to the existence of treasury stock.

h. Statement of Changes in Cash Flows, Shareholders' Equity – go over any changes observed with management.
i. Subsidiaries- Go over all previous questions related to each.

BANKING AND FINANCING RELATIONSHIPS

1. **Have management go over the details on total amount of bank lines of credit, revolving credit facilities, and term loans at the valuation date, including:**
a. Identity of lenders.
b. Amount outstanding under each.
c. Degree to which amounts outstanding under the line are tied to a specific percentage advance rate against receivables, inventory, or other assets.
d. Details on total permissible borrowings based on the advance rate at the valuation date.
e. Are any of the Company's lines of credit seasonal in nature, and does the bank require them to be "cleaned-up" (paid off) for a consecutive number of days annually (if so, how many)?
f. What is the pattern of usage of the lines of credit and revolving credits throughout the year? What is the average outstanding? Does this differ normally from the amounts shown on year-end financial statements? (TIP- If total annual interest expense is small relative to year-end outstandings, this can sometimes be a sign that the Company only borrows at year end for balance sheet dressing, or has just undertaken a borrowing relationship. Note that looking only at year-end outstandings or lack thereof can be very misleading about a company's borrowing needs.)
g. Collateral- What Company assets secure the loan? What personal or other non-company assets secure the loan? If a buyer were to buy the company without the support provided by the personal assets, would the bank continue its lending relationship?
h. Describe the loan covenants and the Company's compliance with them (read the loan agreements first to help raise issues).

i. Do the agreements contain any negative pledges that would preclude the Company from using un-collateralized assets to obtain additional borrowings?
j. What are the limitations on dividends, distributions and capital expenditures, and how do they impact the Company's ability to operate or to pay returns to shareholders?
k. Are there any factors that place the Company in jeopardy of possibly not meeting loan covenants or other factors that may cause it to default on its loan or financing agreements? If so, explain. What action will its bank (s) likely take?
l. Is there any pending or threatened acceleration of loans?

2. Details on history of banking relationships, including:
a. Willingness of lenders to supply additional credit when needed.
b. Stability.
c. Character of relationship (good or bad) and why.
d. What increases in financing arrangements will be needed to support growth?
e. Does the Company believe the bank will provide the necessary increases? If so, on what terms?

3. Details on existence of any personal guarantees required on loans, including:
a. Identity of guarantors.
b. Are there one or several guarantors that the Company's banks look to in order to make its credit granting viable?
c. If something were to happen to these key guarantors, would the banks continue to extend credit?

4. Refinancings, Restructurings of Banking Relationships.
a. Is the Company currently restructuring or changing credit relationships or structures that would result in changes in terms, increases or decreases in credit availability, interest rates, and so on? How will these changes impact the Company?
b. Has the Company been told (or urged) by its present bank to look for another bank, even if not in default of current banking relationships? Why? Status?

CONTRACTUAL RELATIONSHIPS

1. Explanations of any existing contracts such as:
a. Employment agreements.
b. Covenants not-to-compete. Who is covered? What is the duration and geographic scope?
c. Supplier and franchise agreements.
d. Customer agreements- terms, duration, ability to cancel and on what notice, status of any renewal, changes in terms and impact.
e. Royalty agreements.
f. Equipment lease or rental contracts. If with related parties, how is the rate determined and is it arms length?
g. Real property leases. If with related parties, how is the rate determined and is it arms length?
h. Labor contracts.
i. Management agreements or contracts.
j. Any other significant contracts.

2. Explanations of any distributorship, dealership, or franchise agreements.
a. Term of relationship. How long has the relationship been in place?
b. When does it terminate or come up for renewal? Is renewal likely? Has the supplier expressed any discontent or given any indication that the renewal is in possible jeopardy?

c. Territory or product line exclusivity?
d. What kinds of reporting information must be provided periodically to the supplier?
e. What kinds of support does the supplier provide the distributor (financial, national cooperative advertising, promotional materials, etc.), and what is the distributor required to pay for it?
f. Does the supplier prepare financial ratio and performance studies that it periodically sends to its dealers? If so, obtain a copy (commonly given by auto manufacturers to their auto dealers).
g. 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?
h. Are there any required performance goals? Is the Company in compliance with them?
i. Any pending or threatened loss of rights? Is the Company out of compliance?
j. Can they be assigned? Under what circumstances?
k. If the Company's assets or stock are sold, is the consent of the supplier required? Would they likely give it? To whom would they likely give it? To whom would they likely not give it?
l. Is there a named individual as the approved dealer? If something were to happen to this individual, what would the reaction of the supplier be? (NOTE- approved dealers are often required in auto dealership franchise agreements and for materials handling equipment dealers).
m. Are the supplier's relationships with its distributors good? If not, why and what is the potential impact on the distributors?
n. Is financial information available concerning the supplier to assess its financial strength or creditworthiness and risk?
o. Has the supplier bought any of its distributors? Is it possible to obtain information about the transactions and the prices paid?
p. Does the supplier compete with its distributors? If not presently, is there a risk of this in the future?

3. **Changes anticipated or possible.**
a. New Relationships- Are any new distributorship relationships likely to be added? What will be the impact on the Company?
b. Termination of Existing Relationships- Are any current distributorship relationships likely to be ended? What will be the impact on the Company?

OUTLOOK AND FORECASTS AT VALUATION DATE

1. **What is the current order backlog, and how does it compare to prior years? What does it say about the current near term outlook?**

2. **Are there any pending sales or project proposals outstanding that have not yet been awarded to the Company, but which could have a major impact on its results if awarded?**

3. **Have you or your advisors prepared any forecasts or budgets? If so, obtain copies and go over details and the basis of the assumptions.**

4. **Developing Forecasts- Use the following as a beginning point in discussions with management to be able to develop valuation forecasts for the next five to seven years (or more or less as indicated):**
a. Revenues:
   i. Percentage growth by year.
   ii. Unit volume growth by year by product line.

iii. Changes in unit prices by year by product line.
iv. Large or unusual factors contributing to future revenues.
v. Likelihood of achieving forecast.
vi. Breakdown of anticipated growth between growth of market in total and Company's growth in market share.

b. Gross Profit:
i. Gross profit margin percentage trends by year overall and by product.
ii. Comparison to past actual performance.

c. S, G & A Expense.
i. Fixed and Semi-Fixed Costs.
ii. Variable Costs.

d. Interest Expense.
e. Pre-tax Profit and Profit Margins.
f. Tax Rate Changes.
g. Capital Expenditures:
i. Annual dollar amounts required over the next five years.
ii. Purpose of expenditures.
iii. Method of funding expenditures (internally or externally).
iv. How far (revenues) Company can go with current physical capacity? Amount of excess capacity at valuation date?

h. Working Capital Needs to Fund Growth.
i. Borrowing, repayment schedule of debt.

LITIGATION AND MATERIAL FACTORS

1. **Details on any contingent or off-balance sheet assets or liabilities, including:**
a. Pending or threatened lawsuits.
b. ERISA compliance requirements.
c. Warranty or other product liability.
d. Workers' compensation claims.
e. Hazardous waste.
f. Other environmental problems.
g. Regulatory compliance (OSHA, EPA, etc.).
h. Letter of credit liabilities.
i. Guarantees of other indebtedness.
j. Other material factors.

2. **Details on the status of any current or past IRS, state, or local audits.**

3. **Details on any judgments or filings of record, including payroll, sales, or other tax liens, and the payment status of all items.**

CORPORATE INSURANCE

1. **Details on Company business interruption insurance in force. When would it start paying (timing) and under what circumstances?**

2. **Does the Company maintain liability and product liability insurance?**

a. Amounts?
b. What is covered and not covered?
c. Is there any material anticipated change in upcoming renewal premiums?

3. **Does the company "self insure" any of its insurance needs (e.g., workers' compensation, health insurance, liability, casualty, etc.) where it takes the risk of claims payment? If so, how large a claim obligation is it exposed to, and does it reinsure against any of the risk with insurance carriers?**

WRAP UP OF INTERVIEW

1. **What do you believe the Company is worth and why?**

2. **What do you believe are the top five most important positive and negative factors affecting the Company's value, its risks, and opportunities and why?**

3. **Are there any other positive or negative material factors of any kind affecting the Company that have not been discussed?**

REMAINING INFORMATION NEEDS TO COMPLETE VALUATION

1. **Briefly reconfirm with management the items which were identified in the interview and which it will need to provide in order for the valuation to be completed, and when it can be expected to be delivered.**
   a. Who at the company will be responsible for providing these items?
   b. When will they be available?

2. **Items identified in the interview that the valuator should explore further or obtain from other parties.**