

Index

• Numerics •

10K documents, 115

10Q documents, 115

80/20 rule, 69

• A •

ABBA (American Business Brokers Association), 107

ABV (Accredited in Business Valuation), 95, 101

accountants, 95, 98–103, 281. *See also* forensic accounting

Accounting For Dummies (Tracy), 51, 102, 152, 291

accounting methods, reviewing for a potential purchase, 216

accounting policies and practices, balance sheets, 118

accounts receivable, balance sheets, 116

Accredited Member (AM), 94

Accredited Senior (ASA), 94

Accredited Valuation Analyst (AVA), 95

ad valorem taxes, professional help for, 90

adjusted book value, 52

adjusting/normalizing financials, 41, 46–47, 84, 160

agreements, confidentiality, 221, 236

AICPA (American Institute of Certified Public Accountants), 95, 99, 101

AM (Accredited Member), 94

Amazon.com, 22

American Business Brokers Association (ABBA), 107

American College of Forensic Examiners, 242

American Society of Appraisers (ASA), 50, 94

amortization, 121

analyzing a company. *See* due diligence

Angel Capital Education Foundation, 288

angel investors, 28, 293–294

annulment of marriage, professional help

for, 89

appearance. *See* window dressing

appendixes, valuation reports, 86

appraisers, 92–98, 99, 101

approaches and methods, valuation reports, 85

approaches to valuation

asset approach, 13, 52–53

build-up method, 56

capital asset pricing, 57

Capitalization of Earnings Method, 57

capitalization of income, 60

choosing the correct one, 49

cost of raising money, 58–59

DCF (Discounted Cash Flow) method, 57–58

Etch A Sketch Method, 59–60

Excess Earnings Method, 59–60

income approach, 13, 54–55

market approach, 13, 53–54

versus methods of valuation, 45

multiple of earnings approach, 14

percentage of annual sales approach, 14

present value of future cash, 57–58

WACC (Weighted Average Cost of Capital) method, 58–59

ASA (Accredited Senior), 94

ASA (American Society of Appraisers), 50, 94

asset approach, 13, 52–53

assets, 41, 62–63, 115–117. *See also*

intangible assets; tangible assets

attorneys

bankruptcy, 104

corporate, 104

cost of, 105

divorce, 103, 268, 282

- attorneys (*continued*)
- estate, 103, 268, 281
 - family law, 282
 - legal specialties, 103–104
 - liquidation, 104
 - in purchase negotiations, 223
 - roles in valuation, 103–104
 - screening questions, 105–106
 - tax, 104, 268
 - training and certification, 104–105
 - work process, examining, 105
- Audit Bureau of Circulations, 230
- auditors, 98, 233–234, 281
- audits, 161, 246
- automotive repair shops, rule-of-thumb valuations, 140–142
- AVA (Accredited Valuation Analyst), 95
- avoided-cost method, 68
- **B** •
- Baby Boomers, wealth transfer, 16–17
- balance sheets, 115–118. *See also* cash-flow statements; income statements; statement of retained earnings
- balanced scorecard, 70
- bankruptcy, 104, 247
- bars, rule-of-thumb valuations, 135–137
- bed-and-breakfasts, rule-of-thumb valuations, 149–150
- benchmarking data, 208, 258
- beneficiaries of retirement plans, prenuptial agreements, 267
- benefits, current market rates, 41
- bequest status, prenuptial agreements, 267
- Besson, James (law school lecturer), 65
- Bezos, Jeff (Amazon.com founder), 22
- bias, 91
- BizBuySell, 253
- BIZCOMPS, 152
- blended families, succession planning, 277–278
- book value, 52
- books and publications
- Accounting For Dummies*, 51, 102, 152, 291
 - Branding For Dummies*, 70
 - Business Reference Guide*, 93, 133–151
 - Consumer Behavior For Dummies*, 70
 - “Do You Have Enough Money to Buy an Existing Coin Laundry,” 148
 - The Essential Guide to Pricing a Business*, 47
 - Estate Planning For Dummies*, 177
 - Franchising For Dummies*, 291
 - Negotiating For Dummies*, 219
 - NFIB *Small Business Economic Trends* report, 82
 - Small Business For Dummies*, 152, 291
- bookstores, rule-of-thumb valuations, 149
- borrowing money, 25–28, 58–59, 66, 293–294. *See also* financing; startups, attracting investors
- brand loyalty, intangible asset, 70
- brand valuation, 67–69
- Branding For Dummies* (Chiaravalle and Schenck), 70
- Branson, Richard (founder), 22, 70
- brokers. *See* business brokers
- Buffett, Warren (financial expert), 10, 65
- build-up method, 56
- bursting of the tech bubble, 66
- Business Brokerage Press, 14, 131
- business brokers, 106–109
- business cycles, 235
- business databases, data source for financial statements, 113
- business financing, valuation reports, 82
- business metrics, 69–70
- business news sources, 42–43
- business overview, valuation reports, 83–85
- business plan, 291–292
- Business Reference Guide*, 14, 93, 133–151
- business risk. *See* risk
- buyers, 66, 157
- buying a business. *See also* due diligence, for buyers; negotiating to buy
- based on emotion, 206
 - benchmarking data, 258
 - capitalization-of-earnings calculation, 254
 - for a career change, 206
 - deal structure, 259
 - estate issues, 206
 - expanding an existing enterprise, 206
 - forensic accounting, 243

- inventory turn, 258
 - learning your new business, 213–214
 - market multiples, 254
 - motivation for, 205–206
 - post-purchase strategic planning, 213–214
 - present value of future cash flow, 254
 - professional help, 89, 255–258
 - RMA (Risk Management Association), 258
 - rule-of-thumb valuation, 253–254
 - tax issues, 206
 - when to say no, 255
 - buying a business, preparation for
 - approaching a seller, 211–212
 - benchmarks, finding, 208
 - closing the deal, 213
 - competition, 208
 - competitive analysis, 210
 - confidentiality, 211, 236
 - dealing with owner emotions, 208
 - due diligence, 213
 - economic forecast, 210
 - evaluating a failing business, 209–211
 - keys to success, 207
 - labor costs, 210
 - listings, finding, 208, 252–253
 - looking past surface appearance, 209
 - marketing and advertising concerns, 210
 - qualifications of seller's representatives, 212
 - researching financial data, 208
 - researching the business, 209, 252–253
 - selecting an industry, 251–252
 - self assessment, 209
 - tangible assets, reviewing, 211
 - touring the business, 212
 - a typical process, 211–213
 - unique challenges, 207–208
 - buy/sell agreements, 31, 90, 282
- C ●
- calculating value, 13–15. *See also* ratios and formulas; valuation
 - Canadian Institute of Chartered Business Valuators (CICBV), 95
 - capital. *See* stockholders' equity, balance sheets
 - capital asset pricing, 57
 - capital spending, valuation reports, 82
 - Capitalization of Earnings Method, 57
 - capitalization of income, 60
 - capitalization rates, definition, 56
 - capitalization-of-earnings calculation,
 - buying a business, 254
 - Capone, Al, capture of, 241
 - career change, 20–21, 206
 - case studies, forensic accounting, 249–250
 - case studies, valuation for sale, 190–202
 - cash, 115–116, 124
 - cash flow, element of value, 22
 - cash flow to equity, 119
 - cash value. *See* FMV (fair market value)
 - cash-flow statements, 123–126. *See also* balance sheets; income statements; statement of retained earnings
 - Caverly, Brian N.
 - Estate Planning For Dummies*, 177
 - CBA (Certified Business Appraiser), 94
 - CBI (Certified Business Intermediary), 107
 - CBV (Chartered Business Valuator), 95
 - Census/American Factfinder, 186
 - Central Intelligence Agency (CIA), 186
 - certification of professionals. *See* training and certification
 - certified appraisals, typical contents, 96
 - Certified Information Technology Professional (CITP), 101
 - Certified Public Accountants (CPAs), 100–101
 - Certified Valuation Analyst (CVA), 95, 240
 - CFE (Certified Fraud Examiner), 242
 - CFFA (Certified Forensic Financial Analyst), 242
 - charitable contributions, professional help for, 90
 - charitable lead annuity trust (CLAT), 286
 - Chartered Business Valuator (CBV), 95
 - Cherfoli, Justin L. (law firm director), 271–272
 - Chiaravalle, Bill
 - Branding For Dummies*, 70
 - child rearing expenses, prenuptial agreements, 267

- children from serial marriages, prenuptial agreements, 266, 302–304
 - children in family businesses, 168, 174, 176–177
 - ChoicePoint, 186
 - CIA (Central Intelligence Agency), 186
 - CICBV (Canadian Institute of Chartered Business Valuators), 95
 - CITP (Certified Information Technology Professional), 101
 - city business publications, 231
 - CLAT (charitable lead annuity trust), 286
 - cliff vesting, 314
 - closely held businesses, 24. *See also* family businesses
 - co-founders, selling the business, 30–32
 - COGS (cost of goods sold), income statements, 120
 - coin laundries, rule-of-thumb valuations, 146–148
 - combat CPAs, 242
 - commodity prices, valuation reports, 82
 - community property, 265
 - community-property states, 270
 - company theft, forensic accounting, 244
 - comparable guidelines/industry transactions method, 68
 - compensation structures, family businesses, 171
 - competition, for buying a business, 208
 - competitive analysis, when buying a business, 210
 - competitive intangible assets, 44
 - conclusion of value, valuation reports, 85–86
 - Conference Board, 237
 - confidentiality
 - agreements, 187–188, 221
 - buying a business, 211, 236
 - Economic Espionage Act of 1996, 236
 - nondisclosure agreements, 221, 236
 - from professional help, 91
 - in purchase negotiations, 222
 - UTSA (Uniform Trade Secrets Act), 236
 - valuation for sale, 192
 - Consumer Behavior For Dummies* (Lake), 70
 - consumer confidence, 237
 - controlling owners, 174
 - corporate accountants. *See* management accountants
 - corporate attorneys, 104
 - corporate fraud, forensic accounting, 248
 - cosmetics. *See* window dressing
 - cost accountants. *See* management accountants
 - cost approach, 67
 - cost of goods sold (COGS), income statements, 120
 - cousin consortiums, 174
 - cover, valuation reports, 77
 - CPAs (Certified Public Accountants), 100–101
 - credit crunch, 66
 - credit reports, prenuptial agreements, 265
 - current assets, balance sheets, 115–116
 - current liabilities, balance sheets, 117
 - current ratio, 130
 - customer spending data, data source for financial statements, 113–114
 - customers as valuation drivers, 69–70
 - CVA (Certified Valuation Analyst), 95, 240
- D •
- damages litigation, professional help for, 90
 - data dump. *See* hunting-and-gathering stage
 - data systems, increasing business value, 161
 - database resources, due diligence research, 186
 - dates, valuation reports, 77, 80–81
 - day-care centers for children, rule-of-thumb valuations, 142–144
 - DCF (Discounted Cash Flow) method, 57–58
 - D/E (debt-to-equity) ratio, 128
 - deal structure, buying a business, 259
 - death of the founder, 24, 168, 277

- debt
- acceptable levels, 121
 - allocation, prenuptial agreements, 265
 - disclosure, prenuptial agreements, 266
 - of potential purchases, 229
- deductions, maximizing for taxes, 84
- deferred revenues, balance sheets, 117
- definite intangible assets, 62
- depreciation, 43, 121
- direct cash flow calculation, 124–125
- disbanding a business. *See* exit planning
- disclosure
- nondisclosure agreements, 236
 - prenuptial agreements, 266
 - to the public, SEC requirements, 115
 - when selling a business, 162, 185
- discount rate, 56–57
- Discounted Cash Flow (DCF) method, 57–58
- discounted cash-flow method, 68
- Disney, Walt (founder), 71
- dispute resolution, 90–92
- dissolving a business. *See* exit planning
- divergence, 290
- divorce
- community property, 265
 - community-property states, 270
 - effects on family business, 268–269
 - equitable-distribution states, 270–271
 - estate planning, 263–264
 - intrinsic valuation, 274
 - marital balance of power, 271–272
 - marital property, 270–271
 - postnuptial agreements, 264–267, 300
 - prenuptial agreements, 264–267, 299–306
 - professional help, 89, 267–268
 - selling a business, 24, 32
 - separate property, 270–271
 - state laws, 270–271
 - succession planning, 277
 - triggering a valuation, 37
 - valuating the business, 272–273
 - valuation dates, 273–274
- divorce attorneys, 103, 268, 282
- divorce investigations, forensic accounting, 244
- “Do You Have Enough Money to Buy an Existing Coin Laundry,” 148
- Donaldson, Michael C.
Negotiating For Dummies, 219
- Dorrell, Darrell (CPA, CVA, ASA), 242, 246, 248–250
- Drucker, Peter (business expert), 216
- dry cleaning, rule-of-thumb valuations, 144–146
- due diligence. *See also* forensic accounting
- for buyers, 213, 225–237, 256–257
 - definition, 13–14
 - failure, example, 23
 - hiring professional help, 50
 - Securities Act of 1933, 182
 - for sellers, 181–188
- due diligence defense, 182
- due diligence production, 227
- due diligence request, 227

● E ●

- earnings, 51, 121–122. *See also* adjusting/normalizing financials; balance sheets; income statements
- EBIT (earnings before interest and tax), 51, 133. *See also* operating profit
- EBITDA (earnings before interest, taxes, depreciation, and amortization), 51, 54, 132–133. *See also* operating profit, income statements
- EBT (earnings before taxes), definition, 51
- economic book value, 52–53
- Economic Espionage Act of 1996, 236
- economic forecast, 160, 210
- Economic Growth and Tax Relief Reconciliation Act, 165, 285
- economic indicators, researching prospective purchases, 235–237
- economic news sources, 42–43
- economic outlook, valuation reports, 81–82
- 80/20 rule, 69
- Eisner, Michael (Disney CEO), 71
- embezzlement, forensic accounting, 248
- eminent domain actions, professional help for, 90

- emotional shocks, in purchase negotiations, 217
 - emotion-based purchases, 206
 - employee body language, researching prospective purchases, 232
 - employee turnover, 114, 229
 - ending a business. *See* exit planning; selling a business; succession planning
 - entrepreneurship, 21–22
 - equitable-distribution states, 270–271
 - equity financing, 229
 - ESOP Association, 314
 - ESOPs (employee stock ownership plans), 89, 166, 313–318
 - estate attorneys, 103, 268, 281
 - estate issues, motivation for buying, 206
 - estate planning. *See also* succession planning
 - buy/sell agreements, 282
 - creating the plan, 280–281
 - divorce, 263–264
 - family businesses, 171, 178–179, 276–279
 - prenuptial agreements, 266
 - professional help, 281–282
 - selling a business, 28–29
 - triggering a valuation, 37
 - Estate Planning For Dummies* (Caverly and Simon), 177
 - estate tax, 89, 165, 285
 - Etch A Sketch Method, 59–60
 - The Ewing Marion Kauffman Foundation, 288
 - Excess Earnings Method, 59–60
 - exchange rates, valuation reports, 82
 - executive summary, valuation reports, 78
 - existing businesses. *See* going-concern businesses
 - exit planning, 24, 32–33, 37. *See also* selling a business; starting a business; succession planning
 - expanding an existing enterprise, motivation for buying, 206
 - expanding operations, triggering a valuation, 36
 - expenses, 41, 121
 - expert help, 15. *See also specific experts*
 - external auditors, 98
 - external data, data source for financial statements, 112–113
 - external risk, 49. *See also* risk
- **F** ●
- factory equipment, adjusting/normalizing, 46–47
 - failing business, evaluating, 209–211
 - fair market value (FMV), 36, 38
 - fairness, in family businesses, 174–175, 178
 - family, help with due diligence, 228
 - family business councils, 177
 - family businesses. *See also* estate planning; succession planning
 - characteristics of, 169–170
 - children in, 168, 174, 176–177
 - common problems, 170–173
 - common structures, 174
 - controlling owners, 174
 - cousin consortiums, 174
 - fairness to participants, 174–175, 178
 - family business councils, 177
 - family issues versus business issues, 172–173
 - family legacy, 179
 - family meeting structure, 177
 - formal compensation structures, 171
 - internal conflicts, 171
 - leadership development, 170–171
 - minority discount, 174–175
 - minority interest, 174–175
 - mom-and-pop, 132–152
 - resistance to change, 171
 - rules for participation, 171
 - run by Baby Boomers, 16–17
 - sibling partnerships, 174
 - starting, 23–24
 - succession conspiracy, 174
 - unmarried partners, 179
 - family businesses, planning
 - estate, 171, 178–179
 - sale of business, 168
 - succession, 168, 170, 178–179
 - timing of, 176
 - wealth, 170
 - family issues versus business issues, 172–173

family legacy, 179
 family legacy protection, prenuptial agreements, 305
 family meeting structure, 177
 family property, prenuptial agreements, 266
 family-law attorneys, estate planning, 282
 FASA (Fellow), 94
 FIBA (Fellow), 94
 final walk-through, in purchase negotiations, 222
 finances, sample valuation for sale worksheet, 199
 financial buyers, 157
 financial data research, buying a business, 208
 financial planners, estate planning, 282
 financial reporting, forensic accounting, 248
 financial statements, 112–115. *See also specific statements*
 financing, 90, 200–202. *See also* borrowing money; startups, attracting investors
 financing activities, cash-flow statements, 124
 FirstList, 253
 fixed assets, balance sheets, 116
 FMV (fair market value), 36, 38
 footnotes on balance sheets, importance of, 118
 forced liquidation, 40
 Foreign Corrupt Practices Act, 244
 forensic accountants, 99
 forensic accounting, 239–250
 forensic tests, 248
 formulas for calculating value. *See* ratios and formulas
Franchising For Dummies (Seid and Thomas), 291
 free cash flow, definition, 51
 Frohnmayer, David
 Negotiating For Dummies, 219
 Frost, Robert (poet), 24
 full dilution, 290
 full vesting, 314
 fundamental value. *See* intrinsic value
 funding. *See* borrowing money; startups, attracting investors
 future benefit stream, 54–55
 future earnings, determining, 54–55

• G •

G&A (general and administrative) expenses, on income statements, 121
 GAAP (generally accepted accounting principles), 122
 GDP (gross domestic product), valuation reports, 81
 generation-skipping transfer tax (GSST), 283
 gift shops, rule-of-thumb valuations, 137–138
 gift status, prenuptial agreements, 267
 gift taxes, 89, 165
 gifting, 283–284, 286
 global terrorism, forensic accounting, 244
 going-concern businesses, 22
 going-concern value, 39–40
 graded vesting, 314
 grandchildren, gifts to, 283
 GRAT (grantor-retained annuity trust), 165, 283–284
 Greenspan, Alan (economist), 61–62
 gross domestic product (GDP), valuation reports, 81
 gross margin, income statements, 120
 gross profit, income statements, 120
 growth, element of value, 22
 growth prospects, valuation reports, 83
 growth rate, valuating a business for sale, 160
 GSST (generation-skipping transfer tax), 283
 guidelines, for purchase negotiations, 222–223

• H •

handling money, prenuptial agreements, 300
 help, professional. *See* professional help
 homosexual couples, succession planning, 278
 housekeeping, researching prospective purchases, 231
 hunting-and-gathering stage, 183–186

• I •

IBA (Institute of Business Appraisers), 50, 94

IBBA (International Business Brokers Association), 14, 107, 131

IDGT (intentionally defective grantor trusts), 284

incentive stock options, professional help for, 90

income, nonrecurring, removing, 41

income approach, 13, 54–55, 68

income before taxes, income statements, 121

income statements, 118–122. *See also* balance sheets; cash-flow statements; statement of retained earnings

indefinite intangible assets, 62

independence, of professional help, 91

indirect cash flow calculation, 125

industrial accountants. *See* management accountants

industrial classification codes, 41

industry awareness, of professional help, 91

industry data, researching prospective purchases, 235–237

industry metrics, 237

industry outlook, valuation reports, 82–83

industry-specific indexes, valuation reports, 82

information technology, researching prospective purchases, 234

initial public offerings (IPOs), 90, 119

Institute for Supply Management (ISM), 237

Institute of Business Appraisers (IBA), 50, 94

intangible assets, 43–44, 62–70, 117, 196–197. *See also* knowledge-based companies; tangible assets

intellectual property, 62–64

intentionally defective grantor trusts (IDGT), 284

interest rates, valuation reports, 81

internal auditors, 98

internal data, data source for financial statements, 113–114

internal risk, 49

International Business Brokers Association (IBBA), 14, 107, 131

intrafamily loans, 284

intrinsic valuation, 274

intrinsic value, 39

inventories, balance sheets, 116

inventory, adjusting/normalizing, 46

inventory turn, buying a business, 258

investigating a company. *See* due diligence

investing activities, cash-flow statements, 124

investment research service, 127

investment value, 38–39

investments, 116, 198–199

investors. *See* startups, attracting investors

IPOs (initial public offerings), 90, 119, 295

IRS, audit triggers, 120

IRS Audit Technique Guide, 150

ISM (Institute for Supply Management), 237

• J •

job opportunities, forensic accounting, 243

Jobs, Steve (founder), 70–71

• K •

key departments, researching prospective purchases, 233–235

knowledge-based companies, 64–71. *See also* intangible assets

• L •

labor costs, buying a business, 210

Lake, Laura
Consumer Behavior For Dummies, 70

Landsberg, Ivan (family business expert), 174

lawsuits, data source for financial statements, 114

lawyers. *See* attorneys

leadership development, family businesses, 170–171

leadership vacuum, 71

legal department, researching prospective purchases, 233–234

legal intangible assets, 44
 legal intangibles, 44
 lenders. *See* borrowing money; startups,
 attracting investors
 Lev, Baruch (professor), 63
 leveraged ESOPs, 315
 LexisNexis, 186
 liabilities, balance sheets, 117–118
 Library of Congress, 186
 life insurance trusts, 283
 liquidating a business, 36, 40. *See also* exit
 planning
 liquidation, professional help for, 90
 liquidation attorneys, 104
 liquidation value, 40, 53
 listings of available businesses, 208, 253
 loans. *See* borrowing money; startups,
 attracting investors
 long-term assets, balance sheets, 115–117
 long-term liabilities, balance sheets, 117

• M •

management accountants, 98
 Mandel, Michael (economist), 63
 marital balance of power, 271–272
 marital dissolution. *See* divorce
 marital property, 270–271
 market approach, 13, 53–54, 67
 market forces, threats from, 30
 market multiples, buying a business, 254
 market value. *See* FMV (fair market value)
 marketable securities, balance sheets, 116
 marketing and advertising concerns,
 buying a business, 210
 marketing expenses, on income
 statements, 121
 marriages, succession planning, 277
 MCBA (Master Certified Business
 Appraiser), 94
 median value, valuation reports, 83
 medical practices, rule-of-thumb
 valuations, 138–140
 meet-and-greet stage, 183
 MergerNetwork, 253
 mergers, borrowing money for, 26–27
 mergers and acquisitions, 159, 243, 248
 Mergerstat, 152

method weighting, valuation reports, 85–86
 methods of valuation, 45, 49
 metrics, valuation reports, 82
 Meurer, Michael J. (professor), 65
 Miller, Ron (Disney CEO), 71
 minority discount, 174–175
 minority interest, 174–175
 mom-and-pop businesses. *See* family
 businesses
 money laundering, forensic accounting, 248
 motivation, for buying, 205–206
 motivations for sale, negotiating for
 purchase, 218–219
 multigenerational businesses, succession
 planning, 277–278
 multiple of earnings approach, 14
 multiples of earnings, rule-of-thumb
 valuations, 132
 Murdoch, Rupert (media baron), 303

• N •

NACVA (National Association of Certified
 Valuation Analysts), 50, 95
 NAICS (North American Industry
 Classification System) codes, 41
 National Association of Certified Valuation
 Analysts, 242
Negotiating For Dummies (Donaldson and
 Frohnmayer), 219
 negotiating to buy, 216–224. *See also* case
 studies, valuation for sale; selling a
 business
 net cash flow, definition, 51
 net income, income statements, 122
 net profit. *See* operating profit, income
 statements
 net revenues, income statements, 120
 net worth. *See* book value
 networking, in purchase negotiations, 220
 news databases, data source for financial
 statements, 113
 NFIB *Small Business Economic Trends*
 report, 82
 nondisclosure agreements, 236. *See also*
 confidentiality
 nonoperating assets, removing, 41

nonrecurring income and expenses, removing, 41
 nontraditional families, succession planning, 277–278
 normalized net earnings, 51. *See also* adjusting/normalizing, financials
 North American Industry Classification System (NAICS) codes, 41

• 0 •

objectivity, of professional help, 91
 office equipment, adjusting/normalizing, 46
 once-over stage, 183
 ongoing businesses. *See* going-concern businesses
 online databases, buying a business, 231
 operating activities, cash-flow statements, 124
 operating cycle, balance sheets, 115
 operating expenses, sample valuation for sale worksheet, 197–198
 operating income, income statements, 121
 operating margin, income statements, 121
 operating profit, income statements, 119
 opportunities, identifying in purchase negotiations, 216
 orderly liquidation, 40
 outright sale, 166
 overall financial performance, valuation reports, 84
 owner retirement, motivations for selling, 158
 owner's compensation, valuation reports, 85
 owners' equity. *See* stockholders' equity, balance sheets
 ownership issues, forensic accounting, 247

• P •

partnership agreements, 30–32, 307–312
 passing on to heirs. *See* succession planning
 patents, as assets, 65
 payroll turnover, data source for financial statements, 114
 P/E (price-to-earnings) ratio, 54, 127
 peer groups, 127

pension data, balance sheets, 118
 percentage of annual sales approach, 14, 132
 personal conflicts, succession planning, 277
 personal goals, valuating a business for sale, 160
 personal property assets, 62
 PFS (Personal Financial Specialist), 101
 pitfalls, identifying in purchase negotiations, 216
 P&L (profit-and-loss) statement. *See* income statements
 planning, valuation for sale, 192
 plant assets, balance sheets, 116
 political and policy considerations, valuation reports, 82
 post-money value, 290
 postnuptial agreements, 264–267, 300
 potential problems, succession planning, 276–277
 Pratt's Stats, 152
 pre-money value, 290, 293
 prenuptial agreements, 264–267, 299–306
 prepaid expenses, balance sheets, 116
 pre-revenue startup, 290
 present value, relationship to risk, 55–56
 present value approach. *See* income approach
 present value of future cash flow, 57–58, 254
 prevaluation plan, 192–195
 price
 to EBITDA ratio, 54
 versus fair market value, 36
 to revenue ratio, 54
 versus value, 10
 price-to-earnings (P/E) ratio, 54, 127
 price-to-sales (P/S) ratio, 127–128
 price-to-tangible-book-value (PTBV) ratio, 128
 Pritzker family (Hyatt hotels), 303
 private accountants. *See* management accountants
 private investors, 27–28
 product evolution, data source for financial statements, 114
 professional associations
 accountants, 95, 99, 101
 appraisers, 94–95, 99, 101
 business brokers, 107

professional help. *See also specific types*
 buying a business, 228, 255–258
 divorce, 267–268
 estate planning, 281–282
 finding, 90–91
 in purchase negotiations, 223–224
 recognizing need for, 88
 required traits, 91–92
 seller's, verifying qualifications of, 212
 situations requiring, 89–90
 startups, attracting investors, 290–291
 profit, income statements, 119
 profit margin, income statements, 122
 profit-and-loss (P&L) statement. *See*
 income statements
 promotional costs, buying a business, 229
 ProQuest, 186
 provisions for legal settlements, balance
 sheets, 117
 P/S (price-to-sales) ratio, 127–128
 PTBV (price-to-tangible-book-value) ratio,
 128
 public accountants, 98
 public disclosure requirements, 115
 public investors, 27–28
 purchase price allocation, professional
 help for, 89

• Q •

quality of assets, in purchase
 negotiations, 216
 quick ratio, 130

• R •

range of values, valuation report, 76
 ratios and formulas, 54, 127–130
 real estate, adjusting/normalizing, 47
 real income, documenting, 64–65
 real property assets, 62
 reasons for valuation, 36–37
 receivables, adjusting/normalizing, 46
 record keeping, effects on valuation for
 sale, 191
 records retention, recommended
 period, 112

relatives who renege, succession planning,
 278–279
 relief-from-royalty method, 68
 rent, current market rates, 41
 reorganization, professional help for, 90
 repair costs, buying a business, 229
 requesting information, buying a business,
 227
 required financial statements, 115
 required rate of return (discount rate),
 56–57
 research and development expenses, on
 income statements, 121
 research tools, 41–43
 researching a prospective purchase,
 227–228, 231–237, 252–253
 resources, buying a business, 230–231
 restaurants, rule-of-thumb valuations,
 133–135
 retirement, triggering a valuation, 36
 retiring, selling the business, 29
 return on investment (ROI), 290
 Revenue Act of 1916, 285
 revenues, 51, 120–122, 181–182
 risk, 22, 49–50, 55–57
 RMA (Risk Management Association), 258
 Roddick, Anita (founder), 156
 ROI (return on investment), 290
 rollovers, ESOP, 315
 rule of thumb, definition, 131
 rule-of-thumb valuations, 93, 132–150,
 253–254

• S •

sales and marketing, researching
 prospective purchases, 234–235
 sales data, data source for financial
 statements, 113–114
 same-sex couples, succession planning,
 278
 SBA (Small Business Administration),
 11, 27
 Schell, Jim
Small Business For Dummies, 291
 Schenck, Barbara Findlay
Branding For Dummies, 70

- SDE (seller's discretionary earnings), 14, 132
- SEC (Securities and Exchange Commission), 115
- Securities Act of 1933, 182
- Securities and Exchange Commission (SEC), 115
- Seid, Michael
Franchising For Dummies, 291
- self-employment, security, 20–21
- seller dynamics, researching prospective purchases, 232
- sellers, 211–212, 217–222
- selling a business, 28–33, 89, 156–166, 168, 190–202. *See also* due diligence, for sellers; negotiating to buy
- selling a product, expenses on income statements, 121
- separate property, 270–271
- shareholder dividends, income statements, 122
- sibling partnerships, 174
- SIC codes. *See* NAICS (North American Industry Classification System) codes
- Simon, Jordan S.
Estate Planning For Dummies, 177
- skimming, forensic accounting, 248
- Small Business Administration (SBA), 11, 27
- Small Business For Dummies* (Tyson and Schell), 152, 291
- Small Business Planner, 152
- small businesses. *See* family businesses
- source of funds, cash-flow statements, 125
- special-purpose buyers, 157
- stages, buying a business, 226–228
- standards of value, 37–44, 79, 266
- starting a business, 20–24. *See also* buying a business
- startups, attracting investors, 288–295
- statement of financial condition. *See* balance sheets
- statement of retained earnings, 122.
See also balance sheets; cash-flow statements; income statements
- stepchildren, succession planning, 277–278
- stock, in private companies, 119
- stock options, balance sheets, 118
- stockholder disputes, professional help for, 90
- stockholders' equity, balance sheets, 117–118
- strategic buyers, 66, 157
- strategic planning, for a newly-purchased business, 213–214
- succession conspiracy, 174
- succession planning. *See also* estate planning; family businesses
- Baby Boomer wealth transfer, 16–17
- blended families, 277–278
- creating the plan, 279–280
- death of the founder, 277
- divorce, 277
- forensic accounting, 247
- knowledge-based companies, 71
- marriages, 277
- motivations for selling, 158
- multigenerational businesses, 277–278
- nontraditional families, 277–278
- personal conflicts, 277
- potential problems, 276–277
- relatives who renege, 278–279
- retirement planning, 29–30
- same-sex couples, 278
- transfer to family members, 166
- superficial appearance. *See* window dressing

● T ●

- tangible assets, 43, 62, 211
- tangible book value, 52
- TATA (total accruals to total assets) test, 248
- tax accountants, 98
- tax attorneys, 104, 268
- tax evasion, forensic accounting, 248
- tax information, balance sheets, 118
- taxes
- ad valorem, 90
- advantages of ESOPs, 315
- buying a business, 206
- deductions for ESOP contributions and dividends, 315
- Economic Growth and Tax Relief Reconciliation Act, 165

effects on valuation for sale, 201, 202
 estate, 89, 165
 gift, 89, 165
 GRAT (grantor-retained annuity trust), 165
 income statements, 122
 maximizing deductions, 84
 tech bubble, bursting of, 66
 10K and 10Q documents, 115
 terminal value, 290
 tests for calculating value, 15
 Thomas, Dave
 Franchising For Dummies, 291
 timing
 planning a family businesses, 176
 in purchase negotiations, 216
 selling a business, 156
 valuating a business for sale, 159
 total accruals to total assets (TATA) test, 248
 touring a prospective purchase, 212
 touring the facility, 221
 Tracy, John A.
 Accounting For Dummies, 51, 102, 152, 291
 trade journals, 113, 152
 trade publications, 230
 trade-association data, 231
 training and certification
 accountants, 99–101
 appraisers, 93–95
 attorneys, 104–105
 business brokers, 107
 forensic accounting, 240–243
 training requirements, ESOPs, 317–318
 transaction types, selling a business, 166
 transparency, selling a business, 161–162
 triggering a valuation, 36–37
 triggering events, defining, 31
 Tyson, Eric
 Small Business For Dummies, 152, 191

• U •

unfavorable market conditions,
 motivations for selling a business, 159
 unmarried partners, family businesses, 179
 U.S. Census/American Factfinder, 186
 USA Patriot Act, 244
 use of funds, cash-flow statements, 126
 UTSA (Uniform Trade Secrets Act), 236

• V •

valuation. *See also* approaches to
 valuation; *specific businesses*
 benchmarking, 93
 buy/sell agreements, 282
 calculating value, 13–15
 for divorce, 272–273
 in a downturn, 69
 ESOPs, 316
 of intangible assets, 16, 63–64, 67–70
 methods of, 45, 49
 negotiating to buy, 216–244
 in purchase negotiations, 222
 reasons for, 36–37
 recommended frequency, 12
 standards of value, 37–44, 79, 266
 step-by-step process, 47–49
 over time, 12
 value-boosting behavior, 123
 variability, 11
 valuation assignment, valuation reports,
 80–81
 valuation databases, data source for
 financial statements, 113
 valuation professionals. *See* professional
 help
 valuation report, 75–86
 valuation worksheet, startup company
 example, 288–289
 valuation/ownership structure, valuation
 reports, 78
 value, 10–11. *See also* calculating value;
 standards of value
 variable costs, income statements, 120
 VCs (venture capitalists), 294–295
 Virgin brand, 22

• W •

WACC (Weighted Average Cost of Capital)
 method, 58–59
 wages, current market rates, 41
 wealth planning, family businesses, 170
 Wells, Frank (Disney president), 71
 West, Tom
 Business Reference Guide, 14, 47, 93,
 133–151

willing participants, 38
Wilson, Frank J. (forensic accountant), 241
window dressing, 209, 218
work environment, researching
 prospective purchases, 231–232
working capital (net current asset value),
 calculating, 129
worksheet samples, valuation for sale,
 196–200
worst-case scenarios, buying a business,
 229



year-to-year numbers, adjusting/
 normalizing, 47
YouTube, 186