

**inventory:** Goods made and held by a company for sale. Inventory is important as long as a company keeps up with demand, but if demand falls, inventory is a burden.

**liabilities:** What a company owes in the form of accounts payable, bank borrowings, or bond indebtedness.

**liquid asset:** An asset that can be converted to cash within 30 days.

**liquidation value:** The value of a company based on a plan to close it as a going concern and simply sell off the assets.

**liquidity:** The degree of ease and certainty of value with which a security can be converted to cash.

**market-based business valuation:** A general way of setting value by comparing the business with similar businesses.

**multiple of discretionary earnings business valuation method:** A method that establishes value by multiplying the seller's discretionary cash flow by a factor derived from the business, industry, and market, as well as owner preferences.

**net income:** The amount of income, or profit, after all the bills and obligations have been paid at a company.

**partnership:** A kind of business organization in which two or more people contribute capital and their services to the organization.

**portfolio:** A group of investments.

**preferred stock:** A security representing prior claim to common stock on the firm's earnings and assets. Preferred stockholders normally forgo voting rights and receive a fixed dividend that takes precedence over payment of dividends to common stockholders.

**price-to-book ratio:** Market price per share divided by book value (tangible assets less all liabilities) per share; a measure of stock valuation relative to net assets.

**pro forma statement:** A calculated guess about the future earnings or balance sheet of a company, usually part of initial public offering documents or merger and acquisition proposals.

**quick ratio:** A method of analyzing a balance sheet, in which inventory is subtracted from current assets and the result is divided by current liabilities. The quick ratio is also known as the *acid-test ratio* because it indicates how much money is truly available for current needs.

**receivables:** Money owed to a company that is payable within a specified period.

**retained earnings:** The earnings that a company keeps after paying interest, dividends, salaries, and all bills.

**return on assets (ROA):** A way to assess how much a company earns on each dollar of assets.

**return on investment (ROI):** The most common profitability ratio, reached by dividing net profit by net worth.

**revenue:** Total sales of a company.

**S corporation:** A profitmaking corporation whose shareholders have received subchapter S corporation status from the Internal Revenue Service.

**seller's discretionary cash flow:** The pretax earnings of a business before noncash expenses, a single owner's compensation, interest expense, or income, as well as one-time and nonbusiness-related income and expense items.

**Small Business Administration:** A federal agency that helps small business with operational, financial, and regulatory issues: [www.sba.gov](http://www.sba.gov).

**sole proprietorship:** An unincorporated business (usually, a small business) with just one owner. The disadvantage of such a business entity is that the sole proprietor is directly responsible for all the debts of the business.

**undercapitalization:** A company's lack of enough cash on hand to continue business operations or pay its creditors.

**value:** A quality, feature, or function of a business that makes customers and investors want to put money into it.

**valuation date:** The official date of a company's valuation – a frozen point in time where all parties can look at it's valuation as a means of making a business decision.

**venture capital:** A fund-raising technique for companies that are willing to exchange equity for money to grow or expand the business. See also *angel investor*.

**working capital:** The excess of a company's current assets over its current liabilities — that is, cash plus accounts receivable plus inventory minus the sum of accounts payable plus accrued liabilities and short-term loans.

# 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  
    Frohnmayr), 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

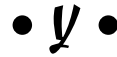
## • V •

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



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