

VAL-PA-6.1: Company and Industry Background Information Form

Company Name: _____

Completed by: _____ Date: _____

Instructions: This form covers the data typically needed to obtain an understanding of the company being valued and its industry. This information may be obtained through reviewing company documents and interviewing company personnel. The questions have been grouped into sections. You may complete only those sections that apply. Use VAL-PA-6.2 if a professional practice is being valued, or VAL-PA-6.3 if a family limited partnership is being valued.

Document the requested information in the spaces provided. Attach additional sheets if necessary. If the information is not relevant, write N/A in that space.

Company Background

1. Describe the company's legal structure.

Company's legal name: _____

Type of entity (corporation, partnership, proprietorship): _____

Date of incorporation or formation: _____

For corporations:

State incorporated: _____

Number of common shares authorized: _____

Par value: _____

Number of shares issued and outstanding: _____

Number of treasury shares: _____

Briefly describe other types of stock. _____

Briefly describe the rights of the equity ownership interests described above. _____

Briefly describe the subject ownership interest to be valued. _____

2. List the major stockholders, partners, or owners of the company and their percentage of ownership or number of shares owned.

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Name	% Ownership or Number of Shares Owned
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

- 3. Briefly describe how the different ownership interests of other owners affect the value of the subject interest. Also, based on this analysis, does the subject ownership interest exhibit control characteristics? _____

- 4. List all known related parties (that is, subsidiaries, affiliates, or relatives) that the company does business with.

Name	Relationship
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

- 5. List each location maintained by the company and the primary activity at each, that is, executive office, plant, sales office, etc.

Location	Activity
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

Product	Percent of Sales	Gross Profit Percentage
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

12. Which product line is growing fastest? _____
The slowest? _____

13. How diversified are the product lines? Do all sales depend on the same factors? _____

14. Are there existing plans to expand, cut back, or delete existing product lines or introduce new product lines? If so, describe. _____

15. What are the products' advantages and disadvantages versus its competitors?

Advantages: _____

Disadvantages: _____

16. Are the products proprietary? Does the company have patents, technology, or expertise that prevent others from copying the products? If so, when will the protection for those items expire? _____

17. What other products compete with the company's products? _____

18. Are sales cyclical? What economic factors (inflation, interest rates, etc.) affect sales? _____

19. Are sales seasonal? _____

20. Discuss any industry technology trends. What trends may affect sales? _____

21. Discuss the company's research and development efforts, the importance of new products, and the annual cost of research and development activities. _____

Marketing and Distribution

22. What is the size (in dollars) of the market in the industry? _____

23. What is the company's market share? How fragmented is the market? Is the market growing or shrinking?

24. What distribution channels does the company use (direct sales, distributors, retailers, Internet, etc.)? How successful are they? _____

25. How are sales people compensated? _____

26. What is the market area and what determines its size? How important are freight costs? _____

27. Are sales concentrated in a few customers? What percentage of total sales are made to the five largest customers? _____

28. How loyal are customers, that is, do they tend to buy from the same company or switch? How does pricing affect customer loyalty? _____

29. What percent of sales are obtained from bids? Is price the only factor considered by the potential customer in awarding the job? If not, what other factors are considered? _____

30. Does the company sell to the federal, state, or local government or government agencies? Are those sales likely to increase or decrease? _____

31. What is the key selling feature—product, price, service, brand name, packaging, etc.? _____

32. How are pricing policies determined? To what degree do competitors' prices affect company policy? _____

33. What are normal sales and credit terms? Describe a typical customer contract. _____

34. What type of promotion and advertising methods does the company use? _____

Competition

35. Who are the company's major competitors? Where are they located? How big are they? What is their market share? How diversified are they? [Identify those competitors (if any) that are publicly held.] _____

36. How does the company compare in size and market share to its competitors? _____

37. How easy is it to enter the industry? What are the barriers to entry? _____

38. What are the company's competitive strengths and weaknesses? _____

Operations

39. Describe the company's organization structure. (Attach organization chart, if available.) _____

40. What is the relative size of the company's divisions in terms of sales and gross profits? How interrelated are the divisions? How much vertical integration is there among the divisions? How easily can a division be eliminated without affecting other operations? _____

41. How old are the company's manufacturing facilities? Where are they located relative to the primary markets?

42. Describe the manufacturing or service process. Are any of the methods or equipment proprietary?

43. What is plant capacity relative to current operating levels? How many shifts and days per week does the company operate? Might sales be constrained by inadequate capacity? Is there excess capacity or excessive fixed overhead costs? _____

44. Are buildings and machinery owned or leased? If leased, are the leases renewable and on what terms?

45. What is the overall condition of the company's equipment, including its business information systems? Is there any inefficient or obsolete equipment? When is the machinery likely to be replaced? What is the likelihood of major repairs? _____

46. How capital-intensive is the company? How labor-intensive? _____

47. Briefly describe past and current employee relations (that is, contentious, harmonious, strikes, etc.). Also discuss employee turnover and indicate whether any of the employees are unionized. _____

48. Discuss the current labor market. How easy is it to attract qualified employees? _____

49. How extensively are independent contractors used? _____

50. Discuss key suppliers. Are any suppliers the sole source? Have there been any major problems in getting raw materials? Are there long lead times to get the purchased goods? _____

51. Does the company have difficulties complying with environmental regulations? _____

52. Are there any potential local, state, or national initiatives for new environmental regulations that may affect the company's operations? If so, what is the probability that the regulation(s) will be implemented?

53. Does the company have any foreign operations? If so, does the company have any problems with any foreign governments? _____

54. Discuss the effects of any federal or state regulation or subsidies on the company's operations.

Management

55. List key members of management.

Location	Title
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

56. Discuss the company's officers (age, health, education, experience, and current duties). _____

57. Discuss any turnover in key members of management over the last five years. _____

58. Discuss basis of compensation. Also, describe employee benefits (insurance, stock options, profit sharing, etc.). _____

59. How does the owner's compensation compare with the industry average? Are normalization adjustments necessary? _____

60. Discuss any employment contracts and, if applicable, non-compete agreements that will expire in the next five years. _____

61. How easily can officers be replaced (i.e., is there one or a few key officers on which the success of the company depends that cannot be easily replaced)? _____

62. Who is on the board of directors and how active is the board in governing company activities? _____

63. Describe any contractual obligations or restrictions, such as stockholder/partnership/operating agreements, buy-sell agreements, and loan covenants, that may require consideration during the engagement? _____

Financial

64. Obtain copies of the company's year-end financial statements for the last five years (or since the inception of the company, if less than five years). Also, obtain copies of any interim statements since the most recent year end. For each year-end statement, complete the following analysis:

Financial Statement Date	Type of Report (check one.)			Was CPA's Report Qualified?		
	Internal	CPA Involvement, if any			Yes	No
		Compiled	Reviewed	Audited		
20__	_____	_____	_____	_____	_____	_____
20__	_____	_____	_____	_____	_____	_____
20__	_____	_____	_____	_____	_____	_____
20__	_____	_____	_____	_____	_____	_____
20__	_____	_____	_____	_____	_____	_____

65. Describe the nature of any report qualifications or unusual matters noted in reviewing the company's financial statements that may affect the engagement. _____

66. If year-end financial statements are not available for the last five years (or period since inception if less than five years), briefly describe how this matter may affect the engagement (such as including a caveat in the report, compiling those statements as part of the engagement, or using tax returns instead). _____

67. Obtain and review copies of the company's tax returns for the last five years (or since the date of inception if less than five years). Briefly describe any unusual matters noted in reviewing the tax returns that may require special consideration during the valuation. _____

68. Obtain copies of any forecasts or budgets of future operations. Briefly describe any unusual matters that may require special consideration during the valuation. If such statements are not available, state whether they will be needed during the engagement and who will probably prepare them. _____

69. Has there been any change in accounting principles during the past five years (cash to accrual, FIFO to LIFO, etc.) or similar changes that might affect the comparability of the financial statements? _____

70. Describe any relevant specialized industry accounting practices or principles. _____

71. Have there been any nonrecurring or extraordinary income or expenses during the last five years? _____

72. What are the main discretionary expenses (such as bonus, profit sharing, repairs, advertising, and R&D)? How have the levels of those expenses changed during the last five years? _____

73. Describe short-term sources of credit and how they were used during the last five years. _____

74. Describe long-term sources of credit and how they were used during the last five years. _____

75. Discuss any special stock rights, warrants, options, etc. _____

76. Discuss the company's dividend history. _____

77. Have there been any transactions involving interests in the company in the last five years? Provide details.

78. Describe any written or oral offers received for the company in the last five years. _____

79. Discuss any plans to sell all or part of the company or hold a public offering. _____

80. Has the business previously been appraised? If so, when, for what purpose, and what was the valuation?

81. Discuss plans for major capital expenditures, how they will be financed, and how much represents expansion versus replacement of existing assets. _____

82. Discuss any contingent liabilities, including lawsuits and pending or threatened litigation. _____

83. Describe any nonoperating assets, such as aircraft, boats, and real estate investments, and any intangible assets of the business that are not reflected in the company's balance sheet. _____

84. Describe the rights included in or excluded from each intangible asset (including licensing agreement, nondisclosure agreements, development rights, commercialization and exploitation rights, and other contractual obligations). _____

Company Expectations

85. Describe relevant past and expected future trends for the company, such as growth patterns, expansion or cutbacks of business segments, possible spinoffs, mergers or acquisitions. _____

86. Describe the company's future expectations, goals, objectives, and long-range plans in the following areas:

Products and services. _____

Marketing and customers. _____

R&D and technology. _____

Comments and Observations

87. Describe any matters to be considered in applying the valuation methods selected. Factors to consider include:

- Growth expectations.
- Financial condition.
- Management depth and competence.
- Product, customer, and geographic diversification.
- Business risks.
