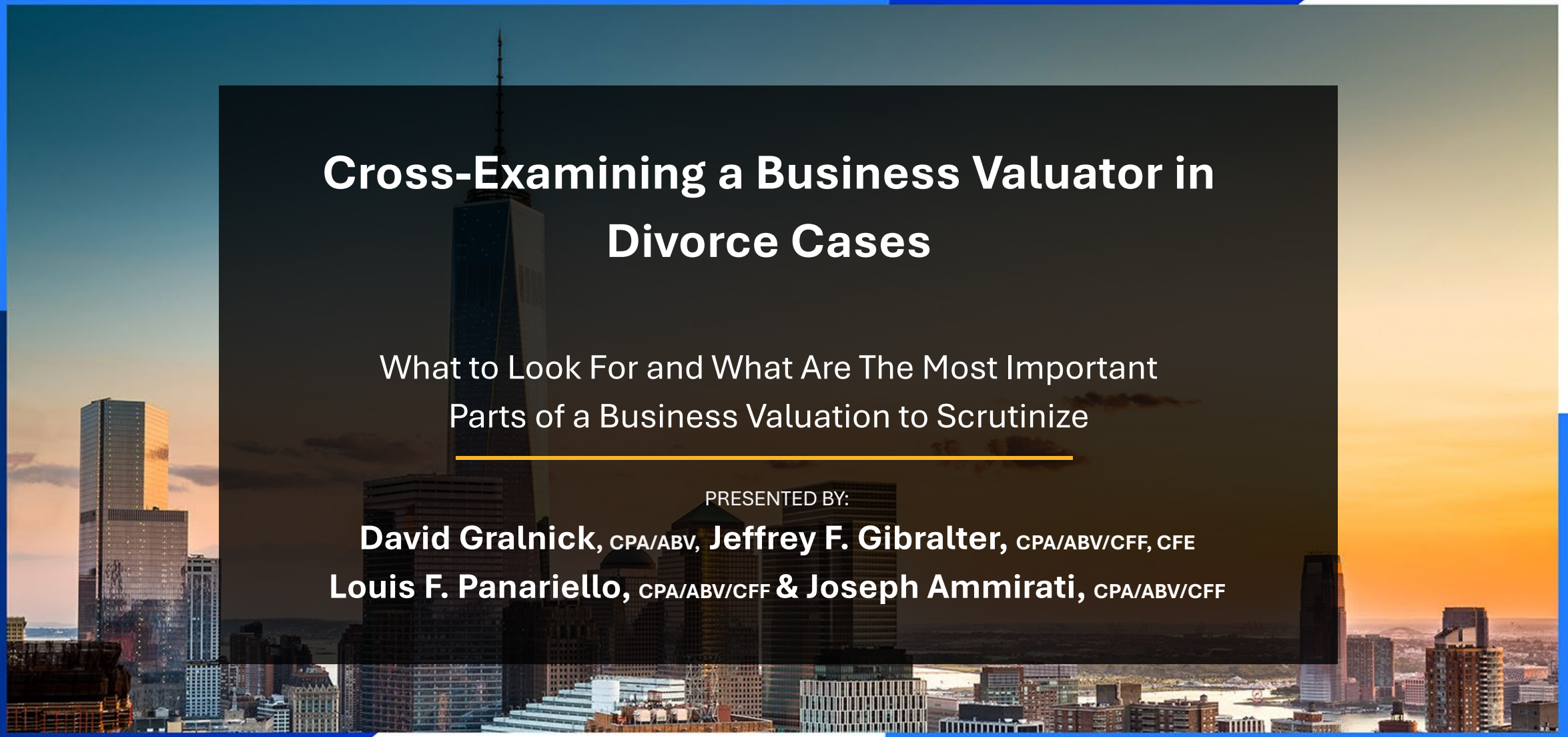

Cross-Examining a Business Valuator in Divorce Cases

What to Look For and What Are The Most Important Parts of a Business Valuation to Scrutinize

PRESENTED BY:

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KLG Business Valuators & Forensic Accountants

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David Gralnick, CPA/ABV, is a Partner with the firm of KLG. He has assisted hundreds of closely-held companies, attorneys, accountants and financial professionals in engagements involving business valuations, investigative accounting, enhanced earnings calculations, and damage claims. Mr. Gralnick has a diversified background in litigation, consulting, accounting and auditing; as well as an extensive tax background.

Mr. Gralnick holds a B.A. in Accounting from the University of Michigan. He is a Certified Public Accountant and he has also earned the American Institute of Certified Public Accountants' ABV designation (Accredited in Business Valuation). He is a member of the New York State Society of Certified Public Accountants as well as the American Institute of Certified Public Accountants.

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Mr. Panariello holds a B.S. from Long Island University, CW Post Campus. He is a licensed CPA in New York with ABV and CFF designations from the AICPA and is a member of the AICPA and NYSSCPA.

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Joseph Ammirati CPA/ABV/CFF, is a Managing Director at KLG Business Valuators & Forensic Accountants, LLC. Mr. Ammirati brings more than 25 years of experience providing business valuation, forensic accounting, and advisory services to closely held companies, attorneys, accountants, and financial professionals. He has performed valuations of business interests for a variety of purposes including, but not limited to, family law matters, estate and gift tax matters, business damages, corporate litigation, and shareholder disputes.

Mr. Ammirati also served as an Adjunct Professor at Long Island University C.W. Post, where he taught Fraud and Forensic Accounting between 2014 and 2019.

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DISCLAIMER

The information and materials presented herein are intended for educational and informational purposes only and not intended to be construed or utilized as specific legal, accounting, tax or financial planning guidance or advice.

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Role and Importance of Business Valuation

Standards & Treatises

Revenue Ruling 59-60 and Statements on Standards for Valuation Services 1 (for CPAs). Supported by independent peer reviewed authoritative sources (i.e. Shannon Pratt's "Valuing a Business")

Importance for Legal Professionals

Understanding valuation aids lawyers in cross-examining valuators for accuracy. Utilize your valuation expert to not only prepare for direct testimony, but also to assist in preparation of cross examination of the opposing expert.

Assessing Method Suitability and Discounts

Valuation Method Appropriateness

Valuation methods must suit family-owned business size, industry, and ownership structure.

Discount Application Issues

Marketability and minority discounts often reduce appraised value. Are discounts appropriate in nature and in amounts.

Cross-Examination Focus

Legal scrutiny should evaluate method rationale and alignment with divorce-specific standards.

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Scrutinizing Forecasts and Growth Rates

Importance of Financial Projections

Projections are central to valuations and often examined for bias or inaccuracies.

Potential for Biased Forecasts

Spouses may influence projections to favor their interests, causing unrealistic forecasts.

Cross-Examination Focus Areas

Examine income, expenses, and assumptions to identify unsupported or speculative claims and adjustments made by valuation expert.

Uncovering Valuation Weaknesses

Challenging assumptions can reveal lack of objectivity and true business value.

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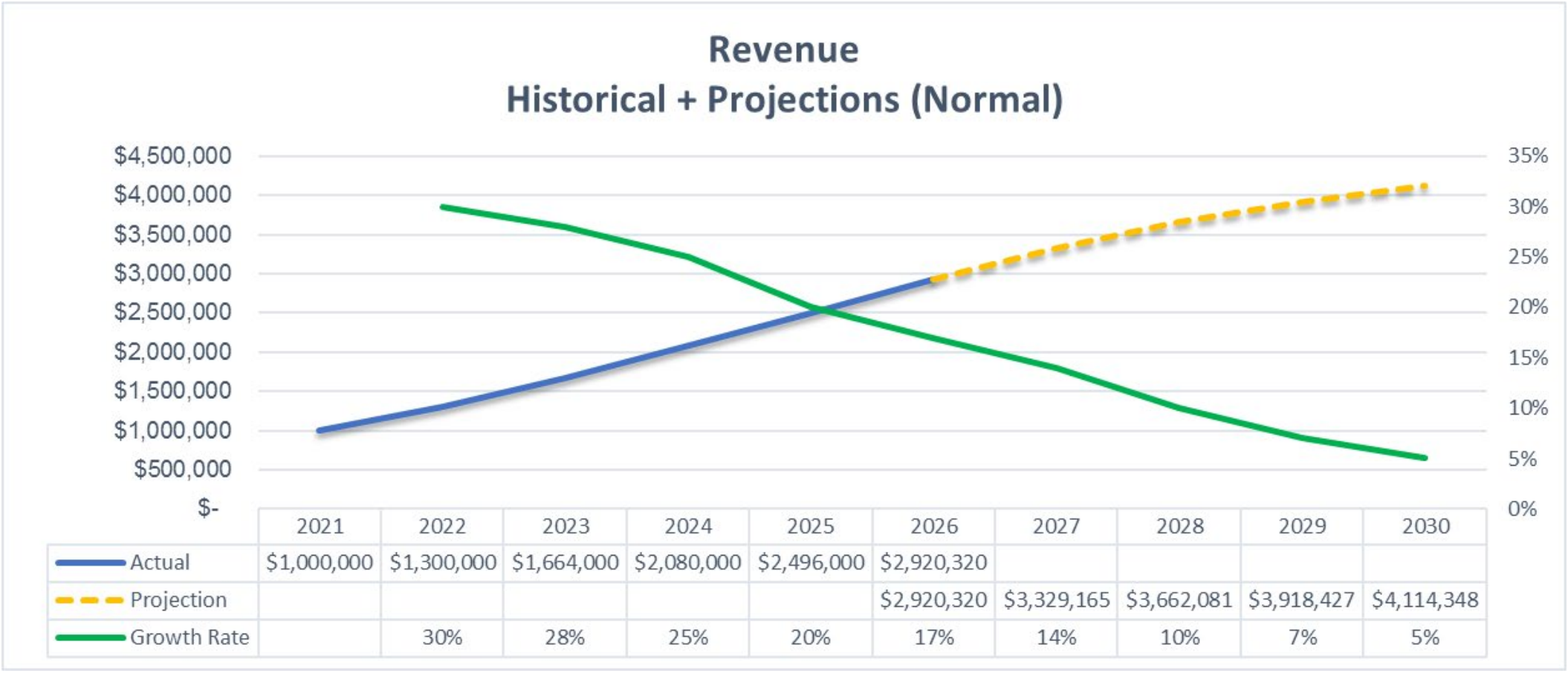
Scrutinizing Forecasts and Growth Rates



	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Actual	$1,000,000	$1,300,000	$1,664,000	$2,080,000	$2,496,000	$2,920,320				
Projection						$2,920,320	$3,329,165	$3,662,081	$3,918,427	$4,114,348
Growth Rate		30%	28%	25%	20%	17%	14%	10%	7%	5%

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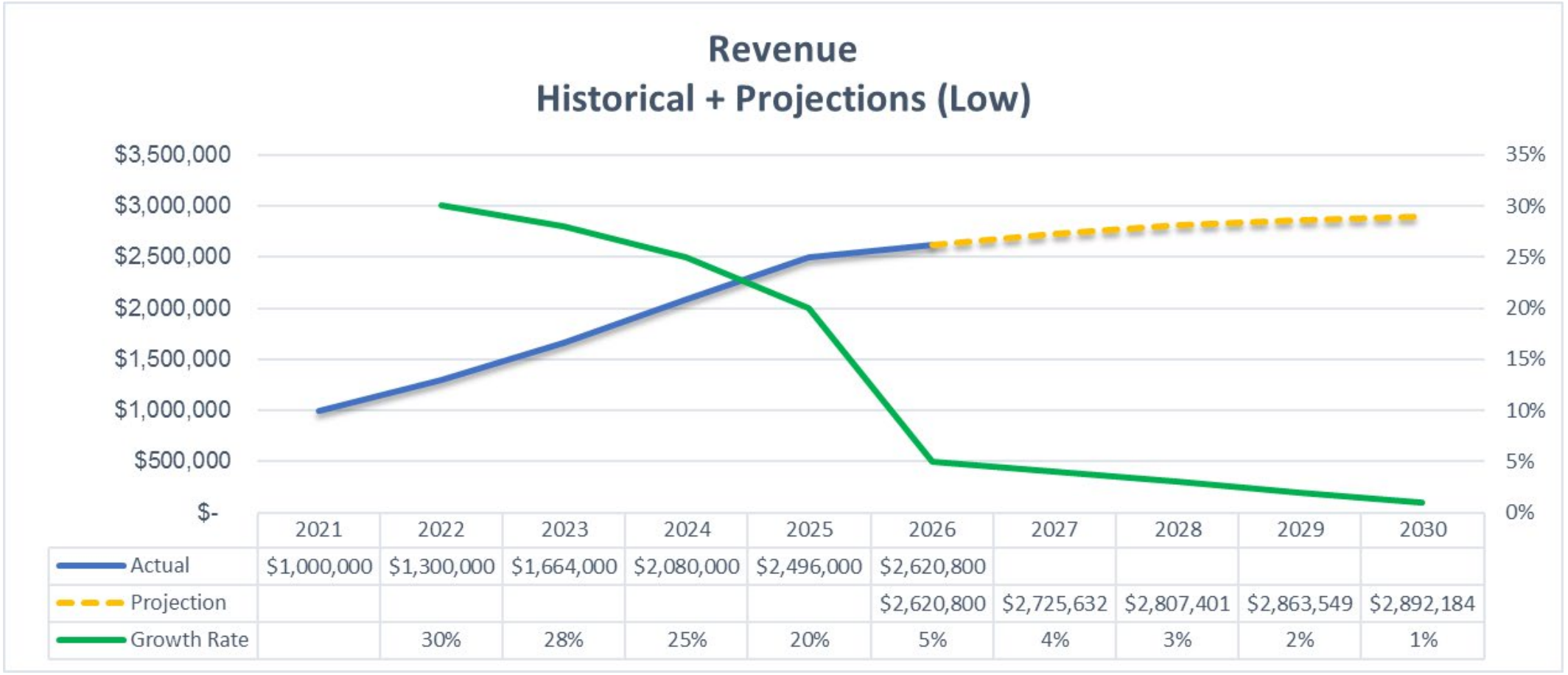
Scrutinizing Forecasts and Growth Rates



	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Actual	$1,000,000	$1,300,000	$1,664,000	$2,080,000	$2,496,000	$2,620,800				
Projection						$2,620,800	$2,725,632	$2,807,401	$2,863,549	$2,892,184
Growth Rate		30%	28%	25%	20%	5%	4%	3%	2%	1%

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Evaluating Adjustments in the Valuation Model

Income Statement Adjustments

Perquisites

Officer's Compensation/Reasonable Compensation

Non-recurring items

Capital Expenditures

Working Capital

Balance Sheet Adjustments

Excess Cash

Non-operating Assets

Shareholder Loans

Receivables/Payables

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Key Objectives of Cross-Examination

- **Challenge credibility** – Question the expert's qualifications, experience, and impartiality.
- **Expose methodological flaws** – Highlight inconsistencies or weaknesses in the valuation approach.
- **Undermine assumptions** – Reveal speculative or biased assumptions that skew the valuation.
- **Contrast with your expert** – Use your own expert's report to show divergence in methods or conclusions.

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KEY AREAS OF PRACTICE

Business Valuations

•

Forensic Accounting

•

Financial Asset Tracing

•

Lifestyle Analysis

•

Litigation Support

•

Expert Witness Testimony

ABOUT KLG

KLG specializes in business valuations, forensic accounting, litigation support consulting and providing expert witness testimony, supported by a highly skilled and experienced professional staff and excellent research resources.

Our experienced professionals have performed thousands of valuations and have provided expert testimony in a wide range of contested matters. They are frequently court-appointed as financial experts and called to testify as to their findings.

Because our team is highly trained and experienced, we can easily draw upon a wealth of resources and knowledge to meet the specific needs of each of our clients. Focused and reputable, the professionals of KLG are here to help you.

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THANK YOU

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