



ABC DENTAL PRODUCTS CORP.

4-STAR REPORT

**VALUATION OF A 100% IN THE
COMPANY**

AS OF JULY 14, 20XX

REPORT DATE: OCTOBER 20, 20XX

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VALUATION OF A 100% INTEREST IN

ABC DENTAL PRODUCTS CORP.

OPINION OF VALUE

In the opinion of the undersigned appraiser, using accepted methods of valuation, and subject to this report and the Statement of Limiting Conditions incorporated herein, the fair market value of a 100% common stock interest in the Company on an illiquid control basis as of July 14, 20XX is:

\$382,000

Appraiser's Certification

I certify that to the best of my knowledge and belief that

- the statements of fact contained in this report are true and correct.
- the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and they are my personal, unbiased, professional analyses, opinions, and conclusions.
- we have no present or prospective interest in or bias with respect to the property that is the subject of this report, and we have no personal interest or bias with respect to the parties involved.
- our engagement in this assignment was not contingent upon developing or reporting predetermined results.
- our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- the appraiser has made a personal inspection of the subject business.
- no person except the undersigned participated materially in the preparation of this report.

Sincerely yours,

U.S. Valuations

Daniel T. Jordan, ASA, CBA, CPA, MBA
Certified Business Appraiser

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I. INTRODUCTION

Background

Robert Miller is the president and sole shareholder of ABC Dental Products Corp. (“ABC” or “the Company”), a New York S corporation, incorporated and founded on October 27, 20XX. ABC specializes in the retail and wholesale of dental products.

Purpose of the Report

This document is a full narrative report of an Appraisal to calculate the fair market value of a 100% common stock interest in ABC as of July 14, 20XX for transaction planning purposes.

Intended Users

The intended users of our report are Robert Miller and family, and his professional advisors. Any other users are considered unintended users.

While it might seem logical that there is only one fair market value of an asset, that is not true. Value only has meaning in the context of a scenario, with its facts, assumptions, and the purpose of the valuation. Thus, our Limited Appraisal may not be used for other purposes, valuation dates, size interests, or by other users without our written permission. Using our appraisal work in an unauthorized manner could be misleading and dangerous. The client agrees to indemnify U.S. Valuations and its owner, against any losses arising from unauthorized use of our report.

Fair Market Value

Definition

The term ‘fair market value’ is defined as the price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arms length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.¹

¹ International Glossary of Business Valuation Terms. IRS Treasury Regulations, Estate Tax Regulations 20.2031-1 and Gift Tax Regulations 25.2512-1 define the term similarly.

Fair Market Value vs. Investment Value

The fair market value of an asset is its value to a hypothetical buyer and seller. It is not the value of that asset to any particular buyer, which is investment value and is frequently different than fair market value. Investment value to a strategic buyer is almost always higher than fair market value. Although our valuation is intended to estimate fair market value, we assume no responsibility for a seller's or buyer's inability to obtain a purchase contract at that price.

No Auditing Procedures

In performing this Appraisal, we relied on the accuracy and reliability of the Company's financial statements and other financial data. We did not audit, compile, or review financial statements or other data, and we do not express an opinion or any form of assurance on them. Our study is not designed to disclose any errors in the financial statements, nor any fraud or defalcations.

Valuation Considerations

The valuation of closely held securities and other fractional interests requires consideration of all relevant factors that may influence the market price. The factors recognized by tax courts, the Internal Revenue Service, and professional investors generally include the following:

- The nature and history of the business enterprise
- The outlook of the economy and the specific industry
- The book value and financial condition of the business
- The earnings capacity of the business
- The dividend paying capacity of the business
- The nature and value of the tangible and intangible assets (goodwill) of the business
- The market price of securities of publicly traded corporations engaged in the same or similar lines of business
- The marketability, or lack thereof, of the securities
- The existence, if any, of a control premium with regard to the block of securities being valued
- Sales of the stock (or partnership or LLC interest) and the size of the block of the stock to be valued

These considerations are outlined and described in Revenue Ruling 59-60, 1959-1 CB 237, as modified by Revenue Ruling 65-193, 1965-2 CB 370, and Revenue Ruling 77-287, IRB 1977-33. Although Revenue Ruling 59-60 specifically addresses itself to stock valuations for

gift and estate tax purposes, the principles set forth may be applied to a wide spectrum of valuation problems, including those related to stockholder buy/sell agreements, mergers and acquisitions, Employee Stock Ownership Plans, corporate reorganizations, marital dissolutions, and bankruptcies. This report will discuss these factors and address other items relevant to the subject interests to determine their effect upon the fair market value of the subject interests.

Sources of Data

- Reviewed financial statements (20XX-20XX) by Accounting & Company, P.C. and internally prepared financial statements June 30, 20XX, provided by Robert Miller.
- Various correspondences (phone calls, fax) with Robert Miller and Accounting & Company, P.C., Jim Jones, CPA.
- Academic Articles
 - “A Breakthrough in Calculating Reliable Discount Rates”, Jay B. Abrams, *Valuation*, pp. 8-24, August 1994, and his update article, “Discount Rates as a Function of Log Size and Valuation Error Measurement”, *The Valuation Examiner*, Feb/Mar, 1997.
 - “The Declining Equity Premium: What Role Does Macroeconomic Risk Play?”, Martin Lettau, Sydney C. Ludvigson, and Jessica A. Wachter. Obtain at authors’ websites.
 - The Equity Premium -The Center for Research in Security Prices Working Paper No. 522 July 2000, Eugene F. Fama and Kenneth R. French, The Social Science Research Network Electronic Paper Collection: http://papers.ssrn.com/paper.taf?abstract_id=236590
 - Schwert, G. William, 1996, *Markup Pricing in Mergers and Acquisitions*, *Journal of Financial Economics* 41. 153-192.
 - Moskowitz, Tobias J. and Annette Vissing-Jorgensen, “The Private Equity Premium Puzzle,” *American Economic Review*, September 2002, Volume 92, No. 4.
- Books
 - *Quantitative Business Valuation: A Mathematical Approach for Today’s Professionals*, Jay B. Abrams, McGraw-Hill, ©2001.
 - *How to Value Your Business and Increase its Potential*, Jay B. Abrams, McGraw-Hill, ©2004.
 - Pratt, Shannon P., Robert F. Reilly, and Robert P. Schweihs *Valuing a Business*, 3rd Ed., Chapter 15, Richard D. Irwin, Inc. (now McGraw-Hill Professional Publishing), Homewood, IL (now Burr Ridge, IL) 1996.
 - *Essentials of Investments*, 2nd Ed., Bodie, Kane and Marcus, Richard D. Irwin, Inc., 1995.
- Internet Sites

- Federal Reserve Release H.15, <http://www.federalreserve.gov/Releases/H15/>
- “Survey of Professional Forecasters”, Philadelphia Federal Reserve Bank, <http://www.philadelphiafed.org/econ/spf/index.cfm>
- <http://www.firstresearch.com/>
- Federal Reserve Bank of St. Louis, <http://research.stlouisfed.org/fred2/data/DGS1.txt>

SAMPLE

III. Economic Outlook

General Economy

Table III-1 contains forecasts for major economic indicators from the “Survey of Professional Forecasters” by the Federal Reserve Bank of Philadelphia.

Table III-1: Economic Indicators Forecast²

	20XX	20XX
Real GDP Growth	1.8%	2.8%
PCE Price Index	2.0%	2.0%
CPI Inflation	2.2%	2.2%
Unemployment Rate	5.1%	5.1%
3-Month Treasury	N/A	N/A
10-Year Treasury	N/A	N/A

Table III-2 displays various key interest rates as of June 30, 20XX.

Table III-2: Key Interest Rates³

Financial Instrument	6/30/XX
Euro Dollar Deposits: 3 Month	3.00%
Euro Dollar Deposits: 6 Month	3.30%
Prime Rate	5.00%
T-Bonds: 1 Year	2.27%
T-Bonds: 20 Year	4.59%
Corporate Bonds: Moody’s Aaa	5.60%
Corporate Bonds: Moody’s Baa	7.04%

Summary

According to 50 forecasters surveyed by the Federal Reserve Bank of Philadelphia, the U.S. economy is expected to grow at an annual rate of 1.8% in 20XX. They expect the unemployment rate to average 5.1% in 20XX. However, the forecast for 20XX looks much weaker than it did three months ago.

The housing market is struggling. Financial markets appear to be stabilizing, but they have not returned to normal and are still fragile. Most forecasters have reduced their expectations for GDP growth and believe that downside risks have risen.

² Released on February 12, 20XX. Available at <http://www.phil.frb.org/files/spf/survq108.html>. These are the most recent data available before the valuation date.

³ Released on July 7, 20XX. Available at <http://www.federalreserve.gov/Releases/H15/20080707/>

Overall the economy appears middling—shaken, but not falling out of control.

Medical Equipment Distributors⁴

Industry Overview

The medical equipment and supplies distribution industry in the US includes about 6,000 companies with combined annual revenue of about \$53 billion. The largest national distributors include Owens & Minor, Henry Schein, Patterson Dental, and PSS/World Medical. The industry is highly concentrated: the top 50 companies hold almost 65 percent market share. Most companies participate at a regional or local level and have revenues of about \$5 million.

Competitive Landscape

Demand depends on the number of people in the US receiving medical treatment. The profitability of individual companies depends on merchandising and efficient delivery systems. Large companies have economies of scale in purchasing, and highly developed infrastructure that allow for efficient distribution. Small companies can compete effectively by specializing in a product line or servicing a local customer base. Annual revenue per employee is about \$500,000.

Products, Operations & Technology

Major products include medical and surgical supplies (about 45 percent of the market) and instruments and equipment (about 40 percent). Other products include orthopedic and prosthetic appliances, dental products, and veterinary supplies. Some companies carry over 100,000 items while others specialize in niche markets and may carry only a few different stock items to serve a local market's specific needs.

Distributors buy high volumes of product from manufacturers, store these products at company-operated distribution centers, and deliver to customers as required. Products are generally delivered by company-owned or leased trucks. Common carriers are used as needed.

Computer and Internet technologies play a major role. Distributors operate proprietary systems that allow customers to place orders directly and receive products the next business day. Inventory monitoring, automated vendor purchase order creation, order analysis, pricing, delivery scheduling, and automated billing are components of the most refined systems.

Trends and Opportunities

BUSINESS TRENDS

Favorable Demographics - Demand for medical care, and medical supplies and equipment is expected to increase rapidly as the US population ages. The number of Americans over 65 will increase more than 50 percent between 2000 and 2020. Healthcare spending on older

⁴ Source: www.firstreaserch.com, last quarterly update 9/8/20XX

patients is also three times as high as for the average patient.

Shifting Role of Wholesalers - Historically, distributors took title to manufactured goods, held them in inventory until the healthcare provider placed an order, then shipped the product from its distribution center to customers. Manufacturers are continuously examining ways to streamline the supply chain to end-users, including creating and managing the distribution function themselves. Wholesalers are developing decision support systems that add value over and above traditional inventory warehousing and shipping functions. Consulting and outsourcing services, computer systems, and software sales are also part of the comprehensive offerings aimed to help secure a wholesale distributor's position in the supply chain.

Lower Gross Margin/Higher Volume - The overall distribution industry trend over the past five years has been a small decrease in gross margins but a large increase in volume. Distributors that can continue to increase volume with little to no compromise of gross margins will continue to enjoy profitability over the next several years. Revenue growth for distributors has ranged from 8 to 12 percent for the past four years.

Consolidation - Major players are acquiring smaller distributors to expand offerings and volume to absorb increasing system and infrastructure costs involved in offering value-added services. Small to medium players can't afford to spend the necessary dollars to develop the robust platforms to compete with supply chain value-added services. Many small distributors have excellent relationships with end-users and product lines that are non-competing, yet complementary, with those of the potential acquirer.

INDUSTRY OPPORTUNITIES

Increased Demand from Outpatient/Surgical Centers - Many non-invasive, and even some invasive, procedures have been transferred out of the hospital and into walk-in facilities that perform same-day services. This trend will continue as it saves the payer money (no overnight hospital stay), and may result in better quality of service, as the procedures are performed by specialists. Distributors focusing on the outpatient sector may enjoy strong demand.

More Cosmetic, Elective Surgeries - Cosmetic and elective surgery centers are growing as demand increases. New product innovation, combined with consumer focus on appearance, especially in the dental area, means that this segment should expand rapidly. While many of these surgeries aren't covered by healthcare insurers or Medicare/Medicaid, the market for wholesaler products in this area should be very strong.

New Product Introductions - Technology allows for the rapid introduction of new and innovative equipment, instruments, and supplies. Distributors that align with manufacturers introducing these products have the opportunity to add new lines and expand and improve existing ones. The rapid pace of these product introductions is expected to accelerate since the FDA and Medicare have streamlined the review and approval process.

Increasing Demand for Technology-Based Products - Wireless technologies are making their way into the supply chain. Order placement from personal digital assistants (PDA) and other portable devices are streamlining the buying process. Fully integrated systems incorporating

portable wireless devices are penetrating the supply chain in the medical field. Distributors are adding value by selling hardware, software, and platform technologies that enable these tools and make the supply chain more efficient. Some distributors are building proprietary inventory and order management systems based on wireless technology.

Valuation Multiples

Medical Equipment Distributors

Acquisition multiples below are calculated using at least 20 middle-market (valued at less than \$1 billion) industry transactions completed between 6/1996 and 1/2008. Last update: May 2008.

Valuation Multiple	MVIC/Net Sales	MVIC/Gross Profit	MVIC/EBIT	MVIC/EBITDA
Median Value	0.6	1.6	9.8	6.1

MVIC (Market Value of Invested Capital) = Also known as the selling price, the MVIC is the total consideration paid to the seller and includes any cash, notes and/or securities that were used as a form of payment plus any interest-bearing liabilities assumed by the buyer.

Net Sales = Annual Gross sales, net of returns and discounts allowed, if any.

Gross Profit = Net Sales minus Cost of Goods Sold..

EBIT = Operating Profit

EBITDA = Operating Profit + Noncash Charges.

SOURCE: Pratt's Stats™ (Portland, OR: Business Valuation Resources, LLC) To purchase more detailed information, please either visit www.BVMarketData.com or call Business Valuation Resources at 888-287-8258.

Industry Forecast

Domestic demand of US medical instruments and supplies, an indicator for wholesaler demand, is forecast to grow at an annual compounded rate of 4.8 percent between 2007 and 2012.

Medical Instruments, Supplies Demand Growth Uneven



First Research forecasts are based on INFORUM forecasts that are licensed from the Interindustry Economic Research Fund, Inc. (IERF) in College Park, MD. INFORUM's

"interindustry-macro" approach to modeling the economy captures the links between industries and the aggregate economy.

SAMPLE

IV. Financial Review

Commentary to Tables IV-1, IV-1A: Historical Balance Sheets

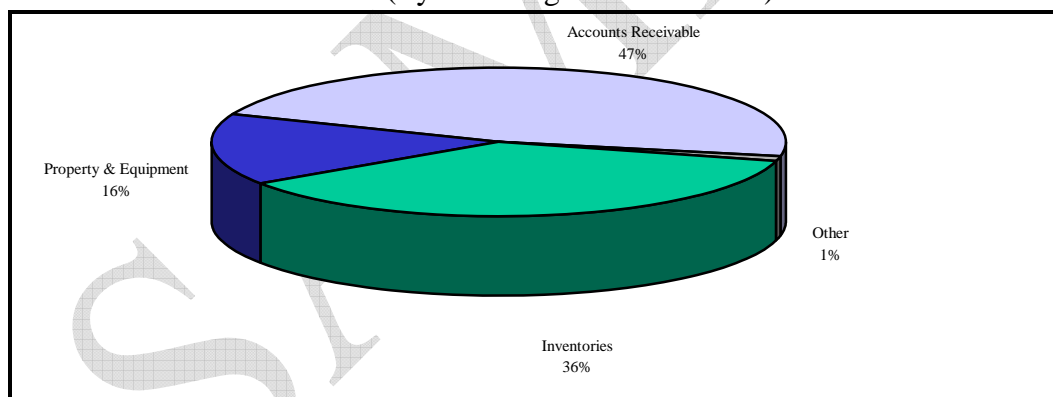
In our Financial Review Section, we review the Company's historical balance sheets and income statements.

Table IV-1 shows the balance sheets for the calendar years 20XX-20XX and July 14, 20XX.⁵ Table IV-1A shows the balance sheets in percentages of total assets.

Total Assets (row 17) increased from \$1.4 million in 20XX to a high of \$2.3 million in 2007 to decrease to a low of \$1.3 million as of July 14, 20XX. The largest assets as of July 14, 20XX are accounts receivables, inventories, and net fixed assets, with 47.1% (G7), 36.3% (G8), and 15.6% (G14), respectively, of total assets.

Fig. IV-1 depicts the composition of total assets as of July 14, 20XX.

FIG. IV-1: TOTAL ASSETS AS OF JULY 14, 20XX
(By Percentage of Total Assets)



In corroboration with Jim Jones, CPA, we reclassified the Stockholder Loan as equity.⁶ The shareholder loan is essentially an increase in the equity investment in the Company and should, for valuation purposes, be adjusted out, so the effect of this transaction becomes just that, an increase in the equity section of the balance sheet.

⁵ Source: Reviewed financial statements (20XX-20XX) by Accounting & Company, P.C. and internally prepared BS as of July 14, 20XX, provided by Robert Miller.

⁶ Relevant factors indicate that the economic substance of Mr. Miller's advances to the corporation were in the form of an equity investment rather than bona fide debt: there is no promissory note or other instrument of indebtedness; no collateral was given for the advances; there was no fixed maturity date or schedule for repayment of the advances; Mr. Miller, who contributed the funds, was the corporation's sole shareholder.

Total current liabilities (row 22) grew from a low of \$487,904 in 2003 to \$1.3 million as of July 14, 20XX. Total shareholder's equity (row 34) grew from a negative of \$48,888 in 20XX to \$594,203 in 20XX to decrease to a negative of \$577,817 as of July 14, 20XX.

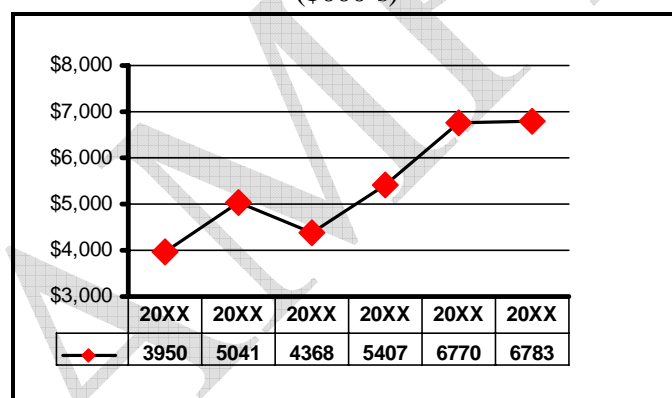
Commentary to Tables IV-2, IV-2A: Historical Income Statements

Tables IV-2 and IV-2A show the Company's historical income statements in dollars and percentages for the calendar years 20XX-20XX (col. B through F), the interim income statements for 6 months ending 20XX and 20XX, the latter we annualize in col. G.⁷

Sales (row 7) increased from \$3.9 million in 20XX to \$6.8 million in 20XX and 20XX (annualized).

Figure IV-1 shows annual sales for 20XX through 20XX.

FIGURE IV-1: ANNUAL SALES
(\$000's)



Cost of sales (row 8) increased from \$2.5 million in 2003 to \$4.7 million in 20XX and \$4.8 million in 20XX (annualized). Subtracting total expenses from gross profit results in operating income and net income before taxes (NIBT) after adding interest income and adding other income. NIBT (row 44) increased from \$46,972 in 20XX to \$119,413 in 20XX to decrease to a negative of \$104,141 in 20XX (annualized).

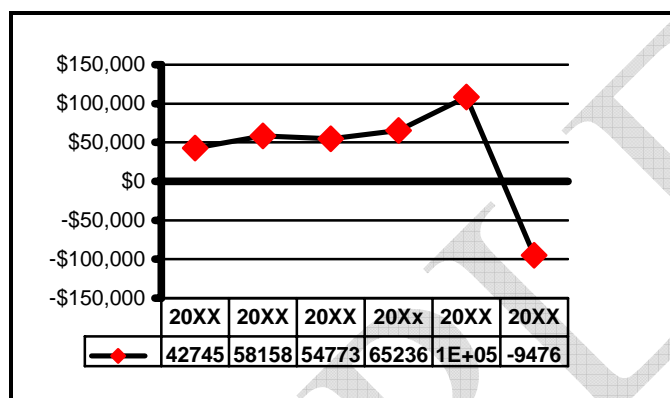
Economic net income is an arm's length income representative of the Company's earning power after eliminating non-recurring items and adjusting all compensation to arm's length. This is the measure of income that an arm's length buyer would expect to make, based on the information available at the time. In corroboration with Martin Bauer, no normalization adjustments are necessary to arrive at economic net income.

⁷ Source: Reviewed financial statements (2003-2007) by Accounting & Company, P.C. and internally prepared income statement FYE June 30, 2007-2008, provided by Robert Miller.

In row 50, we apply NYC corporate income taxes of 9%.⁸ Subtracting row 50 from row 49 yields the economic net income after taxes (ENIAT) in row 51.

Figure IV-2 shows the economic net income after tax for the years 20XX through 20XX (annualized).

FIGURE IV-2: ECONOMIC NET INCOME PER YEAR



ENIAT (row 51) increased slightly during 20XX through 20XX from \$43,000 to \$65,000 (approximates). It rose more significantly in 2007 to a high of \$109,000 but fall materially in 20XX to a negative of \$95,000 (approximates).

According to Robert Miller, the net loss in 20XX is due to a leg injury that happened to him in October 20XX. He had a surgery in August 20XX but the anesthesia caused problems to his nerves. His health deteriorated substantially since then. While he used to work about 66 hours (11 hr × 6 days) per week, he now only works about 6 hours (3 hr × 2 days) per week due to his health problems. This impedes him from running the Company successfully, which is why Company's profitability is decreasing.

The Company's management was not able to provide us with projections of future net income. We therefore use a straight average in row 52. The weighted average ENIAT is \$39,135 (B56), which is our basis to forecast ENIAT in Table V-1.

Table IV-2A is the Company's common size historical income statements from 20XX to 20XX, and the interim income statements for 6 months ending 20XX and 20XX, where all line items are shown as a percentage of total sales.

⁸ Even though this is an S corporation, however, it is located in NY City. Thus, the Company must pay NYC income tax as if it is a C corporation.

Commentary to Tables IV-3 and IV-4: Financial Ratios

Table IV-3 shows the financial ratios of the Company for 20XX-20XX. Table IV-4 compares the Company's ratios for 2008 to the ratios of a sample of similar size companies in the same industry. The data is from the *Almanac of Business and Industrial Financial Ratios*.⁹ The Company data in Table IV-4, column C comes from Table IV-3, column G. Table IV-4 shows comparative industry statistics for NAICS Code #423400— Professional and Commercial Equipment and Supplies.

In our comments below, we compare the ratios for the Company to the industry data in the Almanac, i.e., columns B and C. The comparison ("Evaluation") appears in column D.

Liquidity Ratios

Current Ratio: The current ratio is current assets divided by current liabilities and is an indication of the Company's ability to pay its current liabilities. A current ratio of less than 1 is a cause for concern. The Company's current ratio is 0.8 (Table IV-4, C7), which compares negatively to the Almanac sample of 1.5 (B7).

Quick Ratio: The Quick Ratio is the ratio of liquid assets to current liabilities. The numerator includes cash, cash equivalents, and accounts receivables. It excludes inventory and other assets that will not turn to cash very quickly. It is an indication of the Company's ability to meet its immediate needs. The Company has a quick ratio of 0.5 (C9), which compares negatively to the Almanac median of 1.0 (B8).

In summary, the Company is less liquid than the Almanac group.

Leverage Ratios

Leverage Ratios indicate the extent of financing of the Company. Risk and expected return both increase with financial leverage.

Debt/Assets: This ratio indicates the Company's ability to pay all its debts. It is an indicator of the long-run solvency of the firm. Total debt to total assets is 144.1% (C10), which compares negatively to the Almanac sample of 72.4% (B10).

Debt/Equity: This ratio indicates relative amounts of capital provided by creditors and shareholders. A high Debt to Equity ratio indicates high financial leverage, and thus, high financial risk. The Company's Debt/Equity ratio of -326.9% (C11) compares negatively to the Almanac sample of 260.0% (B11).

⁹ *Almanac of Business and Industrial Financial Ratios*, Leo Troy, 2008, Table I, Page 171.

Coverage Ratio (or Times Interest Earned): Times interest earned indicates how well the firm is able to cover its interest payments. A higher number indicates that the Company is more capable of paying its interest. The basic formula is: $\text{Times Interest Earned} = \text{EBIT} / \text{Interest}$. The Company's coverage ratio of 0.5 (C12) is inferior to the Almanac sample of 4.2 (B12).

In summary, the Company has more financial risk than the Almanac Guideline Companies.

Activity Ratios

Accounts Receivable Turnover (Revenues/AR): The accounts receivable turnover provides an indication of the quality of the receivables and gives an idea of how successful the company is in collecting its outstanding receivables. A higher number turnover indicates a more rapid collection of receivables. In this instance, the accounts receivable turnover is 11.0 (B14), which means that the Company produced 11.0 times the value of its receivables in revenues per year. This compares negatively to the Almanac sample of 12.2 (C14).

Inventory Turnover (COS/Inventory): This ratio measures how quickly the inventory is sold. The higher the inventory turnover, the better the entity is performing. The Company's ratio of 10.1 (C15) compares negatively to the Almanac median of 18.6 (B15).

Asset Turnover (Sales/Assets): This ratio indicates how efficiently the company utilizes its assets. A high turnover indicates the company is using its assets effectively to generate sales. The Company's asset turnover of 5.2 (C16) means that the Company produces 5.2 times the value of its assets in sales per year. The Almanac industry average of 4.5 (B16) is lower. This is evaluated as a positive.

Working Capital Turnover (Sales/Net Working Capital): This ratio tells us how efficiently working capital is employed. A high ratio indicates efficient use of working capital. However, a too high ratio indicates risk for creditors. The Company's ratio of -29.0 (C17) compares negatively to the Almanac median of 16.9 (B17).

In summary, the Company's Activity Ratios are mixed with three negative and one positive categories. Overall, the Company's activity ratios are inferior to the Almanac group.

Profitability Ratios

The Company's arithmetic average annual sales growth (20XX-20XX) is 12.7% (Table IV-3, I22). The compound average annual growth (CAGR) since 20XX is 11.4% (Table IV-3, B23).

Pre-Tax Profit Margin: This ratio, net income before income tax divided by net sales, indicates the contribution of sales to the profitability of the Company. Put another way, it indicates the amount of net income generated by a dollar of sales. The 2008 pretax profit

margin of -1.5% (C19) is lower than the Almanac median of 0.9% (B19), which is evaluated as a negative.

Pre-Tax ROE: The return on equity (ROE) measures the return earned on the owners' equity in the firm. The higher the rate, the more the firm has increased wealth to the shareholders. The Company's pretax return on equity is -635.6% (C20), which is below the Almanac industry average of 14.3% (B20) and therefore evaluated as a negative.

Pre-Tax ROA: The return on assets (ROA) ratio indicates the Company's efficiency in its use of assets to generate profits. The higher the ratio, the more efficient and profitable is the Company in its use of assets. The Company's pretax return on assets is -2.9% (C21), which is below the Almanac industry average of 5.2% (B21) and therefore evaluated as a negative.

In summary, the Company's Profitability Ratios are clearly inferior to the Almanac companies.

Summary of Comparative Ratio Analysis

Based on the 2008 ratios, the Company is inferior to the industry in the liquidity, leverage, activity, and profitability ratios. The Company is overly leveraged in 2008 and not profitable. It does not use its assets and working capital efficiently.

V. VALUATION

Valuation Approaches¹⁰

A valuation approach is “a general way of determining a value indication of a business... using one or more valuation methods.” A valuation method is, “within approaches, a specific way to determine value.”

There are three valuation approaches:

- The Asset Approach. In this approach, we seek to measure value through the calculation of assets net of liabilities, i.e., this is a balance sheet approach. One can use book, market, or liquidation values of assets in this approach. The same is true for liabilities, except that, in addition, it may be necessary to use a discounted cash flow method to calculate the market value of some liabilities such as notes payable.
- The Income Approach. In this approach, we seek to measure value by converting anticipated economic benefits (cash flows or income, with the former being the better measure) into a present single amount.
- The Market Approach. In this approach, we seek to measure value through comparing the subject company to other businesses or business interests that have sold.

While there are three distinct valuation approaches, it turns out that there are interrelationships between the approaches that will become apparent over the next several pages.

Valuation Methods

Below is a list of the most common valuation methods and their classification according to valuation approach. After the list, we describe each method, its salient strengths and weaknesses, and our reasons for whether or not we use it to value the Company.

- The Asset Approach, using
 - Book Values
 - Fair Market Values (aka Adjusted Net Book Value Method)
 - Liquidation Values
- The Income Approach (aka Discounted Future Returns)
 - Discounted Future Net Income Method

¹⁰ Definitions in this section come from the International Glossary of Business Valuation Terms.

- Discounted Cash Flow Method
- Discounted Dividends Method
- The Market Approach
 - Guideline Public Company Method
 - Guideline Private Company Method
 - Small private companies
 - Guideline Merger & Acquisition Method (large private firms)
- Hybrid Approach
 - Excess Earnings Method, which is both an Asset and Income Approach

Asset Appraisal Method (AAM)

As mentioned above, the appraiser can use book values, fair market values, or liquidation values in the AAM.

Using Book Values

This method views the Company's fair market value as the book value of its stockholder equity. However, the net book value of a company only reflects its accounting history as expressed in nominal dollars, and this usually bear very little relationship to fair market values.

When there is a relationship, it is usually not 1-to-1. Instead, the importance of the book value of the Company is more accurately measured in a Market Approach regression analysis if the guideline company book values are available. Thus, the importance of the book value of the Company is generally as an input to the Market Approach and as a starting point for calculating liquidating values. It has no direct intrinsic importance in valuation.

Using Market & Liquidation Values

In these Asset Approach methods, we restate assets and liabilities at their fair market values. The fair market value of stockholder equity is then calculated by subtracting the fair market value of the liabilities from the fair market value of assets.

There are two potential premises of fair market value—going concern value and liquidating value. The AAM is generally unsuitable for valuing healthy, operating businesses, because it is unable to measure the fair market value of intangible assets. For this, the Income and Market Approaches are superior. The latter two approaches generally measure the FMV of the equity, including intangible asset value. One can then subtract the AAM's indication of value using market values of assets and liabilities from the FMV of equity to calculate the

FMV of goodwill and other intangible assets. Of course, it is necessary to maintain consistency in the levels of value¹¹ (LOV) or make adjustments for differences.

However, the AAM is appropriate as the primary valuation approach for holding companies with no material intangible asset value and whose assets have FMVs that are easily measured, either because they are publicly traded securities or they can be appraised, such as real estate. Family holding companies, usually in the form of Family Limited Partnerships, are a typical example of the latter type of firm.

We also use the AAM to ascertain whether an operating company is worth more “dead or alive.” If the Asset Approach with liquidating values yields a higher indication of fair market value than the Income and Market Approaches, then a control shareholder would be wise to liquidate the Company, and the Asset Approach should dominate the other two. A minority shareholder does not have the power to compel liquidation. Thus, the valuation of a minority interest will often rely on an Income Approach—even if its indication of fair market value is lower than the Asset Approach. Of course, when the indication of fair market value is higher from the Income Approach than the Asset Appraisal Method, then the Income Approach should dominate.

The Company is not a holding company. Therefore, we use the Asset Appraisal Method to ascertain that the Income and Market Approach dominate in this valuation.

Income Approach Methods

The Income Approach methods are based on the concept that the value of a business is best measured by the present value of the net income, cash flow, or dividend streams it can generate in the future. The present value calculations adjust the forecast future cash flows to today’s fair market value by incorporating the time value of money as well as the associated business and economic risks of that enterprise.

The Discounted Future Net Income, Discounted Cash Flow, and Discounted Dividends Methods are subsets (methods) of the Income Approach. One can forecast net income or cash flows and then discount them to their net present value.

For valuation purposes, cash flow is superior to net income. A business cannot pay its bills, employees, and shareholders with net income. It can only pay them with cash. A business with positive net income may have such poor cash flow that it can go bankrupt. Therefore, we never discount net income to present value. We only discount cash flows.

¹¹ A complex concept covered at length in chapter 7 of *Quantitative Business Valuation: A Mathematical Approach for Today’s Professionals* ©2001, Jay B. Abrams, McGraw-Hill. The LOV quantifies differences in value that result from differences in marketability resulting from the interaction of public versus private ownership, with the latter being more valuable, and different control attributes—in descending order: strategic, control, well-treated minority, and exploited minority interests.

There are two general levels of cash flows in valuing businesses. Dividends are cash flows at the shareholder (micro) level, while the forecast cash flow of the Company is cash flow at the macro level. If one is valuing a minority business interest, the Discounted Dividends Method theoretically should be the ideal Income Approach method. In practice, though, it is rarely used, since most privately held firms do not pay dividends. Therefore, it is most common in valuing a business interest to first discount cash flows at the firm (macro) level and then make adjustments for differences in control and marketability for the interest being valued.

In Table V-1, we use the Capitalization Method.

Guideline Company Methods

The Guideline Company methods involve performing either regression analysis and/or calculating ratios of a dependent variable (usually the market capitalization if using publicly traded guideline companies or selling price if using a database of private company sales) to independent variables that are “valuation drivers”, i.e., variables that investors would consider in how much they would pay for the guideline companies, such as cash flow, earnings, and book value, etc. The guideline companies ideally should be in the same business as the subject company. When there are no guideline companies available in the same business, then it is possible to use guideline companies in similar businesses or businesses that have similar demand characteristics.

In developing a mathematical relationship between fair market value and the valuation drivers, regression analysis is far superior to valuation ratios whenever possible for several reasons.

- It provides the specific mathematical relationship between fair market value and one or more valuation drivers. This is the x-coefficient(s) of the independent variable(s). Ratio analysis is limited to one variable at a time, while regression analysis can work with all variables simultaneously, which is a big advantage.
- It provides objective measurement of the strength of the explanatory power of the independent variables, measured by R^2 .
- R^2 measures the percentage reduction in the forecast error compared to using the mean of the dependent variable. Thus, an R^2 of 90% would mean that variation in the guideline company independent variables explains 90% of their variation in fair market value (the dependent variable) compared to using the average fair market value of the guideline companies.
- It measures the statistical significance of the independent variables with the p-value. This enables us to judge how likely it is that the relationship of the independent variable to fair market value is a mistake due to random variation.

However, regression analysis requires an absolute minimum of three guideline companies and often several more to be of much practical use. Thus, while it is a far more powerful analytic tool than valuation ratio analysis, it is more data intensive.

Tables V-2A and V-2B show the private guideline companies (Transaction Method) that we received from the IBA database and Pratt's Stats.

Excess Earnings Method

The Excess Earnings Method is a hybrid asset and income approach. One calculates a reasonable return to demand for the tangible assets of the firm and subtracts that from the actual income, the difference being "excess returns." One would then capitalize the excess returns at a rate of return appropriate for intangible assets, which is higher than that for the total income or cash flows of the firm. The result of that calculation would be the intangible assets of the firm. One would then add the intangible value to the tangible assets to obtain the value of all assets.

This valuation method has four significant disadvantages.

- It requires calculating two rates of return instead of the usual one.
- The return on intangible assets is not directly observable in the marketplace, while returns on investment are directly observable.
- It uses earnings instead of cash flow.
- The Internal Revenue Service disparaged this approach in Revenue Ruling 68-609, saying it may be used only if no better basis is available.

Because of these disadvantages, we do not use the Excess Earnings Method.

Selection of Valuation Methods

We have already commented previously that we will use the Capitalization Method and the Transaction Method in this appraisal.

Commentary to Table V-1: Capitalization of Earnings Method-Control Interest

Calculation of Cash Flow

We begin Table V-1, the Capitalization of Earnings Method for the Control Interest, with the weighted average economic net income in cell D5, which is from Table IV-2, B56. We then roll this forward to July 14, 2009 at 2.5% growth in cell D6.¹²

In cell D7, we forecast the retention ratio to be 10%.¹³ The retention ratio is the amount that we forecast the Company will withhold from net income for the needs of the business. The needs of the business fall into two categories: capital expenditures and increases in net working capital for ordinary growth of the business, and the same for aggressively planned growth. We expect low to modest growth (as we explain further below), which is why we estimate a 10% retention rate, which means a 90% payout ratio.¹⁴

We multiply D6 with D7 to calculate the income retained in D8. We add D6 and D8 and arrive at the forecast cash flow in D9.

The Gordon Model Multiple and Cash Flow Growth Rate to Perpetuity

We now apply a Gordon Model Multiple, which is a formula that allows us to calculate the present value of a growing perpetuity. Assuming a midyear convention, the formula is:

Gordon Model Multiple (GMM) = $\frac{\sqrt{1+r}}{r-g}$, where r is the discount rate and g is the growth rate

to perpetuity. The GMM is the present value of each one dollar of forecast cash flow growing at a constant rate of g forever.

We calculate a discount rate of 27% (D20) in Table V-1A using an original equation developed by Jay Abrams. Substituting $r = 27\%$ and $g = 2.5\%$,¹⁵ our GMM is 4.5998 (D10). This means that at our 27% discount rate and forecast 2.5% constant growth rate of cash flows (which means we forecast \$1.00 of cash flows in year 1, \$1.025 in year 2, etc.), a rational

¹² Based upon our analysis of the industry and economy, we use a 5% long-term growth rate.

¹³ In Moskowitz, Tobias J. and Annette Vissing-Jorgensen, "The Private Equity Premium Puzzle," American Economic Review, September 2002, Volume 92, No. 4., especially page 755, second column, the authors estimate Payout Ratios of 60% for C corporations and 80% for S corporations. Their discussion makes it clear they are assuming the former are larger than the latter, and it is the size and access to capital that matters.

¹⁴ The Payout Ratio is the proportion of net income that can be paid as dividends to investors without impairing the operations of the business.

¹⁵ First Research expects the industry to grow at an annual compounded rate of 4.8%. However, considering the current losses in 2008 due to the health problems of Robert Miller, we expect only modest growth of 2.5%.

investor would be willing to pay approximately \$4.60 at the valuation date (year 0) for each \$1.00 of forecast cash flow in year 1.

We multiply the Forecast Cash Flow (D9) by the Gordon Multiple to calculate the present value of all the cash flows years 1 to infinity as of 7/14/08, our valuation date. The product is the FMV of the Company on a Marketable Minority interest basis (D11).

The term “Marketable Minority Interest” requires explanation. Our calculation of discount rates, discussed below, uses as its source of data stock returns of publicly-traded companies. The shareholders of these firms have two primary characteristics: their investments are liquid, i.e., they can sell immediately and receive cash at the going market rate within three days of their sell order, and they are minority interests, i.e., they have no control over the firm. Since we are valuing a 100% common stock interest in a privately-held company, we must make adjustments for differences in control and liquidity.

In cell D12, we apply a 25% control premium.¹⁶ Adding D11 and D13 yields the FMV-100% marketable control basis in D14.

Discount For Lack of Marketability (DLOM)

By definition, the indicated value computed by the capitalization of earnings method yields a marketable interest in the subject entity. Since the Company is a closely-held company, it is less marketable to an investor. Therefore, to produce a non-marketable interest value, the appraiser must apply a Marketability Discount.

Marketability is defined as the ability to convert a property to cash quickly, with minimum transaction and administrative costs, and with a high degree of certainty of realizing the expected amount of net proceeds. The shares of the Company have no active market. This represents an added risk of ownership to an investor for which he must be compensated. This is accomplished by a lower price for the shares that are represented by the marketable interest value.

Marketability (Restricted Stock) Studies

There are a number of empirical data, studies, and analyses we considered in establishing an appropriate discount for lack of marketability for the stock interest. These studies have been summarized in the enclosed appendix. The following table summarizes the marketability discount studies

¹⁶ See *Quantitative Business Valuation: a Mathematical Approach for Today's Professionals*, by Jay B. Abrams, McGraw-Hill, 2001, Chapter 7, Page 230. The range for the control premium is between 21-28%. We use the average of 25% as the control premium.

SUMMARY OF MARKETABILITY STUDIES

STUDY	MARKETABILITY DISCOUNT %
SEC Institutional Investor Study	32.6%
Gelman Study	33.0%
Trout Study	33.5%
Maroney Study	35.6%
Mather Study	35.4%
Standard Research Consultants Study	45.0%
Williamette Management Associates Study	31.2%
Silber Study	34.0%
FMV Opinions, Inc. Study	23.0%
Management Planning, Inc.	27.7%
Baseline Marketability Discount	33.1%
Company Specific Adjustment	0.0%
Company Specific Marketability Discount	33.1%

Since these studies are based on restricted stock, they are applicable to minority interests. However, in Table V-1, we compute the DLOM for a control interest, which should be materially lower. Thus, we do not use the results from the Restricted Stock Studies.

Abrams' Regression of the Management Planning Study Data

Our calculation of the DLOM for the control interest is based on Abrams' Regression of the Management Planning Study Data.¹⁷ Abrams calculates the DLOM, which range between 10 to 20 percent, depending on firm size.

Table V-1B
Marketability Discount
By Avg Firm Size

FMV	DLOM
25,000	10.8%
75,000	11.0%
125,000	11.1%
175,000	11.2%
225,000	11.6%
375,000	13.6%
500,000	15.6%
750,000	19.9%
2,000,000	18.0%
5,000,000	15.8%
10,000,000	15.5%

¹⁷ Source: Quantitative Business Valuation: A Mathematical Approach to Today's Professionals, Jay Abrams, McGraw-Hill, 2001, Chapter 7.

The DLOM for the size of the subject Company is computed at 11% (D15), which is the average DLOM (rounded) for a \$125,000 to \$175,000 firm.¹⁸ We present the chart in Table V-1B.

The DLOMs in Table V-1B are for business owners selling their 100% interest in the company. The DLOM should be materially higher for minority interests. We subtract D16 from D14, which equals \$182,628 (D17), which is the Fair Market Value of the firm on a 100% Private *Control* Basis as of July 14, 2008.

¹⁸ How to Value Your Business and Increase Its Potential, Jay B. Abrams, McGraw-Hill, 2005, Table 8.1, p. 137. The methodology is the same as in Quantitative Business Valuation, *ibid.*, Chapter 7, with calculations updated for the years 1938-2001.

Commentary to Table V-1A: Calculation of Discount Rate

Table V-1A is the calculation of the discount rate. Jay Abrams discovered a mathematical relationship between rates of return in the stock markets and the size of the firms.¹⁹ The larger the firm, the less volatility of returns to the shareholders, the less risk to the shareholders, and the lower the return the shareholders require to invest in those stocks. Smaller firms, on the other hand, are riskier than larger firms, and, hence, require a higher rate of return to justify investing in them.

The relationship is a downward sloping line whose equation is a forbidding:

$r = .43320 - [.0127 \times \ln (FMV)]$, where

- r is the discount rate, also known as the investment rate of return
- \ln is the natural logarithm
- FMV is the Fair Market Value (Marketable Minority Interest Basis) of the firm

Although publicly held firms have an objective stock price to insert in the FMV term (after being multiplied by the number of shares), privately held firms do not. Therefore, it is imperative to ascertain that the discount rate assumed in the discounted cash flow approach is consistent with the value calculated in that approach. If not, one must go through additional iterations in order to force consistency between the assumption and the result. This happens because we must first estimate a value for the firm to calculate a discount rate. Then, we use this discount rate to calculate the value of the firm! This circular reasoning is only valid if the assumption is consistent with the result, as mentioned above.

There are two characteristics of investors in the stock market that are different than the typical owner of a privately held business:

- Their interests are very liquid, or *marketable*. They can convert their investment to cash in three days.
- They are *minority* shareholders, i.e., they own small percentages of the firms in which they invest and do not control the operations of the firm.

Therefore, we characterize the rates of return as being those for *marketable minority interests*, and the net present value of the forecast cash flow (Table V-1, D11) is also the marketable minority fair market value of the firm. This value must be consistent with the discount rate assumption (Table V-1, D20). Substituting the FMV-100% Marketable Minority Basis (Table

¹⁹ See “A Breakthrough in Calculating Reliable Discount Rates”, Jay B. Abrams, Valuation, pp. 8-24, August 1994, and his update article, “Discount Rates as a Function of Log Size and Valuation Error Measurement”, The Valuation Examiner, Feb/Mar, 1997, and subsequent research appearing in “Quantitative Business Valuation: A Mathematical Approach for Today’s Professionals, by Jay B. Abrams, McGraw-Hill, 2001.

V-1, D11) into the discount rate equation results in a discount rate of 27.6% (B10). We subtract 2% (B11) for a reduction in macroeconomic risk that has occurred since the 1990s.²⁰ The Company's profitability depends very much on Robert Miller. The Company has losses in 2008 due to Mr. Miller's health problems, which impede him from running the Company efficiently. We therefore subjectively add a 1% premium to account for the heavy reliance on the key person. The total discount after the above adjustment is 27.069% (B13), which we round to 27% (B14).

²⁰ "The Declining Equity Premium: What Role Does Macroeconomic Risk Play?" Martin Lettau, Sydney C. Ludvigson, and Jessica A. Wachter, working paper, 2004, available on the authors' websites.

Market Approach

Next, we move to valuation using the Market Approach. The Company is too small for meaningful comparison to publicly traded firms. Thus, we compare the Company to privately traded firms only.

Commentary to Table V-2: Transaction Method

Institute of Business Appraisers (IBA)

We requested guideline transactions from the Institute of Business Appraisers (IBA) for all transactions in Standard Industrial Classification (SIC) code #5047— Medical, Dental, and Hospital Equipment and Supplies, and we received 89 transactions with sales between \$23,000 and \$14 million. We eliminated observations with no revenues, earnings, or selling price, sales under \$1 million, and observations that were not comparable to the subject Company's business, leaving 22 transactions.

The IBA only provides information about annual gross and discretionary earnings. We calculate the Price to Gross (P/G) and Price to Discretionary Earnings (DE) multiples in columns E and F, respectively. We use the median P/G and P/DE multiples (row 28, transferred to row 33) to determine the FMV. In general, the median is less sensitive to extreme scores than the mean, which makes it a better measure than the mean for highly skewed distributions.

In cells B34 to B45 and C34 to C45, we apply the client's data to the above multiples to calculate the FMV in row 43. The observations in the IBA are asset sales, i.e., the sales price generally excludes cash, receivables, payables, and long-term debt, which are part of the fair market value. Thus, we need to adjust the forecast selling price by adding/subtracting those items back to arrive at FMV. Total adjustments are -\$882,356 (row 42). We add B42 to B36 and C42 to C36 to arrive at the FMV—Private Illiquid Control Interest of \$4,229,244 (B43) and \$659,710 (C43), respectively.

Since for valuation purposes, net income is superior to sales, we have more confidence in the former variable. The most obvious problem with revenue multiples is that two companies in the same industry with equal revenue, but different earnings will be valued equally, even though the earnings benefit to the owner will be different. Thus, net income is the better indicator to value the Company. We therefore give 100% of weight to the Price/DE Multiple, \$659,710 (D45).

Pratt's Stats

We also searched Pratt's Stats for transactions in SIC Code 5047 and noted 45 transactions with net sales between \$719,000 and \$1.1 billion. We eliminated transactions with no

revenues or earnings, sales below \$1 million and above \$7 million, and that were not comparable to the subject Company, leaving 9 observations.

We display various multiples in col. H through L, for instance the Market Value of Invested Capital to Sales (MVIC/S) in col. H and Market Value of Invested Capital to Net Income (MVIC/NI) in col. I. We use the median multiples (row 15, transferred to row 23) and apply the client's data (row 22) to determine the FMV. We give 50% of weight to the MVIC/NI multiple, since the market places high weight on net income and it has the second lowest coefficient (row 17) of variation among the guideline companies. We split the remainder equally among the other multiples, i.e., 12.5% each. The weighted average is \$2,248,229 (G26). We subtract the interest bearing debt of \$1,744,765 (G27) as of July 14, 2008 to arrive at the FMV of \$503,464 (G28).

Commentary to Table V-3: Reconciliation of FMV

Table V-3 is a summary of the indicated values determined from each appraisal method. The various indications of value are weighted in order to arrive at a final estimate of value.

Valuation of 100% Interest

Asset Approach

As of July 14, 20XX, the book value has a deficit of \$577,817 (C9).

Income Approach

The income approach generated a FMV- illiquid control basis of \$182,628 (C14) as of July 14, 20XX.

Market Approach

The Transaction Method included using private guideline companies from the IBA database and Pratt's Stats. The market approach generated a FMV-Private Control Basis of \$659,710 (C19) and \$503,464 (C25), respectively.

Weighting

Since each approach has its own validity, our starting position is to weight each one equally, or one-third. While the premise of value for the income and market approach is going concern, the asset approach is used more to determine the value of the company in liquidation. In other words, the Asset Approach is used to ascertain whether the Company is worth more "dead or alive." If the Asset Approach with liquidating values yields a higher indication of fair market value than the Income and Market Approaches, i.e., the company is more valuable in liquidation than in operation, then a control shareholder would be wise to liquidate the Company, and the Asset Approach should dominate the other two approaches. However, a minority interest cannot force liquidation. Thus, the asset approach is only relevant when we value a control interest, since only a control interest has access to the value locked in the assets.

In our case, we value a controlling interest. However, the asset approach yields a lower FMV than the income and market approaches. The liquidation value would be even lower, since no liquidation costs were imputed. Thus, we do not give any weight to the asset approach. We weight the income and market approaches equally. Within the market approach, we looked at Pratt's Stats and the IBA database. We give equal weight to both of them, i.e., 25% each.

The weighted average FMV of a 100% interest in the firm on an illiquid control basis is \$382,108 (F28), which we round to **\$382,000** (F29).

Conclusion

In our opinion, subject to the Statement of Limiting Conditions, the fair market value of a 100% common stock interest in the Company as of July 14, 20XX is **\$382,000**.

SAMPLE

VI. Appendix

Published Research on Marketability Discounts

In support of the marketability adjustment, the following is a summary of the evidence for marketability discounts found in published research.

Marketability Discounts Evidenced by prices of Restricted Stocks

A “restricted stock” is identical to the freely-traded stock of a public company except that it is restricted from sale on the open market for a period of time. Because relative marketability is the only difference between the restricted stock and unrestricted stock in the same company, this difference provides evidence of the price discount between a freely marketable share and one that is identical but subject to restricted marketability.

SEC Institutional Investor Study

In a major study of institutional investor actions, one topic was the amount of discount at which transactions in letter stock occurred compared to the prices of identical but unrestricted stock on the open market. The SEC study, which summarized observed discounts from open market prices on letter stock transactions by the market in which the unrestricted stock traded, found an overall mean discount of 25.8 percent. For non-operating OTC companies, which are more likely to resemble most closely held companies, the mean discount was 32.6 percent.

Gelman Study

In 1972, Milton Gelman published a study of prices paid for restricted securities by four closed-end investment companies specializing in restricted securities investments. From 89 transactions between 1968 and 1970, Gelman found that both the arithmetic average and median discounts were 33 percent and that almost 60 percent of the purchases were at discounts of 30 percent or higher.

Trout Study

In a study of 60 letter stock purchases by mutual fund companies from 1968 to 1972, Robert Trout found an average discount of 33 percent for restricted stock from freely traded stock.

Maroney Study

In an article published in the March 1973 issue of *Taxes*, Robert E. Maroney presented the results of a study of the prices paid for the restricted securities by 10 registered investment companies. Maroney’s study reflected 146 purchases and showed an average discount of 35.6 percent.

Mather Study

J. Michael Mather compared prices paid for restricted stocks with the market prices of their unrestricted counterparts. Mather's analysis, which covered the period 1969 through 1973 showed an average discount for marketability of 35.4 percent.

Standard Research Consultants Study

In 1983, Standard Research Consultants ("SRC") analyzed recent private placements of common stock to test the current applicability of the previously discussed SEC Institutional Investor Study. SRC studied 28 private placements of restricted common stock from October 1978 through June 1982 revealing a median discount of 45 percent.

Williamette Management Associates Study

Williamette analyzed 33 private placements of restricted stocks for the period January 1, 1981 through May 31, 1984. The median discount for the restricted stock transactions compared to the prices of their freely tradable counterparts was 31.2 percent

Silber Study

In a 1991 article in the Financial Analysts Journal, William J. Silber presented the results of an analysis of 69 private placements of common stock of publicly traded companies between 1981 and 1988. Silber found that the average discount was 34 percent

FMV Opinions, Inc. Study

An article in the January/February 1994 issue of Estate Planning referenced a study by FMV Opinions, Inc. that examined over 100 restricted stock transactions from 1979 through April 1992. The FMV study found a mean discount of only 23 percent.

Management Planning, Inc. Study

Management Planning performed a study entitled, "Analysis of Restricted Stocks of Public Companies: 1980-1995, which covered a total of 49 transactions after eliminations for various factors. These results arrived at an average marketability discount of 27.7 percent.

VII. Statement of Limiting Conditions

This appraisal is subject to the following assumptions and limiting conditions, in conjunction with the previously presented Certification section:

- (1) We have relied on the accuracy of the reviewed financial statements (20XX-20XX) by Accounting & Company, P.C. and internally prepared interim financial statements July 14, 20XX, provided by Martin Bauer. We have accepted the above financial data as correct without further verification as though they fairly and accurately represent the financial condition and activities of the Company. This information has been provided to us and is the responsibility of the client.
- (2) All other information used in this report is from sources we deem reliable. We have accurately reflected such information in this report; however, we make no representation as to our sources' accuracy or completeness and have accepted their information without further verification.
- (3) Neither our engagement nor this report can be relied upon to disclose any fraud, misrepresentation, deviations from Generally Accepted Accounting Principles, or other errors or irregularities.
- (4) The conclusions are based upon our review and analysis of documents and information provided, but did not include a visit to the Company's offices. We assume that the present owners would continue to maintain the character and integrity of the enterprise through any sale, reorganization, or diminution of the owners' participation or equity interest. We know of no significant pending legal action against the Company, and we assume none is or will be occurring. If this did happen, then it would change our opinion of the value of the Company.
- (5) All claims to property have been assumed to be valid and no investigation or consideration of legal title or any existing liens or encumbrances, which may be against the assets, were undertaken except as may be stated in this report.
- (6) We have not considered the existence of potential environmental liabilities, which may or may not be present on the underlying property. This includes real estate either owned or leased by the Company. Therefore, no responsibility can be taken for hidden or unapparent conditions of the property or potential claims against the Company.
- (7) Our opinion of value in this report is valid only for the stated purposes, and only as of the valuation date specified. The fair market value, as determined within our report, shall not be used for other purposes, size interests, or dates without our written permission.

- (8) This report reflects facts and conditions existing at the valuation date. Subsequent events and conditions have not been considered unless specifically noted and discussed in the report. We have no obligation to update our report for any other subsequent events and conditions.
- (9) The estimate of fair market value established by this report may rely on estimated values for some assets of the Company if independent appraisals for these assets are not available. Where such values are used in this appraisal no warranty is made with respect to these values. If these values are incorrect, the resulting estimate of the value of the subject ownership interest may be affected.
- (10) We performed less independent market research than we normally perform in a Complete Appraisal. Instead, we relied entirely on the accuracy of the financial statements and other data provided. This is a significant reduction of our normal work, and it is imperative to understand that our forecast of future cash flows may be substantially different if we were to do such market research, and that would correspondingly affect the valuation.
- (11) An appraisal is not a legal or tax opinion. Its purpose is to estimate value according to the applicable standard of value. The appraiser assumes no responsibility whatsoever for legal or tax matters relative to its finding. Values are stated without reference to applicable legal or tax claims unless so noted.
- (12) Though some similarities exist between value as used for this purpose and others, it would be incorrect to use the fair market value as determined within our report for any other purposes due to specific timing, performance, and marketability issues that arise in evaluating the fair market value of a company. Accordingly, any such use of the value as determined within this report for other purposes would be inaccurate and possibly misleading and no such use shall be made by the Company.
- (13) Our determination of fair market value does not represent investment advice of any kind to any person and does not constitute a recommendation as to the purchase or sale of shares of the Company or as to any other course of action.
- (14) Future services regarding the subject matter of this report, including, but not limited to, testimony or attendance in court shall not be required of U.S. Valuations unless previous arrangements have been made in writing.
- (15) Neither all nor any part of the contents of this report shall be conveyed to the public through advertising, public relations, news, sales, mail, direct transmittal, or other media without the prior written consent and approval of U.S. Valuations.

- (16) All users that are not directly involved with the purpose of this study are considered unintended users and should not rely on the information contained in this report without the advice of their attorney or accountant. This report may not be distributed in part, as only a thorough reading of this report can accurately convey the logic contained within. Excerpts taken out of context can be dangerously misleading and are therefore forbidden without the written consent of U.S. Valuations.

SAMPLE

VIII. Appraiser's Qualifications

Daniel Jordan, ASA, CBA, CPA, MBA, is the Managing Principal of U.S. Valuations, specializing in the valuation of closely held businesses and intangible assets. Mr. Jordan provides business valuation services full time since 2000.

In addition to his CPA, Mr. Jordan has achieved multiple professional accreditations. He is an Accredited Senior Appraiser (ASA) and a Certified Business Appraiser (CBA). He earned his MBA Degree in Finance and Accounting from the Heinrich-Heine-University of Düsseldorf, Germany. Additionally, Mr. Jordan has published articles on valuation-related matters, lectured seminars, and provided expert testimony in court.

Mr. Jordan has been working for leading valuation firms. Prior to U.S. Valuations, he worked nine years for Abrams Valuation Group, Inc. under the direct supervision of Jay Abrams, a nationally known authority in valuing closely-held companies who has written extensive material that is used in the profession. Mr. Jordan has assisted in the writing of Abrams' book "How To Value Your Business And Increase Its Potential", published by McGraw-Hill, which is also noted in the book. Mr. Jordan plays an integral role in valuations and litigation support work.

Mr. Jordan has played an integral role in valuations and transaction support work and has provided valuation/financial consulting services to clients representing a variety of organizations, from small entrepreneurs and family limited partnerships to firms with revenues of up to \$246 million, including the following:

- Mergers & Acquisitions and Sales
- Venture Capital Funding
- Private Placements
- Shareholder Buy/Sell Agreements
- Debt Instruments (Notes, Viatical Settlement)
- Intangible Assets (Patents, Economic Damages, Non-compete Agreement)
- Purchase Price Allocation (SFAS 141)
- Litigation Settlement
- Estate, Income & Gift Tax Reporting
- Financial Reporting

Industries that he has worked on include private equity, casinos, insurance, computer software, textile, auto repair, line tester technology, food manufacturer and broker, asset management, electronics manufacturers, furniture manufacturing, embroidery & printing, retail pharmacy,

internet start-up, restaurants, art collection, internet mortgage leads, internet automobile and home improvement leads, manufacture of custom scientific equipment, swim wear, accounting practice, commodities, construction, various distributors of different lines of business, jewelry, etc.

Books/Articles

- Assisted with the writing of *How to Value Your Business and Increase Its Potential*, Jay Abrams, McGraw-Hill, 2005.
- “Superiority of Regression Analysis over Ratio Analysis”, *Business Appraisal Practice*, Fall 2007, p. 27-31.

Lecture Summary

- “Superiority of Regression Analysis over Ratio Analysis”, New York State Society of CPA’s, Business Valuation Committee, New York, NY, October 2007.
- “Understanding Business Appraisals”, New York Legal Assistance Group, Inc., New York, NY, November 2008.
- “A Fresh Look at BV Theory”, New York Association of Business Brokers, Tarrytown, NY, April 2009.
- “Business Valuation: Discounts and Premiums”, American Association of Attorney-Certified Public Accountants, Uncasville, CT, May 2010.

Books/Articles Quoting Daniel Jordan

- Practical Planner, Martin M. Shenkman, CPA, MBA, PFS, JD, Volume 5, Issue 5, May 2010

Business Valuation Education

- *International Appraisal Conference* of The American Society of Appraisers, San Diego, August 2002 (27 CPE Hours)
- *Mastering Appraisal Skills for Valuing the Closely Held Business – Part A*. Instructor: Paul Hyde, The IBA, San Diego, March 2005 (32 CPE Hours)
- *Mastering Appraisal Skills for Valuing the Closely Held Business – Part B*. Instructor: Rand M. Curtiss, The IBA, Cleveland, July 2005 (32 CPE Hours)
- *Report Writing*. Instructor: Steven Schroeder, The IBA, St. Louis, August 2005 (16 CPE Hours)
- *Preparation For the CBA Exam*. The IBA, Phoenix, November, 2005 (16 CPE Hours)
- *Uniform Standards of Professional Appraisal Practice (USPAP)*: Instructor: Andrew Mantowani. Ivy Real Estate Education, New York, February 2006 (15 CPE Hours)
- *International Appraisal Conference* of The American Society of Appraisers, New York, August 2006 (6.5 CPE Hours)
- *Valuation for Financial Accounting (FASB 141/142/144)*. Instructor: William Johnston, ASA. Center for Advanced Valuation Studies (CAVS), New York, August 2006 (7 CPE Hours)

- *Advanced Financial Statement Analysis for Appraisers - Making the Calls*, Instructor: Mike Adhikari, The IBA, Las Vegas, January 2008 (8 CPE Hours)
- *Advanced Case Studies: Practical Applications*, Instructor: Dennis Bingham, The IBA, January 2008 (16 CPE Hours)
- *Valuing Intangibles*, Instructor: Rob Schlegel, The IBA, January 2008 (8 CPE Hours)
- *Forensic Accounting for Business Appraisers*. Instructor: Dr. Laura Tindall, The IBA, Louisville, KY, July 2008 (16 CPE Hours)
- *Business Appraisal for Divorce*, Instructor: Rob Schlegel, The IBA, July 2008 (8 CPE Hours)
- *Marketing Your Practice-Making the Phone Ring*, Instructor: KC Conrad, The IBA, August, 2008 (8 CPE Hours)
- Advanced Planning Seminar -Estate & Business Planning, New York, April 20, 2009 (7 CPE Hours)
- Estate Planners Day 2009, Estate Planning Council of NYC, New York, May 6, 2009 (7 CPE Hours)
- *14th Annual Multi-State ESOP Conference* of The ESOP Association, Scranton, Pennsylvania, September 2009
- *ESOP Appraisals*, Instructor: Chris Best, The IBA, November 9, 2009 (8 CPE Hours)
- *ESOP Conference* of The ESOP Association, Las Vegas, Nevada, November 2009 (12 CPE Hours)
- *44th Annual Heckerling Institute on Estate Planning*, Orlando, January 25-29, 2010 (33.5 CPE Hours)
- *45th Annual Heckerling Institute on Estate Planning*, Orlando, January 10-14, 2011 (33 CPE Hours)
- *46th Annual Heckerling Institute on Estate Planning*, Orlando, January 9-13, 2012 (33 CPE Hours)

Member - Professional Organizations

- The Institute of Business Appraisers, Inc. (IBA)
- The American Society of Appraisers (ASA)
- National Business Valuation Group, LLC
- Estate Planning Council of Rockland County
- Estate Planning Council of NYC
- Fellow Member of Yeshiva University Planned Giving Committee

IX. Tables

Table IV-1	Historical Balance Sheets
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	A	B	C	D	E	F	G
1	<p style="text-align: center;">Table IV-1</p> <p style="text-align: center;">ABC Dental Products Corp.</p> <p style="text-align: center;">Balance Sheets [1]</p>						
2							
3							
4							
5	Fiscal Year Ending 12/31	20XX	20XX	20XX	20XX	20XX	7/14/20XX
6	Cash		26,911	12,915	6,910	29,330	(5,672)
7	A/R	153,538	262,607	250,865	510,831	784,533	617,971
8	Inventories	986,072	962,687	1,133,220	1,114,778	1,359,353	475,982
9	Other Current Assets (Prepaid Exp)	11,364	102,576	99,934	17,008	10,872	18,626
10	Total Current Assets	1,150,974	1,354,781	1,496,934	1,649,527	2,184,088	1,106,908
11	Property & Equipment						
12	Fixtures & Equipment	225,581	266,701	272,638	272,638	302,953	
13	Accum. Depreciation	(19,119)	(62,010)	(107,276)	(152,790)	(185,747)	
14	Net Fixed Assets	206,462	204,691	165,362	119,848	117,206	204,273
15	Loans to Shareholders						
16	Other Assets						
17	Total Assets	1,357,436	1,559,472	1,662,296	1,769,375	2,301,294	1,311,181
18	A/P	110,247	551,280	296,392	217,345	615,815	139,701
19	Loan Payable-Banks	194,000	218,976	150,000	450,000	786,324	1,196,355
20	Current Portion of Long Term Debt	183,657	29,709	97,817	96,784	77,241	
21	Interest Payable						4,533
22	Total Current Liabilities	487,904	799,965	544,209	764,129	1,479,380	1,340,589
23	Loans & Exchanges						548,410
24	Long Term Debt	918,420	39,612	140,897	150,295	227,711	
25	Loan Payable-Officer [2]		660,203	913,248	784,138	497,312	407,550
26	Loan Payable-Officer [2]		(660,203)	(913,248)	(784,138)	(497,312)	(407,550)
27	Other Long Term Debt						
28	Total Long Term Liabilities	918,420	39,612	140,897	150,295	227,711	548,410
29	Total Liabilities	1,406,324	839,577	685,106	914,424	1,707,091	1,888,999
30	Capital Stock	5,000	5,000	5,000	5,000	5,000	5,000
31	Additional Paid-In Capital						
32	Retained Earnings	(53,888)	54,692	58,942	65,813	91,891	(990,367)
33	LT Debt (Stockholder Loan) [2]		660,203	913,248	784,138	497,312	407,550
34	Total Equity	(48,888)	719,895	977,190	854,951	594,203	(577,817)
35	Total Liabilities & Equity	1,357,436	1,559,472	1,662,296	1,769,375	2,301,294	1,311,181
36							
37	[1] Source: Reviewed financial statements (20XX-20XX) by Accountants & Company, P.C. and internally prepared BS						
38	as of July 14, 20XX, provided by Robert Miller.						
39							
40	[2] We reclassified the Stockholder Loan as equity in corroboration with Jim Jones, CPA. The shareholder loan is essentially						
41	an increase in the equity investment in the Company and should, for valuation purposes, be adjusted out,						
42	so the effect of this transaction becomes just that, an increase in the equity section of the balance sheet.						

	A	B	C	D	E	F	G	H	I
1	<div>Table IV-2</div> <div>ABC Dental Products Corp.</div> <div>Income Statements [1]</div>								
2									
3									
4									
5									
6	Fiscal Year Ending 12/31	20XX	20XX	20XX	20XX	20XX	Annualized 20XX	6 mo 20XX	6 mo 20XX
7	Revenues	3,949,958	5,040,678	4,368,481	5,407,317	6,770,331	6,783,105	3,145,102	3,391,553
8	Cost of Sales	2,548,782	3,504,652	3,027,643	4,168,477	4,654,044	4,809,186	2,257,093	2,404,591
9	Gross Profit	1,401,176	1,536,026	1,340,838	1,238,840	2,116,287	1,973,919	888,008	986,960
10	SG&A Expenses								
11	Compensation of Officers	69,000	78,000	78,000	59,433	85,800	90,000	40,800	45,000
12	Salaries & Wages	269,975	382,519	335,390	187,758	385,645	452,782	146,847	226,391
13	Commissions	18,902	2,442	10,604	5,189	2,851	52,285	715	26,143
14	Auto and Travel	71,519	49,646	61,260	46,053	78,230	59,524	37,598	29,762
15	Repairs & Maintenance	6,450	8,249	9,769	11,913	24,372	17,954	14,252	8,977
16	Advertising	120,934	112,827	27,089	138,206	225,561	83,505	37,533	41,752
17	Insurance	41,085	43,316	54,968	47,920	47,367	27,347	26,660	13,674
18	Equipment Leasing	19,697	16,336	9,125	8,890	6,666	2,222	3,333	1,111
19	Rent	104,500	195,400	119,200	102,210	198,643	123,900	67,235	61,950
20	Credit Card Charges	48,812	62,942	61,924	79,567	90,630	92,617	41,888	46,308
21	Freight Out	92,564	116,674	118,595	139,253	192,958	220,099	94,040	110,050
22	Office and Sundry	158,998	56,303	86,225	33,788	72,617	57,574	30,918	28,787
23	License and Fees		3,401			12,291	-	9,435	
24	Meals						640	6,255	320
25	Professional and Consulting Fees	16,650	23,920	26,317	27,370	174,901	293,065	66,044	146,533
26	Telephone	37,908	37,774	35,151	32,188	42,033	44,861	20,409	22,430
27	Utilities	14,269	19,716	22,062	22,420	28,909	33,509	12,985	16,755
28	Bank Charges	20,917	56,363	26,703	8,076	39,872	64,326	5,285	32,163
29	Computer Exp						9,777	2,524	4,888
30	Employee Welfare	19,598	34,378	27,950	18,848	44,866	76,600	25,195	38,300
31	Payroll Taxes	30,078	43,246	38,529	26,294	47,455	62,955	17,365	31,478
32	Bad Debts	18,784		10,357	2,572	741	-	695	
33	Show Expense		17,284	8,700	24,484		13,241	4,459	6,621
34	Misc	3,223					2,280	2,606	1,140
35	Supplies	10,964					-		
36	Total SG&A Exp	1,194,827	1,360,736	1,167,918	1,022,432	1,802,408	1,881,063	715,077	940,532
37	Depreciation	67,658	42,891	45,266	45,514	32,957			
38	Total Expenses	1,262,485	1,403,627	1,213,184	1,067,946	1,835,365	1,881,063	715,077	940,532
39	Operating Income	138,691	132,399	127,654	170,894	280,922	92,856	172,932	46,428
40	Other Income								
41	Interest Income								
42	(Interest Expense)	(91,719)	(68,489)	(67,464)	(99,206)	(161,509)	(196,997)	(68,749)	(98,499)
43	Gain (Loss) on Sale of Fixed Assets								
44	Net Income Before Taxes	\$ 46,972	\$ 63,910	\$ 60,190	\$ 71,688	\$ 119,413	\$ (104,141)	\$ 104,183	\$ (52,071)
45	Income Taxes		3,492	3,487	3,999	5,260			
46	Net Income After Taxes	\$ 46,972	\$ 60,418	\$ 56,703	\$ 67,689	\$ 114,153	\$ (104,141)	\$ 104,183	\$ (52,071)
47	Adjustments								
48	= Total Adjustments	-	-	-	-	-	-	NA	NA
49	Economic Net Inc Before Taxes	\$ 46,972	\$ 63,910	\$ 60,190	\$ 71,688	\$ 119,413	\$ (104,141)	NA	NA
50	Income Taxes (NYC Corp Taxes @ 9%)	(4,227)	(5,752)	(5,417)	(6,452)	(10,747)	9,373	NA	NA
51	Economic Net Income After Taxes	\$ 42,745	\$ 58,158	\$ 54,773	\$ 65,236	\$ 108,666	\$ (94,768)	NA	NA
52	Weights [5]	1	1	1	1	1	1	NA	NA
53	Weighted ENIAT	\$ 42,745	\$ 58,158	\$ 54,773	\$ 65,236	\$ 108,666	\$ (94,768)	NA	NA
54	Aggregate Weighted ENIAT	\$ 234,809							
55	Total of Weights Applied	6							
56	Weighted Avg. ENIAT	\$ 39,135							
57									
58	[1] Source: Reviewed financial statements (20XX-20XX) by Accountants & Company, P.C. and internally prepared BS								
59	as of July 14, 20XX, provided by Robert Miller.								

	A	B	C	D	E	F	G	H	I
1	<div>Table IV-2A</div> <div>ABC Dental Products Corp.</div> <div>Common Size Income Statements</div>								
2									
3									
4									
5									
6	Fiscal Year Ending 12/31	20XX	20XX	20XX	20XX	20XX	Annualized 20XX	6 mo 20XX	6 mo 20XX
7	Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
8	Cost of Sales	64.5%	69.5%	69.3%	77.1%	68.7%	70.9%	71.8%	70.9%
9	Gross Profit	35.5%	30.5%	30.7%	22.9%	31.3%	29.1%	28.2%	29.1%
10	SG&A Expenses								
11	Compensation of Officers	1.7%	1.5%	1.8%	1.1%	1.3%	1.3%	1.3%	1.3%
12	Salaries & Wages	6.8%	7.6%	7.7%	3.5%	5.7%	6.7%	4.7%	6.7%
13	Commissions	0.5%	0.0%	0.2%	0.1%	0.0%	0.8%	0.0%	0.8%
14	Auto and Travel	1.8%	1.0%	1.4%	0.9%	1.2%	0.9%	1.2%	0.9%
15	Repairs & Maintenance	0.2%	0.2%	0.2%	0.2%	0.4%	0.3%	0.5%	0.3%
16	Advertising	3.1%	2.2%	0.6%	2.6%	3.3%	1.2%	1.2%	1.2%
17	Insurance	1.0%	0.9%	1.3%	0.9%	0.7%	0.4%	0.8%	0.4%
18	Equipment Leasing	0.5%	0.3%	0.2%	0.2%	0.1%	0.0%	0.1%	0.0%
19	Rent	2.6%	3.9%	2.7%	1.9%	2.9%	1.8%	2.1%	1.8%
20	Credit Card Charges	1.2%	1.2%	1.4%	1.5%	1.3%	1.4%	1.3%	1.4%
21	Freight Out	2.3%	2.3%	2.7%	2.6%	2.9%	3.2%	3.0%	3.2%
22	Office and Sundry	4.0%	1.1%	2.0%	0.6%	1.1%	0.8%	1.0%	0.8%
23	License and Fees	0.0%	0.1%	0.0%	0.0%	0.2%	0.0%	0.3%	0.0%
24	Meals	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	0.0%
25	Professional and Consulting Fees	0.4%	0.5%	0.6%	0.5%	2.6%	4.3%	2.1%	4.3%
26	Telephone	1.0%	0.7%	0.8%	0.6%	0.6%	0.7%	0.6%	0.7%
27	Utilities	0.4%	0.4%	0.5%	0.4%	0.4%	0.5%	0.4%	0.5%
28	Bank Charges	0.5%	1.1%	0.6%	0.1%	0.6%	0.9%	0.2%	0.9%
29	Computer Exp	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%
30	Employee Welfare	0.5%	0.7%	0.6%	0.3%	0.7%	1.1%	0.8%	1.1%
31	Payroll Taxes	0.8%	0.9%	0.9%	0.5%	0.7%	0.9%	0.6%	0.9%
32	Bad Debts	0.5%	0.0%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%
33	Show Expense	0.0%	0.3%	0.2%	0.5%	0.0%	0.2%	0.1%	0.2%
34	Misc	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%
35	Supplies	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
36	Total SG&A Exp	30.2%	27.0%	26.7%	18.9%	26.6%	27.7%	22.7%	27.7%
37	Depreciation	1.7%	0.9%	1.0%	0.8%	0.5%	0.0%	0.0%	0.0%
38	Total Expenses	32.0%	27.8%	27.8%	19.8%	27.1%	27.7%	22.7%	27.7%
39	Operating Income	3.5%	2.6%	2.9%	3.2%	4.1%	1.4%	5.5%	1.4%
40	Other Income	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
41	Interest Income	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
42	(Interest Expense)	-2.3%	-1.4%	-1.5%	-1.8%	-2.4%	-2.9%	-2.2%	-2.9%
43	Gain (Loss) on Sale of Fixed Assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
44	Net Income Before Taxes	1.2%	1.3%	1.4%	1.3%	1.8%	-1.5%	3.3%	-1.5%
45	Income Taxes	0.0%	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%
46	Net Income After Taxes	1.2%	1.2%	1.3%	1.3%	1.7%	-1.5%	3.3%	-1.5%
47	Adjustments								
48	= Total Adjustments	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	NA	NA
49	Economic Net Inc Before Taxes	1.2%	1.3%	1.4%	1.3%	1.8%	-1.5%	NA	NA
50	Income Taxes (NYC Corp Taxes @ 9%)	-0.1%	-0.1%	-0.1%	-0.1%	-0.2%	0.1%	NA	NA
51	Economic Net Income After Taxes	1.1%	1.2%	1.3%	1.2%	1.6%	-1.4%	NA	NA

	A	B	C	D	E	F	G	H	I
1	Table IV-3 Financial Ratios Fiscal Year Ending December 31,								
2									
3									
4									
5									
6	Liquidity Ratios	20XX	20XX	20XX	20XX	20XX	20XX		Avg (0X-0X)
7	Current Ratio	2.4	1.7	2.8	2.2	1.5	0.8		1.9
8	Quick Ratio	0.3	0.5	0.7	0.7	0.6	0.5		0.5
9	Leverage Ratios								
10	Debt Ratio (Debt/Assets)	103.6%	53.8%	41.2%	51.7%	74.2%	144.1%		0.8
11	Debt/Equity	-2876.6%	116.6%	70.1%	107.0%	287.3%	-326.9%		-4.4
12	Coverage Ratio (Times Interest Earned)	151.2%	193.3%	189.2%	172.3%	173.9%	47.1%		1.5
13	Activity Ratios								
14	AR Turnover (Sales/Receivables)	25.7	19.2	17.4	10.6	8.6	11.0		15.4
15	Days' Receivables (365/AR turnover)	14.2	19.0	21.0	34.5	42.3	33.3		27.4
16	Inv Turnover (COG/Inventory)	2.6	3.6	2.7	3.7	3.4	10.1		4.4
17	Days' Inventory (365/Inv turnover)	141.2	100.3	136.6	97.6	106.6	36.1		103.1
18	Asset Turnover (Sales/Total Assets)	2.9	3.2	2.6	3.1	2.9	5.2		3.3
19	Fixed Assets Turnover (Sales/Fixed Assets)	19.1	24.6	26.4	45.1	57.8	33.2		34.4
20	Working Capital Turnover	6.0	9.1	4.6	6.1	9.6	-29.0		1.1
21	Profitability Ratios								
22	Sales Growth-Annual	NA	27.6%	-13.3%	23.8%	25.2%	0.2%		12.7%
23	Sales Growth-CAGR	11.4%	7.7%	15.8%	12.0%	0.2%	NA		9.4%
24	Gross Profit Margin	35.5%	30.5%	30.7%	22.9%	31.3%	29.1%		30.0%
25	Pre-Tax Profit Margin-Unadjusted	1.2%	1.3%	1.4%	1.3%	1.8%	-1.5%		0.9%
26	Net Inc Bef Tax (NIBT)-Annual Growth	NA	36.1%	-5.8%	19.1%	66.6%	-187.2%		-14.3%
27	NIBT-CAGR	-217.3%	NA	-220.1%	NA	-187.2%	NA		-208.2%
28	Pre Tax ROE-Unadjusted	NA	9.5%	3.5%	3.9%	8.2%	-635.6%		-122.1%
29	Pre Tax ROA-Unadjusted	NA	2.2%	1.9%	2.1%	2.9%	-2.9%		1.2%
30	Pre Tax ROE-Adjusted	NA	9.5%	3.5%	3.9%	8.2%	-635.6%		-122.1%
31	Pre Tax ROA-Adjusted	NA	2.2%	1.9%	2.1%	2.9%	-2.9%		1.2%

	A	B	C	D
1	Table IV-4 Comparative Ratio Analysis - NAICS Code 423400			
2				
3				
4		Almanac Data [1]	Subject DATA	
5		\$1M-\$5M Tot. Assets	20XX [2]	Evaluation
6	<i>Liquidity Ratios</i>			
7	Current Ratio	1.5	0.8	Negative
8	Quick Ratio	1.0	0.5	Negative
9	<i>Leverage Ratios</i>			
10	Debt Ratio	72.4%	144.1%	Negative
11	Debt/Equity	260.0%	-326.9%	Negative
12	Coverage Ratio	4.2	0.5	Negative
13	<i>Activity Ratios</i>			
14	Accounts Receivable Turnover	12.2	11.0	Negative
15	Inventory Turnover	18.6	10.1	Negative
16	Asset Turnover	4.5	5.2	Positive
17	Working Capital Turnover	16.9	-29.0	Negative
18	<i>Profitability Ratios [3]</i>			
19	Pre-Tax Profit Margin	0.9%	-1.5%	Negative
20	Pre-Tax ROE	14.3%	-635.6%	Negative
21	Pre-Tax ROA	5.2%	-2.9%	Negative
22	<p>[1] Source: <i>Almanac of Business and Industrial Financial Ratios</i>, by Leo Troy, 2008, Table I, Corporations with and without Net Income, Page 171. The Almanac data for \$1M-\$5M category contains 3457 enterprises. NAICS Code 423400 is for Professional and Commercial Equipment and Supplies</p> <p>[2] We compare the subject's 20XX financial ratios to the Almanac data. The subject's financial ratios are from Table IV-3, column G.</p> <p>[3] These are based on unadjusted net income from Table IV-3</p>			
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24				
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	A	B	C	D
1	<p style="text-align: center;">Table V-1 ABC Dental Products Corp. Capitalization of Earnings Method--7/14/XX</p>			
2				
3				
4				
5	Weighted Avg Economic Net Income (ENI) (Table IV-2, B56)			39,135
6	Forecast Economic Net Income (ENI)--7/14/XX @ 2.5% growth			39,654
7	Retention Ratio (B22) [1]			10%
8	Income Retained			(3,965)
9	Forecast Cash Flow			35,689
10	Gordon Model Multiple-Midyear = $SQRT \frac{(1+r)}{(r-g)}$			4.5998
11	PV Cash Flows-Yrs 1 to Infinity = FMV-100% Marketable Min Basis as of 7/14/XX			\$164,160
12	+ Control Premium-% [2]			25.0%
13	+ Control Premium-\$			41,040
14	Fair Market Value-Marketable Controlling Basis			205,200
15	- Discount-Lack of Marketability-% [4]			11%
16	- Discount-Lack of Marketability-\$			(22,572)
17	FMV-Illiquid-100% Illiquid Controlling Basis			\$182,628
18				
19	Assumptions:			
20	Discount Rate (Table V-1A, B14) = r			27%
21	Long-Term Growth Rate of Cash Flows = g [3]			2.5%
22	Retention Ratio [1]			10%
23				
24	[1] The Moskowitz-Vissing-Jorgannsen estimate for privately-held firms is 20%.			
25	However, we expect low to modest growth (see footnote 3), which is why we use a 10% retention rate.			
26	See Moskowitz, Tobias J. and Annette Vissing-Jorgensen. 2002, "The Private Equity Premium Puzzle,"			
27	<i>American Economic Review</i> , September 2002, Volume 92, No. 4. See especially page 755, second column.			
28				
29	[2] See Quantitative Business Valuation: A Mathematical Approach For Today's Professionals,			
30	by Jay B. Abrams, McGraw-Hill, 2001, Chapter 7, Page 230. The range for the control			
31	premium is between 21-28%. We use the midpoint at 25%.			
32				
33	[3] First Research expects the industry to grow at an annual compounded rate of 4.8%. However, considering the			
34	current losses in 2008 due to the health problems of Avraham Lehrer, we expect only modest growth of 2.5%.			
35				
36	[4] This is the average DLOM (rounded) for a \$125,000 to \$175,000 firm.			
37	Source: <i>How to Value Your Business and Increase Its Potential</i> , Jay B. Abrams,			
38	McGraw-Hill, 2005, Table 8.1, p. 137. We present the chart in Table V-1B. The chart			
39	is applicable to control interests and not minority interests. The DLOM is materially higher for			
40	minority interests.			

	A	B
1	Table V-1A Calculation of Discount Rate [1] Using Abrams' Log Size Model	
2		
3		
4		
5	FMV-Marketable Minority Interest (Table V-1, D11)	\$164,160
6	Constant	43.320%
7	Natural log (ln) of Marketable Minority	12.01
8	X Coefficient	-1.270%
9	B6 x B7	-15.3%
10	Total Calculated Discount Rate	28.1%
11	Reduction in Macro Economic Risk [2]	-2.0%
12	Subjective Premium [3]	1.0%
13	Total Discount	27.069%
14	Total Discount Rate Rounded	27%
15	<p>[1] Calculation is from <i>Quantitative Business Valuation: A Mathematical Approach For Today's Professionals</i>, Table 4-1, by Jay B. Abrams, McGraw-Hill, 2001, updated and based on returns from <i>SBBi-2007 Yearbook</i>, Ibbotson & Associates, Inc., Chicago, IL, which contains stock market returns through 2006.</p> <p>[2] Until very recently, the best assumption of future rates of return in the stock market have been historical rates of return. Thus, column B would be the correct rates of return to use as discount rates. However, a recent body of academic research is presenting compelling evidence that future returns should be lower than historical returns. Thus, we need to reduce our historical forecasts by our best estimate of the appropriate downward adjustment.</p> <p>In "The Equity Premium," by Eugene Fama & Kenneth French, <i>Journal of Finance</i>, April 2002, p. 647-659, the authors forecast future returns will be lower than historical returns by approx. 4%. In "The Supply of Stock Market Returns," by Roger G. Ibbotson and Peng Chen, Yale ICF Working Paper No. 00-44, the authors forecast future returns will be lower than historical returns only by 1%. In "The Declining Equity Premium: What Role Does Macroeconomic Risk Play?", by Martin Lettau, Sydney C. Ludvigson, and Jessica A. Wachter, the authors demonstrate that long-term decline in macro-economic risk (standard deviation in growth of non-durables and services and personal consumption expenditures) accounts for a significant portion of the decline in rates of return. They forecast a 2% decline (see page 28).</p> <p>It will take a long time to sort through the arguments and come to some consensus, if there ever will be such a thing. We use our professional judgment to choose the 2% adjustment in the meantime. Obviously, this creates uncertainty about values.</p> <p>[3] The Company's profitability depends very much on Robert Miller. The Company has losses in 20XX due to Mr. Miller's health problems, which impede him from running the Company efficiently. We therefore subjectively add a 1% premium to account for the heavy reliance on the key person.</p>	
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	A	B	C
1	Table V-1B Discount for Lack of Marketability By Avg Firm Size		
2			
3			
4			
5	FMV	DLOM [1]	
6	25,000	10.8%	
7	75,000	11.0%	
8	125,000	11.1%	
9	175,000	11.2%	
10	225,000	11.6%	
11	375,000	13.6%	
12	500,000	15.6%	
13	750,000	19.9%	
14	2,000,000	18.0%	
15	5,000,000	15.8%	
16	10,000,000	15.5%	
17			
18	[1] Source: <i>How to Value Your Business and Increase Its Potential</i> , ©2005,		
19	Jay B. Abrams, McGraw-Hill, ISBN #: 0-07-139520-2, Table 8.1, p. 137.		

	A	B	C	D	E	F	G	H
1	Table V-2A							
2	IBA Data-SIC Code 5047-Medical, Dental, and Hospital Equipment and Supplies							
3								
4	Business Type	Annual Gross	Disc Earn	Sale Price	Price/ Gross	Price/ Earnings	Geo- graphic	Yr/Mo of Sale
5	Dist-Medical Supply	1,000,000	250,000	175,000	0.18	0.70	FL	99/01
6	Distribution Dist-Medical Supply	1,000,000	250,000	175,000	0.18	0.70	Palm Beach	04/01
7	Distr-Wound Care Product	1,050,000	233,000	400,000	0.38	1.72	TX	98/07
8	Dist-Medical Equip	1,091,000	362,000	1,046,000	0.96	2.89	FL	99/07
9	Dist-Medical Equip	1,092,000	362,000	1,046,000	0.96	2.89	FL	99/01
10	Distribution Dist-Medical Equip	1,092,000	362,000	1,046,000	0.96	2.89	Pinellas -	99/07
11	Medical Equipment-Distr	1,118,000	206,000	635,000	0.57	3.08	CA	93/10
12	Distribution Dist-Medical Equipment	1,260,000	50,000	490,000	0.39	9.80	CT	06/08
13	Dental supplies, distr.	1,500,000	40,000	300,000	0.20	7.50		76/01
14	Medical supplies, distr	1,600,000	50,000	1,100,000	0.69	22.00		72/01
15	Disposable surgical dev.	1,600,000	100,000	6,600,000	4.12	66.00		75/01
16	Medical Related Biz Medical Equipment	1,857,000	507,000	1,400,000	0.75	2.76	Palm Beach	04/12
17	Distr-Medical Supplies	1,900,000	285,000	850,000	0.45	2.98	SW FL	98/03
18	Medical Equipment, Used, Sales & Service	2,265,000	479,000	1,100,000	0.49	2.30	CA	97/12
19	Medical Related Biz Medical Equipment	2,372,000	759,000	1,800,000	0.76	2.37	Seminole -	03/10
20	Medical Related Biz Medical Equipment	2,932,000	204,000	1,750,000	0.60	8.58	Saint Lucie -	02/03
21	Medical Supplies	2,996,000	78,000	7,200,000	2.40	92.31	FL	00/12
22	Medical	3,000,000	1,100,000	13,750,000	4.58	12.50	Denver, CO	01/01
23	Dental labs, whlse	4,400,000	300,000	3,600,000	0.82	12.00		76/01
24	Ultrasonic diagnostic sys.	4,700,000	500,000	5,000,000	1.06	10.00		76/01
25	Distribution Dist-Medical Equip	6,000,000	1,500,000	8,000,000	1.33	5.33	Withheld -	03/11
26	Medical Equipment	14,000,000	2,100,000		1.21	8.10	CA	98/01
27	Mean			2,736,333	1.09	12.70		
28	Median				0.76	4.21		
29	Standard Deviation				1.16	22.47		
30	Coefficient of Variation				1.06	1.77		
31								
32		Price/Gross	Price/DE	Total				
33	Median Multiple	0.76	4.21					
34	Sales 20XX	6,770,331	NA					
35	Disc Earnings 20XX	NA	366,722					
36	Frkst Sell Price	5,111,600	1,542,066					
37	Adjustments to Arrive at FMV							
38	+ Cash (Table IV-1, G6)	29,330	(5,672)					
39	+ Receivables (Table IV-1, G7)	784,533	617,971					
40	+ Other Assets (Table IV-1, G9)	10,872	18,626					
41	- Total Liabilities (Table IV-1, G26)	(1,707,091)	(1,888,999)					
42	Total Adjustments	(882,356)	(882,356)					
43	FMV-Private Illiquid Control Int	4,229,244	659,710					
44	Weight [1]	0%	100%					
45	Weighted FMV	-	659,710	659,710				
46								
47	[1] We give 100% of weight to the Price/DE Multiple, since discretionary earnings is a better variable than sales.							

	A	B	C	D	E	F	G	H	I	J	K	L
1	<p align="center">Table V-2B</p> <p align="center">Pratt's Stats-SIC Code-5047-Medical, Dental, and Hospital Equipment and Supplies</p>											
2												
3												
4	Business Description	Net Sales	Net Income	GrossProfit	EBITDA	EBIT	MVIC	MVIC/S	MVIC/NI	MVIC/GP	MVIC/EBITD A	MVIC/EBIT
5	Used Medical Equipment Sales and Services (CT Scanners)	2,265,112	195,657	\$1,495,602	\$372,804	\$314,276	1,429,042	0.63	7.30	0.96	3.83	4.55
6	Medical Equipment Sales and Service	2,681,825	48,576	\$1,287,382	\$64,650	\$64,650	1,671,000	0.62	34.40	1.30	25.85	25.85
7	Distributor of Medical Supplies	3,026,418	49,555	\$391,383	\$92,115	\$77,554	7,200,000	2.38	145.29	18.40	78.16	92.84
8	Distribution, Home Health Care Products	3,508,221	284,464	\$826,208	\$455,103	\$433,075	1,953,830	0.56	6.87	2.36	4.29	4.51
9	Distributor of Durable Medical Equipment	5,998,460	1,641,630	\$2,322,840	\$1,641,630	\$1,641,630	8,151,127	1.36	4.97	3.51	4.97	4.97
10	Provider of Mobile Cataract Surgery Equipment and Supplies	6,149,588	433,914	\$2,526,152	\$1,337,786	\$615,591	3,500,000	0.57	8.07	1.39	2.62	5.69
11	Sales, Service, Distribution, and Marketing of Orthopedic Durable Medical Equipment	6,241,598	26,895	\$2,807,527	\$564,831	\$366,592	3,575,000	0.57	132.92	1.27	6.33	9.75
12	Value-Added Distributor of Therapeutic Medical Equipment	6,681,647	600,000	\$4,401,058	\$664,909	\$600,000	9,199,650	1.38	15.33	2.09	13.84	15.33
13	DME Distribution - Orthotics	6,803,400	356,400	\$2,816,000	\$362,400	\$356,400	4,560,000	0.67	12.79	1.62	12.58	12.79
14	Mean						4,582,183	0.97	40.88	3.65	16.94	19.59
15	Median							0.63	12.79	1.62	6.33	9.75
16	Standard Deviation							0.62	56.47	5.58	24.11	28.34
17	Coefficient of Variation							0.64	1.38	1.53	1.42	1.45
18												
19	Valuation Using Invested-Capital Multiples											
20												
21		Sales	Net Income	Gross Profit	EBITDA	EBIT	Weighted Value					
22	Company Fundamental 2007	6,770,331	108,666	2,116,287	313,879	280,922						
23	Median MVIC Multiple	0.63	12.79	1.62	6.33	9.75						
24	Indicated Value	4,271,351	1,390,337	3,426,942	1,986,643	2,739,547						
25	Weight [1]	12.5%	50.0%	12.5%	12.5%	12.5%	100.0%					
26	Weighted Value	533,919	695,169	428,368	248,330	342,443	2,248,229					
27	Less: Interest Bearing Debt						1,744,765					
28	FMV						503,464					
29												
30	[1] We give 50% of weight to the MVIC/Net Income Multiple, since the market places high weight on net income and it has the second											
31	lowest coefficient of variation among the guideline companies. We split the remainder equally among the other multiples, i.e., 12.5% each.											

	A	B	C	D	E	F
1	Table V-3 Reconciliation of FMV 100% Interest in ABC Dental Products Corp. as of 7/14/XX					
2						
3						
4						
5	Valuation Methods	Table	Indicated Value	Discount/ Premium	Weight [1]	Wtd FMV
6	Asset Approach					
7	Indicated Value-Illiquid Control Basis	IV-1, G31	(\$577,817)			
8	Less: Discount for Lack of Control		\$0			
9	Indicated Value-Illiquid Control Basis		<u>(\$577,817)</u>		0.0%	\$0
10						
11	Income Approach					
12	Indicated Value-Illiquid Control Basis	V-1, D17	\$182,628			
13	Less: Discount for Lack of Control		\$0			
14	Indicated Value-Illiquid Control Basis		<u>\$182,628</u>		50.0%	\$91,314
15						
16	Market Approach - IBA					
17	Indicated Value-Illiquid Control Basis	V-2A, D43	\$659,710			
18	Less: Discount for Lack of Control		\$0	0.0%		
19	Indicated Value-Illiquid Control Basis		<u>\$659,710</u>		25.0%	\$164,928
20						
21						
22	Market Approach - Pratt's Stats					
23	Indicated Value-Illiquid Control Basis	V-2B, G29	\$503,464			
24	Less: Discount for Lack of Control		\$0	0.0%		
25	Indicated Value-Illiquid Control Basis		<u>\$503,464</u>		25.0%	\$125,866
26						
27						
28	VALUE CONCLUSION - 100% Control Interest in Company				100.0%	\$382,108
29	VALUE CONCLUSION - 100% Interest in Company (Rounded)					\$382,000
30						
31	[1] Since each approach has its own validity, our starting position is to weight each one equally, or one-third.					
32	While the premise of value for the income and market approach is going concern, the asset approach is					
33	more used to determine the value of the company in liquidation. In other words, the Asset Approach is used					
34	to ascertain whether the Company is worth more "dead or alive." If the Asset Approach with liquidating values					
35	yields a higher indication of fair market value than the Income and Market Approaches, i.e., the company is more					
36	valuable in liquidation than in operation, then a control shareholder would be wise to liquidate the Company,					
37	and the Asset Approach should dominate the other two approaches. However, a minority interest cannot					
38	force liquidation. Thus, the asset approach is only relevant when we value a control interest, since only a control					
39	interest has access to the value locked in the assets.					
40						
41	In our case, we value a controlling interest. However, the asset approach yields a lower FMV than the income					
42	and market approaches. The liquidation value would be even lower, since no liquidation costs were imputed.					
43	Thus, we do not give any weight to the asset approach. We weight the income and market approaches equally.					
44	Within the market approach, we looked at Pratt's Stats and the IBA database. We give equal weight to both of them.					