51 PERCENT INTEREST IN
RONALD K. MORRISON AND ASSOCIATES, INC.

VALUATION REPORT

NOVEMBER 13, 2020

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April 19, 2021

Crenshaw Hayes LLP
77 Brightline Avenue
Randolph, NJ 07111
Attn: Anthony Y. Young, Esq.

Re: Valuation of 51 percent interest in Ronald K. Morrison and Associates, Inc.

Dear Mr. Young:

We have performed a valuation engagement, as that term is defined in the *Statement on Standards for Valuation Services* ("SSVS") of the American Institute of Certified Public Accountants of Ronald K. Morrison and Associates, Inc. as of November 13, 2020. This valuation was performed solely to be used in the preparation of estate tax returns; the resulting conclusion of value should not be used for any other purpose or by any other party for any purpose. This valuation engagement was conducted in accordance with the SSVS, as well as the *Uniform Standards of Professional Appraisal Practice* promulgated by The Appraisal Foundation and the *Business Valuation Standards* of the American Society of Appraisers. The estimate of value that results from a valuation engagement is expressed as a conclusion of value.

Based on our analysis, as described in this valuation report, which must be signed in blue ink by the valuation analyst to be authentic, the conclusion of value of a 51 percent interest in Ronald K. Morrison and Associates, Inc. as of November 13, 2020 is:

TWO MILLION, TWO HUNDRED TWENTY-EIGHT THOUSAND DOLLARS
($2,228,000)

This conclusion is subject to the Statement of Assumptions and Limiting Conditions found in Appendix 2 and to the Valuation Analyst's Representation found in Appendix 3. We have no obligation to update this report or our conclusion of value for information that comes to our attention after the date of this report.

Respectfully submitted,

TRUGMAN VALUATION ASSOCIATES, INC.

Gary R. Trugman
CPA/ABV, ASA, MVS

GRT/bjj
Attachments

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INTRODUCTION

DESCRIPTION OF THE ASSIGNMENT

Trugman Valuation Associates, Inc. was retained by Anthony Y. Young, Esquire, on behalf of Crenshaw Hayes LLP ("The Client" and "The Intended User") to perform a business valuation of a 51 percent interest in Ronald K. Morrison and Associates, Inc. ("RKMF" or "The Company"), a New York corporation, as November 13, 2020, the date of death of Ronald Morrison.

The purpose of this business valuation is to determine the fair market value of this interest to be used in the preparation of estate tax returns. The scope of work for this valuation was not limited in any way and all relevant data and methodologies have been considered and presented in this report. This assignment meets all of the requirements under *Statement on Standards for Valuation Services* promulgated by the American Institute of Certified Public Accountants, as well as the *Uniform Standards of Professional Appraisal Practice* promulgated by The Appraisal Foundation and the *Business Valuation Standards* of the American Society of Appraisers.

DEFINITION OF FAIR MARKET VALUE

Section 20.2031 (b) of the Federal Estate and Gift Tax Regulations defines fair market value as:

> ...the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts.

This definition of fair market value is the most widely used in valuation practice. Also implied in this definition is that the value is to be stated in cash or cash equivalents and that

the property would have been exposed on the open market for a long enough period of time to allow market forces to interact to establish the value.

VALUATION METHODOLOGIES

There are two fundamental bases on which a company may be valued:

1. As a going concern and
2. As if in liquidation.

The value of a company is deemed to be the higher of the two values determined under a going concern or a liquidation premise. This approach is consistent with the valuation concept of highest and best use, which requires a valuation analyst to consider the optimal use of the assets being valued under current market conditions. If a business will command a higher price as a going concern then it should be valued as such. Conversely, if a business will command a higher price if it is liquidated, then it should be valued as if in orderly liquidation. This valuation will be performed as a going concern.

GOING CONCERN VALUATION

Going concern value assumes that the company will continue in business and looks to the enterprise's earnings power and cash generation capabilities as indicators of its fair market value. There are many acceptable methods used in business valuation today. The foundation for business valuation arises from what has been used in valuing real estate for many years. The three basic approaches that must be considered by the valuation analyst are:

1. The Market Approach,
2. The Income Approach and
3. The Asset-Based Approach.

Within each of these approaches there are many acceptable valuation methods available for use by the valuation analyst. Valuation standards suggest that a valuation analyst test as many methods as may be applicable to the facts and circumstances of the property being valued. It is then up to the valuation analyst's informed judgment as to how these values will be reconciled in deriving a final estimate of value.

THE MARKET APPROACH

The market approach is fundamental to valuation as fair market value is determined by the market. Under this approach, the valuation analyst attempts to find guideline companies traded on a public stock exchange, in a same or similar industry as the valuation subject, that allows a comparison to be made between the pricing multiples that the public company trades at and the multiple that is deemed appropriate for the valuation subject.

Another common variation of this approach is to locate entire companies that have been bought and sold in the marketplace, publicly-traded or closely-held, that allow the valuation analyst to determine the multiples that resulted from the transactions. These multiples can then be applied, with or without adjustment, to the valuation subject.

THE INCOME APPROACH

The income approach, sometimes referred to as the investment value approach, is an income-oriented approach rather than an asset or market-oriented approach. This approach assumes that an investor could invest in a property with similar investment characteristics, although not necessarily the same business.

The computations using the income approach generally determine that the value of the business is equal to the present value of the future benefit stream to the owners. This is accomplished by either capitalizing a single period income stream or by discounting a series of income streams based on a multi period forecast.

Since estimating the future income of a business is at times considered to be speculative, historic data is generally used as a starting point in several of the acceptable methods under the premise that history will repeat itself. The future cannot be ignored, however, since valuation is a prophecy of the future.

THE ASSET-BASED APPROACH

The asset-based approach, sometimes referred to as the cost approach, is an asset-oriented approach rather than an income or market-oriented approach. Each component of a business is valued separately and summed up to derive the total value of the enterprise.

The valuation analyst estimates value, using this approach, by estimating the cost of duplicating or replacing the individual elements of the business property being valued, item by item, asset by asset.

The tangible assets of the business are valued using this approach, although it cannot be used alone as many businesses have intangible value as well, to which this approach cannot easily be applied.

REVENUE RULING 59-60 - VALUATION OF CLOSELY-HELD STOCKS

Among other factors, the valuation analyst considered all elements listed in Internal Revenue Service Ruling 59-60 which provides guidelines for the valuation of closely-held stocks. Revenue Ruling 59-60 states that all relevant factors should be taken into consideration, including the following:

1. The nature of the business and the history of the enterprise from its inception.
2. The economic outlook in general and the condition and outlook of the specific industry in particular.
3. The book value of the stock and financial condition of the business.
4. The earning capacity of the company.
5. The dividend-paying capacity.
6. Whether or not the enterprise has goodwill or other intangible value.
7. Sales of the stock and the size of the block of stock to be valued.

8. The market price of stocks of corporations engaged in the same or a similar line of business having their stocks actively traded in a free and open market, either on an exchange or over-the-counter.

Since determining the fair market value of a common stock interest in a corporation is the question at issue, one must understand the circumstances of this particular company. There is no set formula to the approach to be used that will be applicable to the different valuation issues that arise. Often, a valuation analyst will find wide differences of opinion as to the fair market value of a particular stock interest. In resolving such differences, one should recognize that valuation is not an exact science. Revenue Ruling 59-60 states that "a sound valuation will be based on all relevant facts, but the elements of common sense, informed judgment and reasonableness must enter into the process of weighing those facts and determining their aggregate significance."

The fair market value of a specific interest in an unlisted company will vary as general economic conditions change. Uncertainty as to the stability or continuity of the future income from the business decreases its value by increasing the risk of loss in the future. The valuation of an interest in a company with uncertain future prospects is a highly speculative procedure. The judgment must be related to all of the factors affecting the value.

There is no single formula acceptable for determining the fair market value of a closely-held business and therefore, the valuation analyst must look to all relevant factors in order to establish the fair market value as of a given date. In this valuation, we will consider all applicable methodologies and then determine how much reliance to put on each.

THE NATURE OF THE BUSINESS AND THE HISTORY OF THE ENTERPRISE FROM ITS INCEPTION

RKMF was incorporated in the State of New York on September 14, 1993 as an S corporation. The Company specializes in providing customized life insurance solutions for estate, insurance, retirement, business and charitable planning purposes.

RKMF was founded by Ronald K. Morrison in 1991. Mr. Morrison' career with the insurance industry began as an agent with New England Life in 1987. He later took on the role as a regional sales manager. In 1991, Mr. Morrison founded RKMF as a life insurance brokerage general agency. Upon formation, Mr. Morrison owned all 200 shares of The Company's outstanding common stock. According to the By-Laws of RKMF, a majority vote of the shareholders constitutes a quorum at shareholder meetings and is required to elect directors of The Company.

In 1996, RKMF became an institutional partner with Morgan Stanley which is currently The Company's largest client. In 2002, Thomas Litz joined The Company after working several years with Smith Barney. In 2004, Mr. Green purchased 98 shares of common stock from Mr. Morrison for $671,300, or a price of $6,850 per share. As a result, ownership in The Company is as follows:

	Number of Shares Owned	% Ownership
Ronald K. Morrison (decedent)	102	51.00%
Thomas Green	98	49.00%
Total	**200**	**100.00%**

Immediately after the transfer of common shares to Mr. Green, Mr. Morrison and Mr. Green were elected as the Chief Executive Officer and President of The Company, respectively.

In August 2004, Messrs. Morrison and Green and RKMF entered into a Shareholders' Agreement ("The Agreement"). Key sections of The Agreement are discussed in the following sections:

TRANSFER RESTRICTIONS

Section 2 of The Agreement contains a discussion of permitted transfers. According to Section 2.1 of The Agreement, Messrs. Morrison and Green can make the following permitted transfers:

> 2.1.1 to another Management Shareholder;
>
> 2.1.2 to such Management Shareholder's spouse or any issue or adopted child of such management Shareholder, or to a trust primarily for the benefit of such management Shareholder, such spouse or such issue or adopted child, by inter vivos Transfer, provided that in each case such Management Shareholder retains all voting rights, if any, with respect to such Common Stock;
>
> 2.1.3 upon a Management Shareholder's death, to such decedent's spouse or any issue or adopted child of such deceased Management Shareholder or to a trust primarily for the benefit of such spouse or such issue or such adopted child provided that, in each case, each such Testamentary Transferee or the trustee or trustees for any such trust shall execute and deliver to Company's Secretary an irrevocable proxy (which proxy shall be deemed to be coupled with an interest) in such form as Company may from time to time prescribe in favor of the Chairman or President of Company, empowering Company's Chief Executive Officer to vote the Common Stock Transferred pursuant to this clause, if at all, on all matters in direct proportion to the affirmative and negative votes and abstentions of all the shares of the same class of Common Stock then held by all other holders of Common Stock who are from time to time employed by Company;
>
> 2.1.4 subject to § 2.4, to any other Person pursuant to such Person's bona fide written offer, if, in accordance with § 2.3, such Shares are first offered for sale to each other Management Shareholder pro rata in accordance with their respective holdings of Common Stock; or
>
> 2.1.5 as required by § 2.5 or § 4.

PURCHASE PRICE IN THE EVENT OF DEATH

Section 4.2 of The Agreement contains a discussion of the purchase price in the event of Mr. Morrison' death and states the following:

> Obligation of Morrison to Sell. Subject to the terms and conditions of this agreement, if Morrison shall have died, (x) at Company's option, or at the option of Green, in Green's discretion, Company or Green shall have the right, at its option, and (y) at the option of Morrison, his Representative, and each Person to whom Morrison Transferred Shares pursuant to § 2.1.2 or § 2.1.3, Company (or Green, at his option) shall have the obligation to purchase all (and not less than all) of the Common Stock held by Morrison, his Representative and such transferee, as the case may be.
>
> 4.3 Exercise of Option. The foregoing options shall be exercised by written notice given, in the case of death, within ten (10) months of the date of death or, in the case of disability or termination, within three (3) months of the date of termination and shall specify the Common Stock to be purchased. Closing of the purchase shall occur within thirty (30) days of such written notice.
>
> 4.4 Price. The purchase price of any of the Shares purchased and sold under this § 4 shall be based upon the fair market value of such Shares. For purposes of this § 4, a qualified appraiser selected by Company shall determine the fair market value of the Shares to be conveyed. In determining the fair market value of the Shares to be conveyed, the appraiser shall base the value upon the appraiser's valuation of Company as a going concern as of the last day of Company's fiscal year immediately preceding the date of such death or termination.
>
> 4.4.1 If Morrison is the seller, then the purchase price shall equal the greater of (x) the fair market value of the Shares or (y) the amount of the proceeds of life insurance realized in respect of Morrison' death.

SHAREHOLDER VOTING

According to Section 7 of The Agreement, the following actions require the unanimous consent of all of the shareholders:

> 7.1 Any purchase or other acquisition of all or substantially all of any business conducted by another entity; or

7.2 Any merger or consolidation by Company with or into another business entity; or

7.3 Any fundamental change in the nature of the business of Company; or

7.4 Any capital expenditure by Company or any capital lease with Company as lessor in one transaction or a series of related transactions that in the aggregate exceed $50,000 (but do not exceed $250,000) and do not directly or indirectly relate to the financial interest of any Shareholder (excluding those that relate, on a pro rata basis, to all Shareholders); or

7.5 Any lease of real property; or

7.6 Adoption of any annual budget for management of Company's business or any plan of capital improvement for Company; or

7.7 Any distribution, or withholding of distributions of, cash or property; or

7.8 Transfer or issuance of any of Company's capital stock to any Person that is not a Shareholder on the date hereof (except as otherwise permitted under this agreement); or

7.9 Any possession or use of any Company property, or any assignment of any rights in specific Company property for other than a Company purpose; or

7.10 Any determination to require that any officer, employee or agent of Company shall execute to Company a bond in such sum, and with such surety or sureties as the Shareholders may direct, conditioned upon faithful performance of his or her duties to Company, including responsibility for negligence and for the accounting for all property, funds or securities of Company that may come into his or her hands; or

7.11 Any Transfer of all or substantially all of the assets of Company; or

7.12 Any acquisition or Transfer of any real property or mortgage or any interest therein; or

7.13 Any financing of any acquisition or Transfer of any real property or mortgages or any interest therein; or

7.14 Any purchase or redemption by Company of any capital stock of Company from any Shareholder; or

7.15 Any Transfer of any contract between Company and a customer of Company; or

7.16 Any Transfer or Encumbrance or creation of any security interest in respect of all or substantially all of Company's assets; or

7.17 Incurrence of indebtedness by Company in excess of $500,000 in one transaction or in a series of transactions; or

7.18 Any undertaking of any obligation by Company as a surety, guarantor or accommodation party respecting any non-Company borrowing; or

7.19 Any capital expenditure by Company or any capital lease with Company as lessor in one transaction or a series of related transactions that directly or indirectly relate to the financial interest of any Shareholder (excluding those that relate on a pro rata basis, to all Shareholders).

CURRENT OPERATIONS

RKMF provides customized life insurance solutions to its clients in the areas of estate planning, wealth preservation, business succession planning and charitable planning. The Company's client base primarily consists of large institutional investment houses (a/k/a "wirehouses"). The wirehouses contact RKMF when they have clients with life insurance needs and RKMF processes the applications and shops for the carriers on behalf of the financial advisors and their clients. RKMF has relationships with the insurance departments of the wirehouses and its clients consist of the financial advisors and consultants that are employed by these companies. A summary of The company's historic revenue by client appears in Table 1.

TABLE 1
TOP CLIENTS

	2018	2019	2020A
Morgan Stanley	$ 6,119,000	$ 4,828,000	$ 4,319,000
Wells Fargo	339,000	1,635,000	1,953,000
UBS	2,010,000	1,889,000	1,042,000
RBC	202,000	103,000	162,000
Total Top 4 Customers	$ 8,670,000	$ 8,455,000	$ 7,476,000
Total Revenues	$ 10,255,797	$ 10,189,867	$ 9,099,778
Top 4 Customers as a % of Total	**84.5%**	**83.0%**	**82.2%**

A= Annualized

In addition to the large institutional wirehouses, RKMF also provides services to independent broker-dealers who comprise a small amount of The Company's overall revenues.

The Company's target market is the wirehouse industry and according to management, there are not a lot of competitors that target this niche. RKMF's primary competitors in this space include, but are not limited to ABC Financial, DEF Capital and GHI Street.

ABC Financial is a planning and insurance consultant to financial advisor firms throughout the United States. ABC Financial specializes in providing estate and tax planning, business planning, charitable planning and life insurance to the clients of financial advisors. ABC Financial has relationships with many of the largest life insurance companies. The company reviews its clients' existing life insurance portfolio and works with insurance carriers to assure ownership and beneficiary designations are correct and policies are properly funded. If additional or new insurance is appropriate after an objective planning process, ABC Financial will search the market to find the best insurance products to fit the clients' needs, and coordinate the qualification, negotiation and implementation of those products. ABC Financial has relationships with 18 of the 20 largest financial advisory firms in the United States. The company assists over 7,000 clients annually and offers access to products from many of the largest life insurance carriers in the industry.[1]

DEF Capital Brokerage provides services to agents and advisors through the company's core competencies of life insurance, annuities and longevity planning. The company's partners include life insurance, annuity and longevity planning agents; financial and wealth advisors; independent broker-dealers; registered independent advisors; brokerage general agencies; national banking institutions; community banks; wirehouses; CPA firms and multi-line firms (business, personal and property and casualty). DEF Capital Brokerage offers advanced marketing and creative estate and business planning techniques, delivering customized insurance solutions to both institutional clients and independent producers.[2]

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[1] ABC Financial company website <https://abcfinancial.com/> (accessed April 14, 2021).

[2] DEF Capital Brokerage company website <https://www.defbrokerage.com/> (accessed April 14, 2021).

GHI Street serves its clients and professional partners through independently owned firms with diverse expertise and practices. GHI Street firms provide life insurance, business insurance and wealth management solutions to high-net-worth individuals, business owners and corporate clientele. As of December 31, 2019, GHI Street had 374 producers, 180 total member firms , employed 283 GHI Street Principals and had 75 employees to support the owner firms. In 2019, GHI Street's life insurance business experienced revenue growth in excess of 25 percent. The company's firms placed over $12 billion in death benefits and $500 million in total new premium with insurance carriers. On a per firm basis, the top 100 GHI Street firms average $1.1 million in life insurance sales, while the top 25 firms average $2.8 million in sales. The company's carrier partners include Pacific Life, Penn Mutual, John Hancock, Prudential, Lincoln Financial Group, Symetra and Nationwide.[3]

In comparison to its competitors, RKMF is considerably smaller with fewer sales representatives nationwide. Management states that The Company's advantages include RKMF's quality of service as The Company focuses on "quality over quantity."

RKMF has relationships with the following insurance carrier partners:

- AIG
- AX
- Genworth
- John Hancock
- Lincoln Financial
- Brighthouse Financial
- Nationwide
- Ohio National
- Pacific Life
- Principal
- Protective
- Prudential
- Symetra
- Transamerica
- Voya Financial

The Company's use of insurance carriers varies as certain clients have restrictions on which carriers they can use. The Company does not have any dependence on a single or group of insurance carriers.

[3] GHI Street, 2019 Annual Report.

RKMF's headquarters are located at 222 W. Haven St. in Albany, New York. The building is owned by XXXX Management, LLC, a related party. The space utilized by RKMF consists of 9,436 square feet of office space and 5,000 square feet of storage. The Company also leases locations from related parties in Boston, Massachusetts and Naples, Florida.

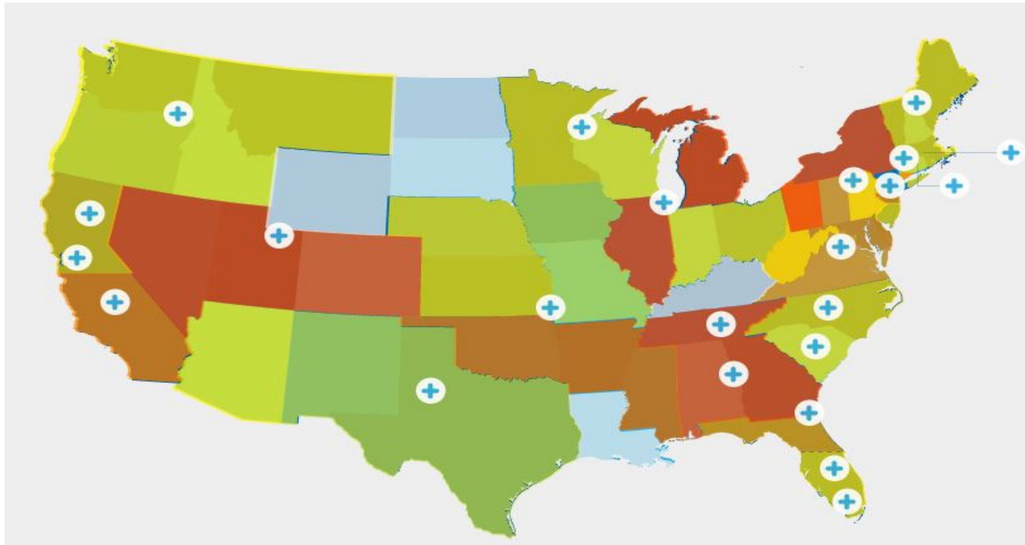
As of the valuation date, RKMF had 37 full-time employees. The Company's organization chart appears in Figure 1.

FIGURE 1
ORGANIZATION CHART

omitted to maintain confidentiality

In addition to the employees listed in Figure 1, The Company also has sales contractors located across the country. The sales contractors work virtually and receive commission-based compensation. A summary of The Company's locations appears in Figure 2.

FIGURE 2
RKMF SALES LOCATIONS



As of the valuation date, RKMF had 23 sales contractors in 23 locations across the United States. The Company's sales organization chart appears in Figure 3.

FIGURE 3
RKMF SALES ORGANIZATION CHART

omitted to maintain confidentiality

THE ECONOMIC OUTLOOK IN GENERAL AND THE CONDITION AND OUTLOOK OF THE SPECIFIC INDUSTRY IN PARTICULAR

Generally, business performance varies in relationship to the economy. Just as a strong economy can improve overall business performance and value, a declining economy can have the opposite effect. Businesses can be affected by global, national and local events. Changes in regulatory environments, political climate and market and competitive forces can also have a significant impact on business. For these reasons, it is important to analyze and understand the prevailing economic environment when valuing a closely-held business. Since the valuation process is a "prophecy of the future," it is imperative that the analyst review the economic outlook as it would impact the valuation subject.

NATIONAL ECONOMY[4]

According to advance estimates released by the Department of Commerce's Bureau of Economic Analysis ("BEA"), real gross domestic product ("GDP"), the output of goods and services produced by labor and property located in the United States, increased at an annualized rate of 33.1 percent during the third quarter of 2020 after decreasing at an annualized rate of 31.4 percent in the second quarter of 2020. The swings in annualized GDP growth during the second and third quarters of 2020 follow a decline in annualized GDP of 5 percent in the first quarter of 2020. The annualized GDP increase of 33.1 percent during the third quarter of 2020 is greater than economists' projections of growth of 28.5 percent. GDP grew 2.2 percent during 2019, compared to growth of 3 percent in 2018 and 2.3 percent in 2017.

Economists expect GDP growth to continue into the next two quarters. A survey of economists conducted by *The Wall Street Journal* reflects an average GDP forecast of 3.8 percent annualized growth in the fourth quarter of 2020, followed by 4 percent annualized growth in the first quarter of 2021.

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[4] Unless otherwise footnoted, this section is adapted from Mercer Capital's *National Economic Review,* Third Quarter 2020.

According to the Bureau of Labor Statistics ("BLS"), the Consumer Price Index ("CPI") increased 0.2 percent in September 2020 after increasing 0.4 percent in August and 0.6 percent in July. The unadjusted CPI stood at 260.3, an increase of 1.4 percent over the previous 12 months. The Core CPI, which excludes food and energy prices, increased 0.1 percent in September and 1.7 percent on an unadjusted basis over the previous 12 months.

Personal consumption spending represents approximately 70 percent of total economic activity and is a primary component of overall economic growth. Real personal consumption spending increased 40.7 percent in the third quarter of 2020, following decreases of 6.9 and 33.2 percent in the first and second quarters, respectively. According to the BEA, durable goods purchases increased by 82.2 percent in the third quarter of 2020, following decreases of 12.5 and 1.7 percent in the first and second quarters, respectively.

Home building activity has traditionally been a primary driver of overall economic activity because new home construction stimulates a broad range of industrial, commercial and consumer spending and investment. According to the U.S. Census Bureau, new privately owned housing starts were at a seasonally adjusted annualized rate of 1,553,000 units in September 2020, 5.2 percent above the revised August rate of 1,476,000 units and 8.1 percent above the September 2019 rate. The seasonally adjusted annual rate of private housing units authorized by building permits was 1,415,000 units in September 2020, 1.9 percent above the revised August rate of 1,388,000 units and 11.1 percent above the September 2019 rate.

According to the BLS, the unemployment rate was 7.9 percent in September 2020, down from 8.4 percent in August and 10.2 percent in July. Economists surveyed by *The Wall Street Journal* anticipate unemployment rates of 7.8 percent in December 2020 and 6.9 percent in June 2021. The underemployment rate, which includes workers who are involuntarily working part-time positions, was 12.8 percent in September 2020 after measurements of 16.5 percent in July and 14.2 percent in August.

On November 9, 2020, Consensus Economics, Inc. surveyed a panel of prominent United States economic and financial forecasters about their expectations of several key economic indicators. These forecasts are presented in Table 2.

TABLE 2
QUARTERLY FORECASTS

	2020	2021				2022	
	4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.
Real Gross Domestic Product*	3.6	3.1	3.4	3.6	3.2	3.1	3.1
Nominal Gross Domestic Product*	5.2	4.9	5.3	5.4	5.0	5.1	5.0
Real Disposable Personal Income*	-7.2	-1.9	0.1	-0.5	1.3	2.3	2.8
Real Personal Consumption*	4.0	2.7	3.8	3.9	3.5	3.4	2.8
Real Business Investment*	3.5	3.1	3.3	4.1	4.4	4.7	5.3
Industrial Production*	5.9	4.1	4.0	3.9	3.7	3.7	3.7
Consumer Prices*	1.8	1.8	2.0	2.3	2.1	2.1	2.2
Producer Prices*	1.8	2.1	2.6	2.3	2.4	2.4	2.6
Unemployment Rate, %	7.2	6.8	6.6	6.3	6.0	5.7	5.4
3 Month Treasury Bill Rate,%[1]	0.1	0.1	0.1	0.2	0.2	0.2	0.2
10 year Treasury Bond Yield, %[1]	0.8	0.9	1.0	1.1	1.2	1.3	1.4

* % change from prior quarter, seasonally adjusted annual rate.
[1] End Quarter.
Source: Consensus Economics Inc., *Consensus Forecasts - USA,* November 9, 2020: 5.

Consensus Economics' forecasts indicate that GDP will decelerate the next several quarters and stabilize at approximately 3.1 percent. In addition, disposable income is expected to rebound towards the end of 2021 and personal consumption expenditures are expected to increase at modest rates. The unemployment rate is expected to decline over the forecast period, while inflation is expected to remain subdued. Interest rates are forecast to gradually increase over the forecast period.

Overall, The Company is expected to operate in a volatile and uncertain economic environment in the near term due to the lingering effects of the pandemic. However, over the longer term, economic conditions are expected to improve.

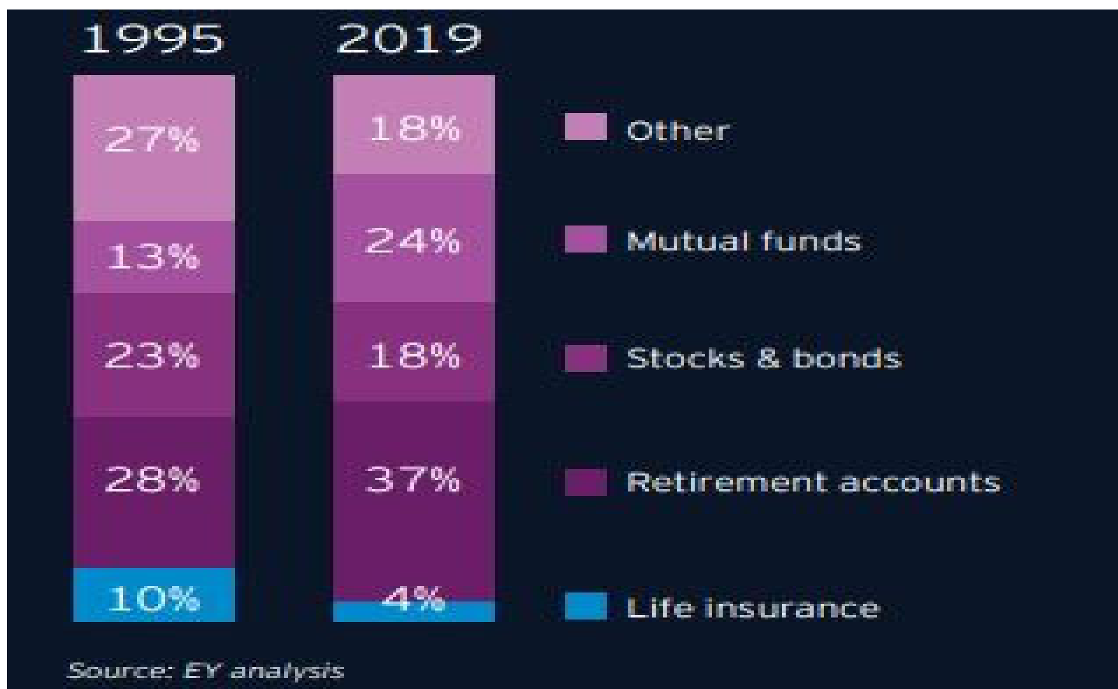
INDUSTRY

According to Ernst & Young, the U.S. life insurance market is evolving and over the next 10 years, is expected to experience significant change. In the near term, the change is primarily being driven by the prevailing low-interest-rate environment that has dominated the market in recent years and has put unprecedented pressure on earnings growth. The

uncertainty surrounding the COVID-19 pandemic has also brought protection issues to the forefront for consumers, creating an increased demand for insurance products that meet their specific needs. At the same time, substantial advances in technology, changing demographics and shifting customer expectations all mean that the life insurance sector is in for a period of transformation.[5]

In the United States, premiums have remained flat during the last decade and the customer base has declined by 14 percent since 2011. Trillions of dollars of assets have migrated away from U.S. life insurers as investors have shifted their savings towards other asset classes.[6] A summary of the share of total financial assets held by U.S. households by asset class appears in Figure 4.

FIGURE 4
SHARE OF HOUSEHOLD FINANCIAL ASSETS BY ASSET CLASS



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[5] Michaels, Nicole; Runchey, Chad and Morbelli, Chris, "How to Navigate US Life Insurance and Retirement Trends," *EY* <https://www.ey.com/en_us/innovation-in-insurance/how-to-navigate-us-life-insurance-and-retirement-trends> (accessed April 15, 2021).

[6] Ibid.

Competition from banks, private equity firms and pension funds have hindered the growth of the demand for life insurance. From 1995 to 2019, the life insurance share of total household assets declined from 10 percent to 4 percent. The trends in Figure 4 show that life insurance has not been the primary choice for retirement savings. According to Ernst & Young, this development has caused industry stakeholders to ask how they can compete more effectively with providers of other retirement savings products.[7]

During the last five years, growth in life insurance premiums have been sluggish, growing at a compound annual growth rate of 1.7 percent; below the rate of inflation. Life insurance companies have not attracted capital in the same manner as competing investment vehicles such as mutual funds and other retirement accounts. While a significant portion of middle-class customers have not saved enough for retirement, the industry has fallen short in communicating the importance and value of its products.[8]

Even where regulation creates opportunity, low interest rates make it hard for insurers and annuity providers to take advantage. Beyond pressures on earnings, capital and liquidity, low interest rates threaten the viability of traditional and guaranteed insurance products. They also force the development of new types of investment products.[9] According to Standard & Poor's in its *2020 U.S. Life and Annuity Insurance Market Report*:

> Unprecedented Federal Reserve accommodations helped stabilize dislocated financial markets throughout the spring. But extraordinarily low Treasury yields create a whole range of challenges for an industry that already suffered the ramifications of a decade of low-for-long interest rate policy.[10]

In addition to low interest rates, decreasing home ownership, increased unemployment and more gig working present significant challenges to the life insurance industry.[11]

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7 Ernst & Young*, 2020 US and Americas Insurance Outlook.*

8 Ibid.

9 "How to Navigate US Life Insurance and Retirement Trends".

10 Standard & Poor's, *2020 U.S. Life and Annuity Insurance Market Report*.

11 "How to Navigate US Life Insurance and Retirement Trends."

Another factor that will impact the demand for life insurance on a prospective basis is the anticipated shift in demographics. Growth in the 65 and older population should have a positive impact on the demand for life insurance and estate and retirement planning services. According to U.S. Census data, the 65-and-older population has grown rapidly since 2010, driven by the aging of Baby Boomers born between 1946 and 1964. The 65-and-older population grew by over a third during the past decade and by 3.2 percent from 2018 to 2019. The growth of this population contributed to an increase in the national median age from 37.2 years in 2010 to 38.4 in 2019.[12] Between 2020 and 2060, the number of older adults is projected to increase by 69 percent, from 56 million to 94.7 million. Although much smaller in total size, the number of people ages 85 and older is projected to nearly triple from 6.7 million in 2020 to 19 million by 2060.[13] While the aging population should have a positive impact on the industry, there are still concerns over a large retirement savings gap and the delays among millennials and younger generations in marrying, buying homes and achieving other traditional financial milestones.[14]

Based on the various challenges facing the life insurance industry, Standard & Poor's projected the first annual decline in direct life and annuity insurance premiums since 2013. Projections for various life insurance industry indicators prepared by Standard & Poor's are summarized in Table 3.

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[12] "65 and Older Population Grows Rapidly as Baby Boomers Age," U.S. Census Bureau <https://www.census.gov/newsroom/press-releases/2020/65-older-population-grows.html> (accessed April 15, 2021).

[13] "The U.S. Population is Growing Older, and the Gender Gap in Life Expectancy is Narrowing," *Population Reference Bureau* <https://www.prb.org/the-u-s-population-is-growing-older-and-the-gender-gap-in-life-expectancy-is-narrowing/> (accessed April 15, 2021).

[14] *2020 U.S. Life and Annuity Insurance Market Report*.

TABLE 3
SELECT 2020 US LIFE AND HEALTH PROJECTIONS BY BUSINESS LINE

Insurance Type	Projected % Change Over Prior Year
Life Insurance:	
Ordinary Life Insurance	-2.50%
Group Life Insurance	-3.00%
Credit Life Insurance	-15.10%
All Life Insurance Lines	**-2.70%**
Annuities:	
Ordinary Individual Annuities	-10.00%
Group Annuities	3.00%
All Annuity Lines	**-4.80%**

Source: Standard & Poor's, *2020 U.S. Life and Annuity Insurance Market Report*.

According to Standard & Poor's' projections, premiums across all categories of life insurance are expected to decline in 2020. In addition, ordinary individual annuities are projected to increase by 10 percent, while group annuities are forecast to increase by 3 percent.

Over the longer term, these challenges are expected to continue to hinder the growth of the U.S. life insurance market. According to Ernst & Young, gross written life insurance premiums in the United States and Canada are forecast to increase from $682 billion in 2019 to $757 billion in 2030, a compound annual growth rate of 0.95 percent. In addition, the market penetration of life insurance in this region is expected to continue to decline from 2.9 percent to 2.4 percent.[15]

Overall, The Company is expected to operate in a challenging environment in the near term as growth in the demand for life insurance is expected to continue to be sluggish in the near term. While the demand for RKM Finanical's services should be positively impacted by favorable trends in demographics, other factors such as prevailing low interest

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[15] Ibid.

rates and competition from other investment asset classes have had an unfavorable impact on the demand for life insurance.

THE BOOK VALUE OF THE STOCK AND THE FINANCIAL CONDITION OF THE BUSINESS

A financial analysis of The Company was performed utilizing the historic balance sheets and income statements that appear as Schedules 1 and 2, respectively, at the back of this report. The Company's financial statements are reported on a cash basis. According to management, The Company has no accounts receivable outstanding as 99 percent of revenue is generated from life insurance commissions and payment is typically received within 3 to 10 days after the policies are in force. In addition, The Company does not have any accounts payable outstanding as vendor invoices are paid immediately.

RKMF's total assets had fluctuated from 2015 to 2019 before peaking at $1,207,068 at October 31, 2020. The Company's assets primarily consist of current assets, which include cash, prepaid expenses, draws receivable from sales employees[16] and amounts due from related parties. RKMF's cash balance has increased steadily over the past three years and totaled $656,222 at October 31, 2020. The Company's cash balance at October 31, 2020 amounted to less than a month of its annual operating expenses.

The Company's fixed assets primarily consist of office furniture and equipment. As of October 31, 2020, net fixed assets totaled $99,968. RKMF's net capital expenditures have averaged $31,245 per year from 2016 to October 2020. The Company's other assets consist of a stockholder loan and an equity investment in IDA, LLC. IDA is an insurance marketing organization that RKMF is a member of. The Company owns an approximate 2 percent interest in this entity. The income that RKMF receives from its investment in IDA is minimal.

RKMF's current liabilities consist of a note payable related to a line of credit, payroll taxes payable and a loan due to related parties. The Company's long term liabilities consist of a loan that was obtained under the Paycheck Protection Program ("PPP"). Total liabilities were considerably higher at October 31, 2020 in comparison to prior years due to the outstanding debt balances related to the line of credit and the PPP loan.

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[16] The Company allows its sales contractors to take draws on unearned commissions.

With respect to the income statement, RKMF's revenues have fluctuated over the period analyzed, ranging from $8,855,394 to $11,108,773 over the period analyzed. From 2016 to the latest 12 month period ended October 31, 2020, The Company's average annual revenue growth was negative 1.87 percent. The Company's operating expenses primarily consist of labor costs related to salaries and wages, sales commissions, employee benefits and payroll taxes. The Company's operating expenses have fluctuated over the period analyzed ranging from $8,252,703 to $10,200,147.

Due to the fluctuating revenues and expenses, The Company's operating income and net income has been volatile over the period analyzed. From 2015 to the latest 12 month period ended October 31, 2020, net income growth averaged negative 6.24 percent. The standard deviation of The Company's net income growth was 66.55 percent which is more than 10 times that of the average. This indicates a high level of variability in The Company's historic earnings.

The next step in the financial analysis is to analyze The Company's common size income statement. A common size balance sheet depicts each value as a percentage of total revenues. Common size financial statements are used to analyze trends in a company's financial position, as well as to compare a company's financial data with industry data.

In order to compare The Company to industry data, we first had to identify the appropriate Standard Industrial Classification ("SIC") code for The Company. The SIC Code that best describes RKMF is SIC Code 6411: Insurance Agents, Brokers and Service. We located data in Microbilt's Integra Financial Benchmarking database ("Integra"). Integra compiles its database from 32 privately and publicly-available sources. The database consists of information from more than 4.5 million companies in more than 900 industries. The Integra database contained composite data for 439 companies classified in SIC code 6411 with sales in the range of $5 million to $9.99 million, the size of RKMF's revenues during the latest 12 month period.

RKMF's historic common size income statement along with comparative data for companies classified in SIC Code 6411 appears in Table 4.

TABLE 4
COMMON SIZE INCOME STATEMENT
FOR THE

	Years Ended December 31,					Latest 12 Months Ended October 31,	
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**Integra**
Total Revenues	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Total Operating Expenses	91.82%	93.19%	90.22%	94.87%	91.33%	97.98%	98.05%
Operating Income	8.18%	6.81%	9.78%	5.13%	8.67%	2.02%	1.93%
Interest Expense	-0.22%	-0.14%	-0.15%	-0.15%	-0.27%	-0.23%	-1.40%
Total Other Income	0.08%	0.00%	0.02%	0.01%	- 0.02%	- 0.02%	0.92%
INCOME BEFORE TAXES	**8.04%**	**6.66%**	**9.66%**	**4.98%**	**8.38%**	**1.77%**	**1.45%**

Note: Figures may not add due to rounding.

RKMF's operating and pre-tax income margins have been volatile over the period analyzed. Despite these fluctuations, The Company has been more profitable than the industry average in all six periods. During the latest 12 month period ended October 31, 2020, The Company's profitability declined considerably due to the effects of the pandemic.

Overall, The Company's financial position is mixed. RKMF's historic growth rates and profit margins have been volatile. However, The Company has maintained favorable profit margins in comparison to industry averages.

The next step in the analysis is the normalization of the balance sheet. The process of normalization is intended to reflect The Company's financial statements on an economic level, to reflect those items that a willing buyer would expect to see as the result of normal operations. The term normalization has changed in the valuation literature. Z. Christopher Mercer, ASA, CFA distinguishes between different types of "normalizing adjustments" and "control adjustments" as follows:

- With normalizing adjustments, we attempt to adjust private company earnings to a reasonably well-run, public company equivalent basis. Normalizing adjustments can be further divided into two types to

facilitate discussion and understanding. Normalization adjustments are *not* control adjustments.

- Control adjustments adjust private company earnings 1) for the economies or the efficiencies of the *typical financial buyer*; and 2) for synergies or strategies of *particular buyers*. Control adjustments can therefore also be divided into two types.[17]

Further, Mercer states that

> Normalizing adjustments adjust the income statement of a private company to show the prospective purchaser the return from normal operations of the business and reveal a 'public equivalent' income stream. If such adjustments were not made, something other than a freely traded value indication of value would be developed by capitalizing the derived earnings stream.[18]

The normalization of the balance sheet is presented in Table 5.

TABLE 5
BALANCE SHEET NORMALIZATION

	October 31, 2020	Adjustments	Adjusted October 31, 2020
Current Assets			
Cash	$ 656,222	$ -	$ 656,222
Prepaid Expenses	19,681	-	19,681
Sales Staff - Draws Receivable	54,387	-	54,387
Due From Related Parties[1]	244,179	(244,179)	-
Total Current Assets	$ 974,470	$ (244,179)	$ 730,291
Net Fixed Assets[2]	$ 99,968	$ 164,616	$ 264,584
Other Assets			
Stockholder Loans[3]	$ 120,309	$ (120,309)	$ -
Investment in IDA, LLC[4]	12,321	(12,321)	-
Total Other Assets	$ 132,630	$ (132,630)	$ -
TOTAL ASSETS	**$ 1,207,068**	**$ (212,192)**	**$ 994,876**

[17] Mercer, Z. Christopher ASA, CFA, *The Integrated Theory of Business Valuation*, Peabody Publishing, LP, 2004: 146.

[18] Ibid.: 149.

TABLE 5
BALANCE SHEET NORMALIZATION

	October 31, 2020	Adjustments	Adjusted October 31, 2020
Current Liabilities			
Notes Payable	$ 547,000	$ -	$ 547,000
Payroll Taxes Payable	21,943	-	21,943
Due to Related Parties[1]	20,000	(20,000)	-
Total Current Liabilities	$ 588,943	$ (20,000)	$ 568,943
Long-Term Debt (PPP Loan)[5]	565,685	(565,685)	-
Total Liabilities	$ 1,154,628	$ (585,685)	$ 568,943
Total Stockholders' Equity	52,440	373,493	425,933
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 1,207,068**	**$ (212,192)**	**$ 994,876**

Note: Figures may not add due to rounding.

1. Loans due from and to related parties were segregated from the operating balance sheet and reclassified as nonoperating items. The balance of these loans will be added to the value of RKMF's operations in the final reconciliation of values.

2. The Company has taken advantage of tax rules, which allow assets to either be written off when purchased or depreciated using accelerated depreciation methods. Therefore, fixed assets were re-depreciated using straight line depreciation to estimate their values on a more economic basis.

3. Loans to stockholders were segregated from the operating balance sheet of The Company and reclassified as nonoperating assets. The balance of these shareholder loans will be added to the value of The Company's operations in the final reconciliation of values.

4. The Company's approximate 2 percent interest in IDA, LLC was also reclassified as a nonoperating asset.

5. The Company's PPP loan was written off of the balance sheet as this loan is expected to be forgiven.

Based on the normalization adjustments to the balance sheet, the adjusted book value of The Company was negative $425,933.

The next step in the analysis is to determine the economic income of The Company that a willing buyer would anticipate. The income statement normalization adjustments appear in Table 6.

TABLE 6
INCOME STATEMENT NORMALIZATION
FOR THE

	Years Ended December 31,					Latest 12 Months Ended October 31,
	2015	**2016**	**2017**	**2018**	**2019**	**2020**
Historic Net Income (Schedule 2)	$ 892,694	$ 590,042	$ 953,486	$ 510,781	$ 854,105	$173,598
Adjustments						
Depreciation Expense[1]	-	21,633	13,122	(16,835)	14,719	21,501
Officers' Compensation - Addback[2]	931,363	944,204	998,315	1,040,939	890,203	742,768
Officers' Compensation - Reasonable[2]	(931,363)	(944,204)	(998,315)	(1,040,939)	(890,203)	(742,768)
Rent Expense - Addback[3]	158,200	287,100	316,600	358,663	357,297	398,247
Fair Rental Value[4]	(177,208)	(182,461)	(206,780)	(232,441)	(249,033)	(225,701)
Income From IDA[5]	-	(1,965)	(158)	(519)	(389)	(389)
Adjusted Pretax Net Income	$ 873,686	$ 714,349	$ 1,076,271	$ 619,649	$ 976,699	$ 367,257
Income Taxes[6]	228,338	186,695	281,283	161,945	255,260	95,983
ADJUSTED HISTORIC NET INCOME	**$ 645,348**	**$ 527,654**	**$ 794,987**	**$ 457,704**	**$ 721,439**	**$ 271,274**

Note: Figures may not add due to rounding.

1. Depreciation expense was adjusted to reflect a more economic write-off of The Company's operating fixed assets. This was based on the normalization adjustments made to The Company’s fixed assets on the balance sheet.

2. An analysis was performed to determine the level of compensation that a hypothetical willing buyer would have to pay a management team to operate RKMF. We analyzed The Company’s historic officers’ compensation as a percentage of

revenue and compared it to benchmarking data for insurance agencies of similar size from the Integra Database and the Risk Management Association University's Online database ("RMA"). The RMA database contains 260,000 statements of financial institution borrowers and prospects. A summary of the reasonable compensation comparative analysis appears in Table 7.

TABLE 7
OFFICERS' COMPENSATION AS A PERCENTAGE OF REVENUES

	Year Ended December 31,					LTM October 31,
	2015	**2016**	**2017**	**2018**	**2019**	**2020**
RKMF	8.4%	10.7%	10.1%	10.1%	8.7%	7.6%
Integra:						
$5M-$9.99M revenues (439 companies)	10.30%					
$10-24.99M revenues (246 companies)	9.90%					
RMA:						
$5M-$9.99M revenues (32 companies)	9.20%					
$10-$24.99M revenues (17 companies)	6.30%					
All Companies	10.40%					

The Company's officers' compensation as a percentage of revenues ranged from 7.6 percent to 10.7 percent over the period analyzed. During the latest 12 month period, the compensation as a percentage of revenues was lower, as the officers' took a lower salary as a means to reduce costs during the pandemic. The officers' compensation to revenue ratios for RKMF are within a reasonable range of the industry benchmark percentages in all of the years analyzed. Based on these factors, we determined that the actual compensation paid by RKMF was indicative of what a willing buyer would have to pay a management team to operate the business. Therefore, no adjustments were made to The Company's historic actual officers' compensation.

3. The Company's historic rent expense was added back as an allowance for fair rental value was deducted in number 4 below.

4. An allowance for fair rental value was deducted based on the estimated level of rent that a willing buyer would incur to operate The Company. We determined the fair rental value for The Company based on the following:

   a. The fair rental value for the Albany, New York office was determined based on a real estate appraisal performed by Daniel F. Brown of Associated Appraisal Services as of November 13, 2020.

   b. The fair rental value of the Boston location was estimated based on the real estate appraisal performed by Ned Johnson and Richard Grosser as of November 13, 2020.

   c. Since the Florida office was determined to be a part-time location, rather than use the actual rent paid, we performed an analysis to determine the annual hotel and meal costs that would need to be incurred to conduct business in the region. Based on our analysis, the substituted fair rental value was as follows:

2015	2016	2017	2018	2019	LTM 2020
$ 177,208	$ 182,461	$ 206,780	$ 232,441	$ 249,033	$ 225,701

As a reasonableness test, we compared the total fair rental value as a percentage of revenues to industry benchmarking data from Integra. This analysis appears below:

	2015	2016	2017	2018	2019	LTM 2020
Fair Rental Value as a % of Sales	1.60%	2.06%	2.09%	2.27%	2.44%	2.30%
Rent Expense as a % of Sales - Integra						
$5-9.99M in revenues	3.80%					
$10-24.99M in revenues	3.80%					

The fair rental value as a percentage of revenue is below the ratios based on the insurance agencies contained in the Integra database. A lower percentage makes sense considering that many of RKMF's employees work virtually.

5. Income from IDA was removed as this income relates to what we considered to be a nonoperating asset. This is consistent with the treatment of the asset on the balance sheet.

6. An adjustment was made for taxes based on the effective tax rates at the valuation date. This will be discussed in the "Taxes Related to Passthrough Entities" section of this report.

THE EARNING CAPACITY OF THE COMPANY

Historic earnings were adjusted to reflect future earning capacity in the previous section of the report. The results were as follows:

Year	Normalized Net Income
2015	$ 645,348
2016	527,654
2017	794,987
2018	457,704
2019	721,439
LTM 2020	271,274

From 2015 to 2019, The Company's adjusted earnings fluctuated and ranged from $457,704 to $794,987. During the latest 12-month period, The Company's earnings were considerably lower due to the impact of the pandemic. We considered the earnings level during the latest 12-month period to be an aberration and determined that The Company's five-year average adjusted net income of $629,426 from 2015 to 2019 was best reflective of RKMF's future earning capacity.

THE DIVIDEND PAYING CAPACITY OF THE COMPANY

As with any privately-owned company, there is no requirement to pay distributions to shareholders. In this instance, the payment of distributions requires a unanimous vote of all of The Company's shareholders. A publicly-traded company generally disburses dividends as a means to entice investors to invest in the company. The question raised in Revenue Ruling 59-60 is, does the company have the capacity to pay dividends?

In this instance, RKMF has historically distributed approximately 80 percent of its normalized pretax income. RKMF's historic distributions are summarized in Table 8.

TABLE 8
DISTRIBUTION HISTORY

	2015	2016	2017	2018	2019	LTM 2020	Cumulative 2015-2020
Total Distributions	$ 615,831	$1,137,887	$635,115	$ 710,500	$ 168,463	$ 430,788	$3,698,584
Adjusted Pretax Income	873,686	714,349	1,076,271	619,649	976,699	367,257	4,627,911
% Pretax Income Paid Out							**79.92%**

A company's net cash flow is an indication of its maximum dividend paying capacity. Therefore, in order to determine RKMF's prospective dividend paying capacity, we calculated The Company's pro forma net cash flow. In the previous section of this report, we determined that The Company's historic five-year average net income of $629,426 was the best indication of its future earning capacity. In order to calculate The Company's pro forma net cash flow, we need to account for RKMF's future working capital needs, anticipated capital expenditures and debt repayments.

Working Capital - The Company's primary working capital asset consists of cash. We analyzed trends in RKMF's historic working capital turnover ratio which appears on the top of the next page.

2016	(49.88)
2017	(36.44)
2018	(59.81)
2019	88.80
LTM 2020	31.36

The Company's historic working capital ratio has been erratic and as a result, we determined that it did not provide a meaningful indication of RKMF's ongoing working capital needs on a prospective basis. Therefore, working capital was estimated using the industry average working capital ratio of 5.61 based on the Integra data. Therefore, RKMF's ongoing working capital needs were calculated as shown below.

	LTM	Pro Forma*
Revenues	$ 9,802,715	$ 10,056,772
Necessary Working Capital	1,747,365	1,792,651
Investment in Working Capital		**$ (45,287)**

*Five-Year Average Revenue 2015-2019

Necessary Working Capital = Revenue ÷ Working Capital Turnover Ratio (5.61)

Note: Figures may not add due to rounding.

Depreciation and Capital Expenditures - The Company's capital expenditures have been minimal over the past five years. We assumed that future capital expenditures will primarily consist of replacement expenditures related to office furniture and equipment. Therefore, we estimated capital expenditures based on a 3 percent inflationary rate over The Company's historic average normalized depreciation expense.

Debt repayments - The Company has no long-term debt. As of the valuation date, the only interest-bearing debt consisted of borrowings on The Company's line of credit, which is expected to recur on an ongoing basis. The short-term debt repayments were included in the working capital calculation.

Based on these assumptions, RKMF's pro forma net cash flow was calculated as shown in Table 9.

TABLE 9
PRO FORMA NET CASH FLOW

Pro Forma Net Income	$	629,426
Depreciation and Amortization		51,503
Gross Cash Flow	$	680,930
Capital Expenditures		(53,048)
Change in Working Capital		(45,287)
Pro Forma Net Cash Flow	**$**	**582,595**

Note: Figures may not add due to rounding.

WHETHER OR NOT THE ENTERPRISE HAS GOODWILL OR OTHER INTANGIBLE VALUE

In addition to the physical assets of The Company, it is necessary to determine whether any goodwill or other intangible assets exist, and if so, what value to place on that goodwill and/or other intangible assets.

If any quantifiable goodwill is being generated by RKMF, it will be calculated using an income or market approach and deriving a value in excess of the net tangible assets.

SALES OF THE STOCK AND THE SIZE OF THE BLOCK OF STOCK TO BE VALUED

Revenue Ruling 59-60 suggests that valuation analysts consider whether there have been any previous sales of the stock and the size of the block being valued. In 2004, Mr. Green purchased 98 shares from Mr. Morrison for a total purchase price of $671,300. Since this transaction was over 15 years ago, it was determined that the implied value from this transaction is not relevant to this valuation.

With respect to the size of the interest being valued, we are valuing a 51 percent interest in The Company. A 51 percent interest lacks control as the corporate actions discussed in Section 7 of The Agreement require the unanimous vote of all shareholders. In addition, the subject interest lacks marketability as its shares are not traded on a public exchange. Accordingly, the valuation methods applied will take this into consideration.

THE MARKET PRICE OF STOCKS OF CORPORATIONS ACTIVELY TRADED IN THE PUBLIC MARKET

The final factor of the eight attributes listed in Revenue Ruling 59-60 is a market comparison between the appraisal subject and other companies that are traded on public stock exchanges. This is the basis for the market approach to valuation.

GUIDELINE PUBLIC COMPANY SEARCH

In an attempt to apply the market approach, we first performed a computerized search utilizing the TagniFi online database. Guideline companies will rarely, if ever, be perfect “comparables,” but they can assist the valuation analyst by providing guidance about what buyers and sellers are willing to pay for publicly-traded entities in the same or similar lines of business.

In our search for potential guideline companies, we focused our search on companies that operate in SIC code 6411. The search returned 23 companies. However, 11 of these companies had market capitalizations of over $1 billion and none of the companies had business operations that were similar enough to RKMF to use as a basis for comparison. Therefore, the guideline public company method was not utilized.

MERGER AND ACQUISITION TRANSACTION SEARCH

In addition to reviewing market prices of publicly-traded companies, we also searched for merger and acquisitions taking place in the public and private markets involving similar types of businesses as RKMF.

In order to accomplish this, we searched the DealStats database for information about mergers and acquisitions in SIC code 6411 that have taken place since 2010. The search returned 211 potential transactions. Of these transactions, 192 were asset sales and 19

were stock sales. With respect to the stock sales, 13 companies had business operations that were not similar enough to RKMF to use as a basis for comparison. In addition, three companies were more than 10 times larger than The Company and one company only generated $170,000 in revenues. This left two transactions, which is not enough data with which to perform an analysis with any level of statistical confidence. Therefore, we focused on the asset sales.

Of the 192 asset sales, 166 companies were eliminated because they had less than $1 million in revenues. These were most likely small insurance agencies that operate in a completely different market than The Company. An additional seven companies were eliminated as the business descriptions of the target companies were dissimilar to RKMF. The remaining 19 transactions, along with the market value of invested capital ("MVIC" = debt plus equity), revenues, earnings before interest, taxes, depreciation and amortization ("EBITDA") and earnings before interest and taxes ("EBIT") are summarized in Table 10.

TABLE 10
DEALSTATS TRANSACTIONS

Business Description	Sale Date	MVIC	Revenues	EBITDA	EBIT
Insurance Agency	01/01/2020	$30,594,000	$ 8,324,161	$ 609,048	$ 577,231
Insurance Agency	01/01/2020	9,937,000	13,172,952	318,747	318,747
General Insurance Broker	12/11/2019	3,750,000	1,280,703	327,322	327,322
Insurance Agents	01/22/2019	2,007,575	1,270,000	620,000	620,000
Health and Life Insurance Agency	01/22/2019	2,007,575	1,270,000	620,000	620,000
Insurance Brokers and Dealers	08/31/2018	8,633,000	6,510,221	1,428,989	1,400,238
Automotive, Home and Life Insurance Agency	05/01/2018	1,760,000	1,313,925	374,052	348,105
Insurance Agency	04/06/2018	3,512,787	1,654,111	901,219	901,219
Insurance Agency	02/28/2018	19,000,000	10,040,000	1,171,000	1,026,000
Insurance Agency	12/07/2015	1,900,000	1,056,279	530,525	530,525
Insurance Brokerage	10/01/2015	15,000,000	6,000,000	1,449,900	1,449,900
General Insurance	05/29/2015	6,300,000	1,795,143	795,223	785,085
Insurance Agency Multilines Property and Casualty	07/31/2013	1,075,000	1,071,000	153,494	153,494
Insurance Agency	04/04/2013	6,000,000	2,900,000	2,000,000	2,000,000
Insurance Brokerage	02/01/2013	11,000,000	4,031,277	1,100,035	1,064,950
Insurance Agency	12/31/2012	6,900,000	3,748,892	1,111,172	1,021,161
Insurance Agency	08/17/2012	4,040,000	2,171,908	838,637	838,637
Insurance Agency	09/23/2011	490,000	4,580,591	74,403	74,403
Insurance Agency (Personal Property and Casualty)	12/31/2010	3,870,000	1,533,110	621,966	609,060

The insurance agencies located were either involved in different lines of insurance than the subject company or did not have enough of a business description available to determine comparability. Nevertheless, we analyzed the multiples from the transactions to use as a proxy for the overall insurance industry. All of these factors will be considered in the analysis that follows.

VALUATION CALCULATIONS

As indicated previously in this report, the three approaches of business valuation to be considered are:

1. The Income Approach
2. The Market Approach and
3. The Asset-Based Approach

The narrative that follows discusses the valuation methods employed within each approach.

THE INCOME APPROACH

The application of the income approach will be accomplished using the capitalization of benefits method.

CAPITALIZATION OF BENEFITS METHOD

The capitalization of benefits method is premised on the concept that value is based on a stabilized benefit stream that is capitalized by an appropriate capitalization rate to reflect the risk associated with the income stream. Mathematically, this is presented in the following formula:

$$V = I \div R$$

Where

V = Value
I = Next Year's Benefit Stream
R = Capitalization Rate

The use of this formula requires an estimate of the sustainable income that a willing buyer could reasonably expect on a prospective basis. In this instance, we determined that RKMF's pro forma net cash flow was the best indication of The Company's foreseeable future benefits.

The next portion of the application of this method requires the determination of the appropriate capitalization rate to be used for this level of income. Due to the risk of the business and the risk of the income stream going forward (as explained in the section of this report entitled "Discount and Capitalization Rates"), we believe that a capitalization rate of 11.40 percent is appropriate. Therefore, the value under this methodology is calculated as shown in Table 11.

TABLE 11
CAPITALIZATION OF PRO FORMA NET CASH FLOW

Pro Forma Net Cash Flow		$ 582,595
Capitalization Rate	÷	11.40%
Indication of Value - Control, Marketable		$ 5,110,481
Less: Discount for Lack of Control (9.00%)[1]		(459,943)
Indication of Value, Noncontrolling, Marketable		$ 4,650,538
Less: Discount for Lack of Marketability (13.50%)[1]		(627,823)
Indication of Value - Noncontrolling, Nonmarketable		**$ 4,022,715**

Note: Figures may not add due to rounding.
1. See "Premiums and Discounts" section of this report.

THE MARKET APPROACH

Using the transactions that remained in our earlier analysis, we performed the market approach using the merger and acquisition transaction method. First, we compared the profitability of RKMF to that of the guideline insurance agencies. Given the impact that the pandemic had on The Company's financial performance, we analyzed The Company's profitability on a pro forma basis (five-year average from 2015-2019) to better reflect a normalized level of profitability. This analysis appears in Table 12.

TABLE 12
PROFITABILITY COMPARISON

	Net Profit Margin	Operating Profit Margin
Count	18	19
Mean	28.21%	30.54%
Standard Deviation	19.72%	18.97%
Coefficient of Variation	69.93%	62.12%
90th Percentile	51.50%	51.08%
75th Percentile	41.39%	46.28%
Median	25.88%	26.49%
25th Percentile	**11.01%**	**17.92%**
10th Percentile	**4.23%**	**6.03%**
RKMF (Pro Forma)	**6.26%**	**8.65%**

RKMF's profit margins fell between the 10th and the 25th percentile of the target companies. This indicates that The Company is less profitable than the guideline transactions on average. Based on the differing levels of profitability, we focused our analysis on the earnings based multiples as opposed to the revenue based multiples. *According to PPC's Guide to Business Valuations*, the authors state:

> The P/R[19] method should usually only be considered in the following limited circumstances:
>
> a. As a rule of thumb 'sanity check' on an equity value that has been determined using some other valuation method (such as discounted net cash flow.) This check is likely to be most applicable for companies in service industries or where the products have low variable costs.
>
> b. A method of last resort when no other market multiples are considered to be appropriate.
>
> c. Where another owner may make a significantly different return on the same revenues.
>
> d. When the consultant believes that adjustments to the underlying financial data of the subject company and guideline companies are too numerous or significant.

---

[19] P/R = Price to Revenue - added for clarification

e. When the profit margins (or averages) of the guideline companies are similar to the subject company.[20]

Based on these factors, we focused our analysis on the MVIC to EBITDA and MVIC to EBIT multiples.

The MVIC to EBITDA and MVIC to EBIT multiples of the guideline companies varied significantly. The average and median MVIC to EBITDA multiples were 10.31 and 6.22, respectively, while the average and median MVIC to EBIT multiples were 10.66 and 6.59, respectively. A closer analysis of the multiples indicated that there were a couple of outliers that was skewing the averages upwards. Therefore, we focused our analysis on the median multiples which are less susceptible to outliers in comparison to the average.

The next step in the analysis is to determine the appropriate multiples to apply to The Company. Based on RKMF's unfavorable level of profitability in comparison to the guideline transactions, volatility of historic earnings and uncertainty related to the pandemic, we reduced the median multiples by 15 percent. This results in an MVIC to EBITDA and an MVIC to EBIT multiple of 5.29 and 5.60, respectively.

The guideline transactions were asset sales. This means that only those assets that are typically sold as part of a transaction would be included in the estimate of value. Therefore, additional assets and liabilities must be taken into consideration. These would be the items that would typically be kept by the seller or paid for above and beyond the estimate of value that is calculated from the various transactions. In this instance, these assets and liabilities consist of the following:

Cash	$ 656,222
Prepaid Expenses	19,681
Sales Staff Draws Receivable	54,387
Payroll Taxes Payable	(21,942)
Total	$708,348

* Figures may not add due to rounding.

[20] Jay E. Fishman, et al, "PPC's Guide to Business Valuations, Volume 2" (Thomson Reuters, Carrollton, TX, 2018): 6-23.

Applying the selected multiples to RKMF's pro forma earnings streams results in the estimates of value shown in Table 12.

TABLE 12
MARKET APPROACH COMPUTATIONS

	MVIC to EBITDA	MVIC to EBIT
Selected Multiple	5.29	5.60
Subject Company Earnings Stream	x $ 922,502	x $ 870,999
Indication of Value Before Retained Assets	$ 4,879,112	$ 4,875,851
Plus Net Retained Assets	708,348	708,348
Market Value of Invested Capital	$ 5,587,461	$ 5,584,199
Less: Interest Bearing Debt	(547,000)	(547,000)
Indication of Value, Control, Marketable	$ 5,040,461	$ 5,037,199
Less: Discount for Lack of Control (9.00%)[1]	(453,641)	(453,348)
Indication of Value, Noncontrolling, Nonmarketable	$ 4,586,819	$ 4,583,852
Less: Discount for Lack of Marketability (13.50%)[1]	(619,221)	(618,820)
Indication of Value, Noncontrolling, Nonmarketable	**$ 3,967,599**	**$ 3,965,032**

1. See "Premiums and Discounts" section of this report

Note: Figures may not add due to rounding.

THE ASSET-BASED APPROACH

The asset-based approach does not capture the value of RKMF as a going concern. Therefore, the asset-based approach was not used.

RECONCILIATION OF VALUES

Indications of value for RKMF were derived using the income approach and the market approach. A summary of the indications of value on a noncontrolling, nonmarketable basis appears below.

INCOME APPROACH	
Pro Forma Capitalized Net Cash Flow	$ 4,022,715
MARKET APPROACH	
MVIC to EBITDA	3,967,599
MVIC to EBIT	3,965,032

The income approach uses the income-generating ability of The Company to arrive at value, which is the most theoretically correct method to use, as a willing buyer is most concerned with the availability of future cash flows. The market approach is a good indication of fair market value since by definition, fair market value is derived from the market of willing buyers and sellers. However, in this instance, while the guideline transaction method was based on multiples for insurance agencies, none of the agencies appeared to offer the same services as RKMF which focuses on life insurance products marketed towards institutional wirehouses. Furthermore, the variability in the MVIC to EBITDA and MVIC to EBIT multiples were high. Based on these factors, 100 percent of the weight was placed on the income approach. The indications of value under the market approach were used as a reasonableness test.

In order to determine the value of the equity, we need to account for RKMF's nonoperating assets and liabilities. As previously discussed, The Company's nonoperating items include various related party notes and an investment in IDA, LLC. We updated the balances of the related party notes through November 13, 2020. According to management, these related party notes are expected to be collected and paid in the coming months. We added back the book value of the investment in IDA, as the value was considered to be minimal. We did not apply discounts to the nonoperating assets and liabilities as we considered them to be collectible. Therefore, the value of a 51 percent interest in RKMF was determined as shown in Table 13.

TABLE 13
RECONCILIATION OF VALUES

Concluded Value of the Operating Entity	$ 4,022,715
Plus: Value of RKMF's Nonoperating Assets	345,809
Estimate of Value of RKMF	$ 4,368,524
Ownership Interest Being Valued	51.00%
Estimated Value of a 51.00% Interest in RKMF	$ 2,227,947
Rounded	**$ 2,228,000**

REASONABLENESS TESTS

We performed various reasonableness tests in order to substantiate our final conclusion of value. First, we analyzed rules of thumb for insurance agencies from the *Business Reference Guide Online* available from Business Valuation Resources. We compared the implied multiples based on our conclusion of value to the published rules of thumb contained in the *Business Reference Guide*. We calculated the implied multiples for RKMF based on The Company's MVIC on a control, marketable basis. A comparison of the published rules of thumb and the implied multiples based on our final conclusion of value appear below.

Rule of Thumb	**Implied Multiple for RKMF**
5-7X EBIT	6.50
6-8X EBITDA	6.13

The implied multiples based on our final conclusion value fall within the range of both published rules of thumb for insurance agencies.

We also performed a Justification for Purchase Test. This uses the operating value, as determined, with reasonable transaction terms to see if the cash flow of the business would support the willing buyer's debt service. We assumed a down payment of one-third of the value of the operating entity, with the balance being financed at two hundred basis points above the prime rate, over six years. The results are shown in Table 14.

TABLE 14
JUSTIFICATION FOR PURCHASE TEST

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Annual Payments	$ 663,216	$ 663,216	$ 663,216	$ 663,216	$ 663,216	$ 663,216
Interest	167,049	140,366	112,244	82,612	51,387	18,481
Principal	$ 496,167	$ 522,850	$ 550,972	$ 580,604	$ 611,829	$ 644,735
Cash Flow						
Pretax Income	$ 852,131	$ 873,434	$ 895,270	$ 917,652	$ 940,593	$ 964,108
Interest Expense	167,049	140,366	112,244	82,612	51,387	18,481
Taxable Income	$ 685,082	$ 733,068	$ 783,026	$ 835,040	$ 889,206	$ 945,627
Tax	178,121	190,598	203,587	217,110	231,194	245,863
Net Income	$ 506,961	$ 542,470	$ 579,439	$ 617,930	$ 658,012	$ 699,764
Principal Payments	496,167	522,850	550,972	580,604	611,829	644,735
Cash Flow	$ 10,794	$ 19,620	$ 28,467	$ 37,326	$ 46,183	$ 55,029
Return on Down Payment	0.63%	1.15%	1.67%	2.19%	2.71%	3.23%

The calculations above indicate a payback period of approximately six years. In this case, neither the buyer or the seller is leaving too much on the table for the benefit of the other party. This demonstrates the reasonableness of the conclusion of value that was determined.

DISCOUNT AND CAPITALIZATION RATES

Section 6 of Revenue Ruling 59-60 states:

> In the application of certain fundamental valuation factors, such as earnings and dividends, it is necessary to capitalize the average or current results at some appropriate rate. A determination of the proper capitalization rate presents one of the most difficult problems in valuation.

There are various methods of determining discount and capitalization rates. Using the build-up method of determining these rates results in the following:

Risk-Free Rate		1.43%
Equity Risk Premium	+	6.17%
Size Premium	+	4.99%
Industry Risk Premium	-	1.48%
Size Adjusted Industry Rate of Return		11.11%
Risk Factors Specific to RKMF	x	1.25
DISCOUNT RATE FOR NET CASH FLOW		**13.89%**
Discount Rate for Net Cash Flow (Rounded)		13.90%
Growth Rate		2.50%
CAPITALIZATION RATE FOR NET CASH FLOW		**11.40%**

Risk-Free Rate of Return. The risk-free rate of return is sometimes known as the “safe rate” or the “cost of money.” In theory, this is the minimum return that an investor would accept for an investment that is virtually risk-free. It is the pure cost of money plus the rate of inflation anticipated by those who deal in these types of transactions. What this really represents is the minimum rate of return that an investor should accept, since he or she can earn this amount with reasonable safety instead of risking an investment in a closely-held company.

In this instance, the risk-free rate is estimated as the “spot yield” of the 20-year United States Treasury bond, which was equal to 1.43 percent as of November 13, 2020.

***Equity Risk Premium* (“ERP”)**. This component of the discount rate takes market perceptions and the expectations of a broad measure of the market into consideration. For example, if the valuation subject’s industry is returning 17 percent on equity, an investor in the subject company would expect to receive the same 17 percent, all other factors being equal. After all, why would someone be willing to accept less than what they could get from an equally desirable substitute?

The ERP for corporate equity securities can be obtained from various sources. One such source is the Duff & Phelps (“D&P”) *Cost of Capital Navigator*. The ERP was estimated to be 6.17 percent as of the valuation date based on the supply-side (forward-looking) ERP as published by D&P.

Size Premium. A size premium represents the incremental rate of return that a hypothetical willing buyer would require to invest in a company of smaller size in comparison to larger publicly-traded companies. The *Cost of Capital Navigator* includes a breakdown of 10 size-ranked portfolios of publicly-traded companies based on data compiled from the Center for Research in Security Prices. Based on this analysis, the size risk premium was estimated to be 4.99 percent based on the size risk premium for the 10th decile portfolio, representing the smallest publicly-traded micro-cap stocks.

Industry Risk Premium. The next component of the discount rate is the industry risk premium, which reflects the incremental rate of return that a willing buyer would require to compensate him or her for the additional risks associated with RKMF’s industry in comparison to the market in general. According to the *Cost of Capital Navigator*, the industry risk premium for insurance agencies was negative 1.48 percent, which indicates that the insurance industry was less risky than the overall market.

Specific Company Risk Premium. A specific company risk premium was applied to account for risk factors specific to RKMF. In determining the appropriate specific company risk premium, the following factors were considered:

- RKMF is still considerably smaller than the publicly-traded micro-cap companies that were included in the 10th decile. Furthermore, The Company lacks management depth and geographic diversification. Therefore, an additional risk premium for size risk is warranted.

- RKMF has key person dependence as the customer relationships are held primarily with two executives.

- The Company's historic earnings have been volatile which also increases the specific company risk premium.

- The Company has a high level of customer concentration risk as over 80 percent of its revenues are generated by four major clients.

Based on these factors, the size-adjusted industry rate of return of 11.11 percent was increased by a factor of 1.25 to account for risk factors specific to RKMF.

As a reasonableness test, we analyzed rate of return data for life insurance carriers in D&P's U.S. Industry Benchmarking Module for the period ended June 30, 2020. These rates of return provide an indication of the overall riskiness of the life insurance industry. According to this database, rates of return using various cost of equity models are as follows:

	CAPM		Fama-French 5 Factor Model	
	SIC Composite	Median	SIC Composite	Median
Cost of Equity	11.20%	10.20%	10.50%	9.70%

The Capital Asset Pricing Model ("CAPM") estimates a company's cost of capital based on a "beta" statistic which measures the volatility of a company's stock in comparison to the overall market. The Fama-French 5 Factor model estimates the cost of capital based on investment characteristics including but not limited to market risk, size and profitability. The rates of return for the life insurance industry fall below the 13.9 percent cost of equity for RKMF. This makes sense considering the previously mentioned specific comp risk factors for the subject company.

In order to calculate the capitalization rate, the long-term growth rate is subtracted from the discount rate calculated above. Upon considering past and anticipated future growth, as

well as the overall industry and economy, we determined the long-term sustainable growth rate to be 2.5 percent.

PREMIUMS AND DISCOUNTS

VALUATION PREMIUMS AND DISCOUNTS IN GENERAL

The final value reached in the valuation of a closely-held business may be more or less than the value that was calculated using the various methods of valuation that are available. The type and size of the discount(s) or premium(s) will vary depending on the starting point. The starting point will depend on which methods of valuation were used as well as other factors such as the sources of the information used to derive multiples or discount rates, and normalization adjustments. These premiums and discounts will also depend on the standard of value applied in the valuation.

CONTROL PREMIUM

In a fair market value business valuation, the pro rata value of a controlling interest in a closely-held company is said to be worth more than the value of a noncontrolling interest, due to the prerogatives of control that generally follow the controlling shares. An investor will generally pay more (a premium) for the rights that are considered to be part of the controlling interest. Valuation professionals recognize these prerogatives of control, and they continue to hold true today. These rights are considered in assessing the size of a control premium. They include:

1) Appoint or change operational management.
2) Appoint or change members of the board of directors.
3) Determine management compensation and perquisites.
4) Set operational and strategic policy and change the course of business.
5) Acquire, lease, or liquidate business assets, including plant, property and equipment.
6) Select suppliers, vendors, and subcontractors with whom to do business and award contracts.
7) Negotiate and consummate mergers and acquisitions.
8) Liquidate, dissolve, sell out, or recapitalize the company.

9) Sell or acquire treasury shares.
10) Register the company's equity securities for an initial or secondary public offering.
11) Register the company's debt securities for an initial or secondary public offering.
12) Declare and pay cash and/or stock dividends.
13) Change the articles of incorporation or bylaws.
14) Set one's own compensation (and perquisites) and the compensation (and perquisites) of related-party employees.
15) Select joint venturers and enter into joint venture and partnership agreements.
16) Decide what products and/or services to offer and how to price those products/services.
17) Decide what markets and locations to serve, to enter into, and to discontinue serving.
18) Decide which customer categories to market to and which not to market to.
19) Enter into inbound and outbound license or sharing agreements regarding intellectual properties.
20) Block any or all of the above actions.[21]

In this instance, the valuation subject is a noncontrolling interest. Therefore, a control premium is not applicable.

DISCOUNT FOR LACK OF CONTROL

In a fair market value valuation, a discount for lack of control ("DLOC") is a reduction in the control value of the valuation subject to reflect the fact that a noncontrolling owner cannot control the daily activities or policy decisions of an enterprise, thus reducing its value. The size of the discount will depend on the size of the interest being valued, the amount of control, the owner's ability to liquidate the company and other factors.

A DLOC is basically the opposite of a premium for control. This type of discount is used to obtain the value of a noncontrolling interest in the valuation subject, when a control value is the starting point. The starting point is determined based on the method of valuation and the normalization adjustments made and the degree of control will influence the magnitude

[21] Pratt, Shannon P., Niculita, Alina V., *Valuing a Business*, 5th Edition (New York: McGraw-Hill, 2008): 385.

of the DLOC. While there is some empirical guidance available about DLOCs, adjustments to reflect different degrees of control are made analytically on a case-by-case basis.

A DLOC can be mathematically calculated using control premiums that are measured in the public market. The formula to determine the DLOC is as follows:

$$1 - [1 \div (1 + CP)]$$

In this valuation, the income approach was used to determine the control value of the entire entity. However, to realize this value, an investor would have to be able to gain access to, and liquidate, the underlying assets of the entity. If noncontrolling owners were afforded this level of control, a noncontrolling interest might well be worth a pro rata share of net asset value. However, this is not the case. The Agreement specifically limits control by requiring a unanimous vote of all shareholders to effectuate major corporate actions. The basis for lack of control adjustments for a noncontrolling interest arises from a range of factors that are discussed in Section 7.1 of The Agreement. According to The Agreement, a 51 percent owner in RKMF cannot control the following:

> 7.1 Any purchase or other acquisition of all or substantially all of any business conducted by another entity; or
>
> 7.2 Any merger or consolidation by Company with or into another business entity; or
>
> 7.3 Any fundamental change in the nature of the business of Company; or
>
> 7.4 Any capital expenditure by Company or any capital lease with Company as lessor in one transaction or a series of related transactions that in the aggregate exceed $50,000 (but do not exceed $250,000) and do not directly or indirectly relate to the financial interest of any Shareholder (excluding those that relate, on a pro rata basis, to all Shareholders); or
>
> 7.5 Any lease of real property; or
>
> 7.6 Adoption of any annual budget for management of Company's business or any plan of capital improvement for Company; or
>
> 7.7 Any distribution, or withholding of distributions of, cash or property; or
>
> 7.8 Transfer or issuance of any of Company's capital stock to any Person that is not a Shareholder on the date hereof (except as otherwise permitted under this agreement); or

7.9 Any possession or use of any Company property, or any assignment of any rights in specific Company property for other than a Company purpose; or

7.10 Any determination to require that any officer, employee or agent of Company shall execute to Company a bond in such sum, and with such surety or sureties as the Shareholders may direct, conditioned upon faithful performance of his or her duties to Company, including responsibility for negligence and for the accounting for all property, funds or securities of Company that may come into his or her hands; or

7.11 Any Transfer of all or substantially all of the assets of Company; or

7.12 Any acquisition or Transfer of any real property or mortgage or any interest therein; or

7.13 Any financing of any acquisition or Transfer of any real property or mortgages or any interest therein; or

7.14 Any purchase or redemption by Company of any capital stock of Company from any Shareholder; or

7.15 Any Transfer of any contract between Company and a customer of Company; or

7.16 Any Transfer or Encumbrance or creation of any security interest in respect of all or substantially all of Company's assets; or

7.17 Incurrence of indebtedness by Company in excess of $500,000 in one transaction or in a series of transactions; or

7.18 Any undertaking of any obligation by Company as a surety, guarantor or accommodation party respecting any non-Company borrowing; or

7.19 Any capital expenditure by Company or any capital lease with Company as lessor in one transaction or a series of related transactions that directly or indirectly relate to the financial interest of any Shareholder (excluding those that relate on a pro rata basis, to all Shareholders).

The control marketable value of RKMF of $5,110,481 derived under the income approach does not provide a meaningful indication of value for a 51 percent ownership interest in the entity. A DLOC is appropriate because a 51 percent ownership interest in The Company represents an indirect ownership interest in the underlying assets owned by the entity. The 51 percent ownership interest lacks control to act for or bind the entity, has limited control over the day-to-day conduct of the entity, cannot control policy or investment decisions and cannot control the timing of distributions to be made or the timing and amount of the sale

of the entity's assets. All of these actions require a unanimous vote of all of the shareholders.

The DLOC will be greater in a closely-held business than in a public company because it is more difficult to sell a noncontrolling interest when there is virtually no market for the shares. This additional element of discount will be addressed separately as part of the discount for lack of marketability.

There are many factors that can impact the degree of control a noncontrolling owner has over the operations. When the control elements are not available to the ownership interest being valued, the noncontrolling value is reduced accordingly. The information in Table 15 summarizes some of the factors that tend to influence the value of noncontrolling interests relative to controlling interests:

TABLE 15
FACTORS AFFECTING THE DEGREE OF CONTROL

Factors That May Increase a Minority Interest Discount or a Control Premium

- The presence of nonvoting stock.
- An extreme lack of consideration for the interests of minority stockholders on the part of the company's management, board of directors, and/or majority owners.

Factors That May Decrease a Minority Interest Discount or a Control Premium

- The presence of enough minority interest votes to elect or have meaningful input on electing one or more directors in a company with cumulative voting.
- The presence of enough minority interest votes to block certain actions (subject to state statutes and/or articles of incorporation).
- The presence of state statutes granting certain minority stockholder rights.

Factors That May Increase OR Decrease a Minority Interest Discount or a Control Premium

- The distribution of other shares (e.g., two shares when two others own 49 shares each are more valuable than two shares when 49 others own two shares each).
- The level of distributions, if any.

Source: Adapted from *Guide to Business Valuations*, Practitioners Publishing Company, Inc. 2018: 8-19.

One approach to determining an appropriate DLOC is to compare the noncontrolling interest being valued to published control premium studies. This can be accomplished by using publications such as *Mergerstat® Review*, previously cited. A summary of the *Mergerstat Review* data appears in Table 16.

TABLE 16
PERCENT PREMIUM PAID OVER MARKET PRICE

Year of Buy Out	Number of Transactions	Average Premium Paid Over Market (%)	Median Premium Paid (%)	Implied DLOC (%)
2000	574	49.2	41.1	29.1
2001	439	57.2	40.5	28.8
2002	326	59.7	34.4	25.6
2003	371	62.3	31.6	24.0
2004	322	30.7	23.4	19.0
2005	392	34.5	24.1	19.4
2006	454	31.5	23.1	18.8
2007	491	31.5	24.7	19.8
2008	294	56.5	36.5	26.7
2009	239	58.7	39.8	28.5
2010	348	51.5	34.6	25.7
2011	321	54.1	37.8	27.4
2012	323	46.2	37.1	27.1
2013	257	44.0	29.7	22.9
2014	186	46.0	31.3	23.8
2015	222	77.1	31.0	23.7
2016	222	113.0	38.1	27.6
2017	207	48.8	27.8	21.8
2018	294	38.9	26.8	21.1
2019	249	40.7	30.1	23.1

Source: *Mergerstat Review 2020* (Newark, NJ: FactSet Mergerstat, LLC.) Premium calculations are based on the seller's closing market price five business days before the initial announcement. These calculations exclude negative premiums. Discount calculated by the valuation analyst based on median premium.

According to the Mergerstat data, the median acquisition premium in the public market was 30.1 percent in 2019 resulting in an implied DLOC of 23.1 percent. However, this data excludes negative premiums and also includes transactions involving buyer synergies. Therefore, the implied DLOC reflects buyer motivations other than control.

We further analyzed the Mergerstat data by searching for acquisitions of U.S. based companies classified under SIC 6411. The search returned 18 transactions. Of these 18 transactions, 13 were labeled as strategic transactions, which include buyer motivated synergies. The remaining five transactions were acquisitions made by financial buyers. The average and median implied DLOC for these five transactions was 21.2 percent and 22.8 percent, respectively. However, the range of discounts was wide and ranged from 8.5 percent to 27.8 percent. This wide level of dispersion gave us less confidence in this data.

Another method of estimating the appropriate DLOC for RKMF is to draw a parallel between The Company and closed-end funds ("CEFs"). Hundreds of CEFs are available for numerous investment options. Prices paid for publicly-traded shares in a CEF represent noncontrolling interests in fully-marketable securities. Therefore, if the net asset value (control, marketable value) of a CEF can be determined and compared with the freely-traded price of the fund, it can be determined when and under what conditions the market affords a discount (or premium) to the net asset value of a noncontrolling interest in the fund.

Unlike open-end mutual funds, CEFs issue a fixed number of shares. Therefore, investors must buy shares from other investors, not the fund itself. These CEFs mirror the motivations of buyers and sellers, and offer empirical evidence for the determination of the appropriate magnitude of the DLOC to be applied. We analyzed discounts for U.S. equity funds, as these most closely resemble an investment in RKMF. A summary of the discounts for these funds as of November 13, 2020 appears in Table 17.

TABLE 17
GENERAL EQUITY CLOSED END FUNDS

Fund	Ticker	Price Per Share	NAV Per Share	Premium/ (Discount)
ADAMS DIVERSIFIED EQUITY FUND INC.	ADX	17.29	20.15	-14.2%
BOULDER GROWTH & INCOME FUND INC.	BIF	10.62	13.08	-18.8%
MILLER/HOWARD HIGH INCOME EQUITY FUND OF BENEFICIAL INTEREST	HIE	7.02	8.03	-12.6%
LIBERTY ALL-STAR GROWTH FUND INC.	ASG	7.99	7.26	10.1%
LIBERTY ALL-STAR EQUITY FUND	USA	6.36	6.94	-8.4%
THE HERZFELD CARIBBEAN BASIN FUND INC.	CUBA	4.2	5.61	-25.1%
GABELLI EQUITY TRUST INC. (THE)	GAB	6.04	5.59	8.1%

TABLE 17
GENERAL EQUITY CLOSED END FUNDS

Fund	Ticker	Price Per Share	NAV Per Share	Premium/ (Discount)
THE GABELLI GO ANYWHERE TRUST OF BENEFICIAL INTEREST	GGO	10.99	12.72	-13.6%
FOXBY CORP	FXBY	2.06	3.34	-38.3%
GABELLI DIVIDEND & INCOME TRUST OF BENEFICIAL INTEREST	GDV	20.15	23.52	-14.3%
GENERAL AMERICAN INVESTORS INC.	GAM	34.28	41.65	-17.7%
ROYCE VALUE TRUST INC.	RVT	14.5	16.82	-13.8%
ROYCE MICRO-CAP TRUST INC.	RMT	8.8	10.42	-15.6%
SPROTT FOCUS TRUST INC.	FUND	6.35	7.61	-16.6%
NUVEEN CORE EQUITY ALPHA FUND OF BENEFICIAL INTEREST	JCE	13.28	14.75	-10.0%
SPECIAL OPPORTUNITIES FUND INC	SPE	12.34	14.08	-12.4%
CENTRAL SECURITIES CORPORATION	CET	29.3	36.59	-19.9%
CORNERSTONE STRATEGIC VALUE FUND INC.	CLM	11.14	9.75	14.3%
CORNERSTONE TOTAL RETURN FUND INC. (THE)	CRF	11.01	9.35	17.8%
EAGLE CAPITAL GROWTH FUND INC.	GRF	7.68	9.54	-19.5%
Average				-11.0%
25th Percentile				-9.0%
Median				-14.0%
75th Percentile				-18.5%

The average and median implied DLOCs based on equity CEFs was 11.03 percent and 13.99 percent, respectively. The implied DLOCs based on the CEFs were considerably lower than those contained in the Mergerstat database. Due to the wide dispersion of the implied discounts in the Mergerstat data and the potential presence of synergies and other buyer motivated factors, we used the median DLOC of 13.99 percent based on the equity CEFs as a starting point.

In comparison to the CEFs, the subject interest has more control as the By-Laws give the 51 percent owner some control over the election of directors and other corporate actions. Furthermore, a 51 percent owner has swing vote power and can block major corporate actions. Taking this into consideration, we lowered the DLOC to the 25th percentile DLOC of 9 percent on a rounded basis.

DISCOUNT FOR LACK OF MARKETABILITY

A DLOM is used to compensate for the difficulty of selling shares of stock that are not traded on a stock exchange compared with those that can be traded publicly. If an investor owns shares in a public company, he or she can pick up the telephone, call a broker, and generally convert the investment into cash within three days. That is not the case with an investment in a closely-held business. Therefore, publicly-traded stocks frequently have an element of liquidity that closely-held shares do not. This is the reason that a DLOM may be applied. It is intended to reflect the market's perceived reduction in value for not providing liquidity to the shareholder. Also, it is important to understand that liquidity is not an on-off switch, where you either have it or you do not. Rather, liquidity is a continuum where there are varying degrees in both the public market and for private companies.

A DLOM may also be appropriate when the shares have either legal or contractual restrictions placed upon them. These may be in the form of restricted stock, restrictions resulting from buy-sell agreements, bank loan restrictions or other types of contracts that restrict the sale of the shares.

DLOM - QUALITATIVE ANALYSIS

This section of the report includes a discussion and analysis of qualitative factors that should be considered when quantifying the DLOM.

RESTRICTED STOCK STUDIES

One of the most common sources of data for determining an appropriate level of a DLOM is studies involving restricted stock purchases. Revenue Ruling 77-287 refers to the

Institutional Investor Study Report of the Securities and Exchange Commission, which addresses restricted stock issues.[22] Many studies have updated this report.

Restricted stock (or letter stock, as it is sometimes called) is stock issued by a corporation that is not registered with the SEC and cannot be readily sold into the public market. The stock is frequently issued when a corporation is first going public, making an acquisition or raising capital. Corporations issue restricted stock rather than tradable stock mainly to avoid downward pressure on their stock price when an excessive number of shares are available for sale at any one time and to avoid the costs of registering the securities with the SEC.

The registration exemption on restricted stocks is granted under Section 4(2) of the 1933 Securities Act. The intent of this section is to provide "small" corporations with the ability to raise capital without incurring the costs of a public offering. Regulation D, a safe harbor regulation that became effective in 1982, falls under Section 4(2) and provides uniformity in federal and state securities' laws regarding private placements of securities. Securities bought under Regulation D are subject to restrictions, the most important being that the securities cannot be resold without either registration under the act or an exemption.[23] The exemptions for these securities are granted under Rule 144, which states:

> Rule 144 (17 C.F.R. 230.144 1980) allows the limited resale of unregistered (restricted) securities after a minimum holding period of two years. Resale is limited to the higher of 1 percent of outstanding stock or average weekly volume over a 4 week period prior to the sale, during any three month period. There is no quantity limitation after a four year holding period.[24]

Therefore, to sell their stock on the public market, holders of restricted stock must either register their securities with the SEC or qualify for a Rule 144 exemption. A holder of restricted stock can, however, trade the stock in a private transaction. Historically, when traded privately, the restricted stock transaction was usually required to be registered with

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[22] "Discounts Involved in Purchases of Common Stock (1966-1969)," *Institutional Investor Study Report of the Securities and Exchange Commission*, H.R. Doc. No. 64, Part 5, 92d Cong., 1st Sess. 1971: 2444-2456.

[23] Kasim L. Alli and Donald J. Thompson, "The Value of the Resale Limitation on Restricted Stock: An Option Theory Approach," *Valuation* (1991): 22-33.

[24] Ibid.: 23.

the SEC. However, in 1990, the SEC adopted Rule 144A, which relaxed the SEC filing restrictions on private transactions. The rule allows qualified institutional investors to trade unregistered securities among themselves without filing registration statements. The primary purpose of Rule 144A was to make it easier for institutions that were prohibited from dealing in illiquid securities to buy and sell debt securities from large publicly-traded corporations privately without the need for extensive SEC filings. In 1997, this rule was changed again, shortening the required holding period for these stocks to one year. In 2007, this rule was revised again, further shortening the holding period to six months effective in 2008.

A summary of the changes to Rule 144 is contained in Table 18.

TABLE 18
CHANGES TO RULE 144[25]

	Notes	1971 - 1983	1983 - 1990	1990 - 1997	1997 - 2007	2008 -
Announced Date		n/a	n/a	n/a	2/20/1997	11/15/2007
Effective Date	[a]	1/11/1972	9/23/1983	4/1/1990	4/29/1997	2/15/2008
Affiliates						
Initial Holding Period						
Reporting Issuers		2 Years	2 Years	2 Years	1 Year	6 Months
Nonreporting Issuers		2 Years	2 Years	2 Years	1 Year	1 Year
Tacking?	[b]	No	No	Yes	Yes	Yes
Volume Limitations	[c]					
Reporting Issuers		Indefinitely	Indefinitely	Indefinitely	Indefinitely	Indefinitely
Nonreporting Issuers		Indefinitely	Indefinitely	Indefinitely	Indefinitely	Indefinitely
Non-Affiliates						
Initial Holding Period						
Reporting Issuers		2 Years	2 Years	2 Years	1 Year	6 Months
Nonreporting Issuers		2 Years	2 Years	2 Years	1 Year	1 Year
Tacking?	[b]	No	No	Yes	Yes	Yes
Volume Limitations	[c][d]					
Reporting Issuers - Current		Indefinitely	3 Years	3 Years	2 Years	6 Months
Reporting Issuers - Noncurrent		Indefinitely	3 Years	3 Years	2 Years	1 Year
Nonreporting Issuers		Indefinitely	3 Years	3 Years	2 Years	1 Year

Highlighted items signify changes to Rule 144 versus the immediately prior period.
[a] Amendments to Rule 144 are applicable to securities acquired before or after the Effective Date.
[b] Allows purchases by nonaffiliates to tack the prior nonaffiliate owner's holding period onto his/her own.
[c] For exchange-listed and Nasdaq-quoted securities, up to the greater of: (i) 1% of the outstanding shares of the same class being sold; or (ii) the average reported weekly trading volume during the four weeks preceding each sale. For OTC securities (OTCBB and Pink Sheets), up to 1% of the outstanding shares of the same class being
[d] Time period includes the Initial Holding Period. As an example, between 1997 and 2008, after one year nonaffiliates may begin to sell shares in accordance with Rule 144's volume limitations. After one additional year (two years total from the date of acquisition of the restricted shares), the shares may be sold freely.

[25] Stout Restricted Stock Study, Companion Guide, 2020 Edition.

The overall effect of these regulations on restricted stock is that when the shares are issued, the corporation is not required to disclose a price and on some occasions, even when they are traded, the values of the restricted securities are not required to be a matter of public record.

Various studies have been performed relating to restricted stocks. Each of these studies attempts to quantify the discount taken against the freely-traded price of noncontrolling shares in the public market. A list of the more frequently cited studies is included in Table 19.

TABLE 19
RESTRICTED STOCK STUDIES

Study	Years Covered In Study	Average Discount (%)
SEC Overall Average[a]	1966-1969	25.8
SEC Non-Reporting OTC Companies[a]	1966-1969	32.6
Gelman Study[b]	1968-1970	33.0
Trout Study[c]	1968-1972	33.5[i]
Moroney Study[d]	[h]	35.6
Maher Study[e]	1969-1973	35.4
Standard Research Consultants[f]	1978-1982	45.0[i]
Willamette Management Associates[g]	1981-1984	31.2[i]
Silber Study[j]	1981-1988	33.8
FMV Study[k]	1979-April 1992	23.0
FMV Restricted Stock Study[l]	1980-1997	22.3
Management Planning Study[m]	1980-1995	27.7
Bruce Johnson Study[n]	1991-1995	20.0
Columbia Financial Advisors[o]	1996-February 1997	21.0
Columbia Financial Advisors[o]	May 1997-1998	13.0
MPI Updated Study[p]	2000-2007	14.6
Trugman Valuation Associates[q]	2007-2008	18.1
Trugman Valuation Associates[q]	January-November 2007	17.6
SRR Restricted Stock Study[r]	September 2005-May 2010	9.3

Notes:

[a] From "Discounts Involved in Purchases of Common Stock (1966-1969)," *Institutional Investor Study Report of the Securities and Exchange Commission*. H.R. Doc. No. 64, Part 5, 92d Cong., 1st Sess. 1971: 2444-2456.

[b] From Milton Gelman, "An Economist-Financial Analyst's Approach to Valuing Stock of a Closely Held Company," *Journal of Taxation*, June 1972: 353-354.

[c] From Robert R. Trout, "Estimation of the Discount Associated with the Transfer of Restricted Securities," *Taxes*, June 1977: 381-385.

[d] From Robert E. Moroney, "Most Courts Overvalue Closely-held Stock," *Taxes*, March 1973: 144-154.

[e] From J. Michael Maher, "Discounts for Lack of Marketability for Closely-Held Business Interests," *Taxes*, September 1976: 562-571.

[f] From "Revenue Ruling 77-287 Revisited," *SRC Quarterly Reports*, Spring 1983: 1-3.

[g] From Willamette Management Associates study (unpublished).

[h] Although the years covered in this study are likely to be 1969-1972, no specific years were given in the published account.

[I] Median discounts.

[j] From William L. Silber, "Discounts on Restricted Stock: The Impact of Illiquidity on Stock Prices," *Financial Analysts Journal*, July-August 1991: 60-64.

[k] Lance S. Hall and Timothy C. Polacek, "Strategies for Obtaining the Largest Discount," *Estate Planning*, January/February 1994: 38-44. In spite of the long time period covered, this study analyzed just over 100 transactions involving companies that were generally not the smallest capitalization companies. It supported the findings of the *SEC Institutional Investor Study* in finding that the discount for lack of marketability was higher for smaller capitalization companies.

[l] Espen Robak and Lance S. Hall, "Bringing Sanity to Marketability Discounts: A New Data Source," *Valuation Strategies*, July/August 2001: 6-13, 45-46.

[m] Robert P. Oliver and Roy H. Meyers, "Discounts Seen in Private Placements of Restricted Stock: The Management Planning, Inc. Long-Term Study (1980-1995)" published in Chapter 5 of Robert F. Reilly and Robert P. Schweihs, eds. *The Handbook of Advanced Business Valuation* (New York: McGraw-Hill, Inc., 2000).

[n] Bruce Johnson, "Restricted Stock Discounts, 1991-1995," *Shannon Pratt's Business Valuation Update,* March 1999: 1-3. Also, "Quantitative Support for Discounts for Lack of Marketability," *Business Valuation Review*, December 1999: 152-155.

[o] Kathryn Aschwald, "Restricted Stock Discounts Decline as a Result of 1-Year Holding Period," *Shannon Pratt's Business Valuation Update*, May 2000: 1-5. This study focuses on the change in discounts as a result of the holding period reduction from two years to one year.

[p] From *MPI Perspectives*, Winter 2009.

[q] William Harris, "Trugman Valuation Associates, Inc. ("TVA") Restricted Stock Study," *Business Valuation Review*, Fall 2009: 128-139.

[q] William Harris, "Trugman Valuation Associates, Inc. ("TVA") Restricted Stock Study - An Update," *Business Valuation Review*, Winter 2011: 132-139.

[r] Aaron M. Stumpf, Robert L. Martinez and Christopher T. Stallman, "The Stout Risius Ross Restricted Stock Study: A Recent Examination of Private Placement Transactions from September 2005 through May 2010," *Business Valuation Review*, Spring 201: 7-19.

SEC INSTITUTIONAL INVESTOR STUDY

As part of a major study of institutional investor actions performed by the SEC, the amount of discount at which transactions in restricted stock took place compared to the price of otherwise identical but unrestricted stock on the open market was addressed. The report introduced the study with the following discussion about restricted stock:

> Restricted securities are usually sold at a discount from their coeval market price, if any, primarily because of the restrictions on their resale. With the information supplied by the respondents on the purchase prices of the common stock and the dates of transaction, the Study computed the implied discounts in all cases in which it was able to locate a market price for the respective security on the date of the transaction.[26]

The data in the study shows that about half of the transactions, in terms of real dollars, took place at discounts ranging from 20 to 40 percent.

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[26] "Discounts Involved in Purchases of Common Stock (1966-1969)," *Institutional Investor Study Report of the Securities and Exchange Commission*, H.R. Doc. No. 64, Part 5, 92nd Cong., 1st Session, 1971: 2445.

The discounts were lowest for those stocks that would be tradable when the restrictions expired on the New York Stock Exchange and highest for those stocks that could be traded in the over-the-counter market when the restrictions expired. For those whose market would be over-the-counter when the restrictions expired, the average discount was approximately 35 percent. When considering closely-held companies whose shares had no prospect of any market, the discount would have to be higher.

The research from the SEC's *Institutional Investor Study Report* was the foundation for SEC Accounting Series Release No. 113, dated October 13, 1969 and No. 118, dated December 23, 1970, which require investment companies registered under the Investment Company Act of 1940 to disclose their policies about the cost and valuation of their restricted securities. As a result of the study, there is now an ongoing body of data about the relationship between restricted stock prices and their freely-tradable counterparts. This body of data can provide empirical benchmarks for quantifying marketability discounts.

GELMAN STUDY

In 1972, Milton Gelman, with National Economic Research Associates, Inc., published the results of his study of prices paid for restricted securities by four closed-end investment companies specializing in restricted securities investments.[27] Gelman used data from 89 transactions from between 1968 and 1970 and found that both the average and median discounts were 33 percent and that almost 60 percent of the purchases were at discounts of 30 percent and higher. This data is consistent with the SEC study.

MORONEY STUDY

An article published in the March 1973 issue of *Taxes*,[28] authored by Robert E. Moroney of the investment banking firm Moroney, Beissner & Co., contained the results of a study of the prices paid for restricted securities by 10 registered investment companies. The study included 146 purchases at discounts ranging from 3 to 90 percent, with an average

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[27] Milton Gelman, "Economist-Financial Analyst's Approach to Valuing Stock of a Closely Held Company," *Journal of Taxation*, June 1972: 353-354.

[28] Robert E. Moroney, "Most Courts Overvalue Closely-Held Stock," *Taxes*, March 1973: 144-156.

discount of approximately 33 percent. Despite the fairly broad range, the average discount was in line with the other studies.

In this article, Moroney compared the evidence of actual cash transactions with the lower average discounts for lack of marketability determined in some previous estate and gift tax cases. He stated that there was no evidence available about the prices of restricted stocks at the times of these other cases that could have been used as a benchmark to help quantify these discounts. However, he suggested that higher discounts for lack of marketability should be allowed in the future as more relevant data becomes available. He stated,

> Obviously the courts in the past have overvalued minority interests in closely held companies for federal tax purposes. But most (probably all) of those decisions were handed down without benefit of the facts of life recently made available for all to see.
>
> Some appraisers have for years had a strong gut feeling that they should use far greater discounts for non-marketability than the courts had allowed. From now on those appraisers need not stop at 35 per cent merely because it's perhaps the largest discount clearly approved in a court decision. Appraisers can now cite a number of known arm's length transactions in which the discount ranged up to 90 per cent.[29]

Approximately four years later, Moroney authored another article in which he stated that courts have started to recognize higher discounts for lack of marketability:

> The thousands and thousands of minority holders in closely held corporations throughout the United States have good reason to rejoice because the courts in recent years have upheld illiquidity discounts in the 50% area.*
>
> **Edwin A. Gallun*, CCH Dec. 32,830(M), 33 TCM 1316 (1974) allowed 55%. *Est. of Maurice Gustave Heckscher*, CCH Dec. 33,023, 63 TC 485 (1975) allowed 48%. Although *Est. of Ernest E. Kirkpatrick*, CCH Dec. 33,524 (M), 34 TCM 1490 (1975) found per share values without mentioning discount, expert witnesses for both sides used 50%–the first time a government witness *recommende*d 50%. A historic event, indeed![30]

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29 Ibid.: 151.

30 Robert E. Moroney, "Why 25% Discount for Nonmarketability in One Valuation, 100% in Another?" *Taxes*, May 1977: 320.

MAHER STUDY

J. Michael Maher, with Connecticut General Life Insurance Co., conducted another interesting study on DLOMs for closely-held business interests. The results of this well-documented study were published in the September 1976 issue of *Taxes*.[31] Using an approach that was similar to Moroney's, Maher compared prices paid for restricted stocks with the market prices of their unrestricted counterparts. The data used covered the five-year period from 1969 through 1973. The study showed that "the mean discount for lack of marketability for the years 1969 to 1973 amounted to 35.43 percent."[32] In an attempt to eliminate abnormally high and low discounts, Maher eliminated the top and bottom 10 percent of the purchases. The results showed an average discount of 34.73 percent, almost the exact same discount that was derived without the top and bottom items removed.

Maher's remarks are a good learning tool, as he distinguished between a DLOM and a DLOC. He said,

> The result I have reached is that most appraisers underestimate the proper discount for lack of marketability. The results seem to indicate that this discount should be about 35%. Perhaps this makes sense because by committing funds to restricted common stock, the willing buyer (a) would be denied the opportunity to take advantage of other investments, and (b) would continue to have his investment at the risk of the business until the shares could be offered to the public or another buyer is found.
>
> The 35% discount would *not* contain elements of a discount for a minority interest because it is measured against the current fair market value of securities actively traded (other minority interests). Consequently, appraisers should also consider a discount for a minority interest in those closely held corporations where such a discount is applicable.[33]

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31 J. Michael Maher, "Discounts for Lack of Marketability for Closely Held Business Interests," *Taxes*, September 1976: 562-571.

32 Ibid.: 571.

33 Ibid.: 571.

TROUT STUDY

The next study was performed by Robert R. Trout who was with the Graduate School of Administration, University of California, Irvine and Trout, Shulman & Associates. Trout's study of restricted stocks covered the period from 1968 to 1972 and addressed purchases of these securities by mutual funds. Trout attempted to construct a financial model that would provide an estimate of the discount appropriate for a private company's stock.[34] Creating a multiple regression model involving 60 purchases, Trout measured an average discount of 33.45 percent for restricted stock from freely-traded stock.

STANDARD RESEARCH CONSULTANTS STUDY

In 1983, Standard Research Consultants analyzed private placements of common stock to test the current applicability of the SEC's *Institutional Investor Study*.[35] Standard Research studied 28 private placements of restricted common stock from October 1978 through June 1982. Discounts ranged from seven to 91 percent, with a median of 45 percent, a bit higher than seen in the other studies.

Only four of the 28 companies studied had unrestricted common shares traded on either the American Stock Exchange or the New York Stock Exchange and their discounts ranged from 25 to 58 percent, with a median of 47 percent, which was not significantly different from the 45 percent median of the remaining companies that traded in the over-the-counter market.

WILLAMETTE MANAGEMENT ASSOCIATES, INC. STUDY

Willamette Management Associates analyzed private placements of restricted stocks for the period January 1, 1981 through May 31, 1984.[36] In discussing the study, Willamette stated that the early part of this unpublished study overlapped the last part of the Standard Research study, but there were very few transactions that took place during the period of

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[34] Robert R. Trout, "Estimation of the Discount Associated with the Transfer of Restricted Securities," *Taxes*, June 1977: 381-385.

[35] "Revenue Ruling 77-287 Revisited," *SRC Quarterly Reports*, Spring 1983: 1-3.

[36] Shannon P. Pratt, et al., *Valuing a Business*, Fifth Edition: 425.

overlap. According to the discussion of the study in *Valuing a Business*, most of the transactions in the study took place in 1983.

Willamette identified 33 applicable transactions that could be classified with reasonable confidence as arm's-length transactions and for which the price of the restricted shares could be compared directly with the price of trades in otherwise identical but unrestricted shares of the same company at the same time. The median discount for the 33 restricted stock transactions compared to the prices of their freely-tradable counterparts was 31.2 percent, a little bit lower than the other studies, but substantially lower than the study by Standard Research.

In *Valuing a Business*, Pratt attributed the slightly lower average percentage discounts for private placements during this time to the somewhat depressed prices in the public stock market, which in turn were in response to the recessionary economic conditions prevalent during most of the period of the study. Taking this into consideration, the study basically supports the long-term average discount of 35 percent for transactions in restricted stock compared with the prices of their freely-tradable counterparts.

SILBER RESTRICTED STOCK STUDY

In 1991, another study of restricted stock was published, which included transactions from the period 1981 through 1988. This study, by William L. Silber, substantiated the earlier restricted stock studies, finding an average price discount of 33.75 percent.[37] Silber identified 69 private placements involving common stock of publicly-traded companies. The restricted stock in this study could be sold under Rule 144 after a two-year holding period. Silber, like Trout, tried to develop a statistical model to explain the price differences between securities that differ in resale provisions. Silber concluded that the discount on restricted stock varies directly with the size of the block of restricted stock relative to the amount of publicly-traded stock issued by the company. He found that the discounts were larger when the block of restricted stock was large compared to the total number of shares outstanding. Silber also noted that the size of the discount was inversely related to the creditworthiness of the issuing company.

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[37] William L. Silber, "Discounts on Restricted Stock: The Impact of Illiquidity on Stock Prices," *Financial Analysts Journal*, July - August 1991: 60-64.

STOUT ONLINE DATABASE

Stout analyzed slightly more than 100 transactions involving companies tending to have larger capitalizations. As reported in other studies, discounts tend to be higher among smaller companies and lower with larger companies.

Stout has been updating its study and it is now an online database containing over 750 transactions that took place between 1980 and October 31, 2020. Excluding transactions that occurred at a premium, the average discount is 20.6 percent and the median discount is 15.8 percent. The study found that smaller, less profitable entities, with a higher degree of income and balance sheet risk and greater stock volatility tend to issue restricted stock at higher discounts.

MANAGEMENT PLANNING, INC. STUDY

The primary criteria for Management Planning, Inc.'s study was to identify companies that had made private placements of unregistered common shares that would, except for the restrictions on trading, have similar characteristics to that company's publicly-traded shares. Companies included in the study had to have more than $3 million in annual sales and be profitable for the year immediately prior to the private placement. The companies had to be domestic corporations, not considered to be in "a development stage" and the common stock of the issuing companies had to sell for at least $2 per share.

Management Planning analyzed 200 private transactions involving companies with publicly-traded shares. Of the 200, 49 met the base criteria described. Of these, the average mean discount was 27.7 percent, while the average median discount was 28.8 percent.[38]

A more detailed analysis of the Management Planning study indicated a large range of discounts relative to the sample companies, due to varying degrees of revenues, earnings, market share, price stability and earnings stability. The average revenues for the companies selected for review were $47.5 million, however, the median revenues were $29.8 million, indicating that the average sales figure was impacted by a few companies

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[38] Z. Christopher Mercer, *Quantifying Marketability Discounts*, (Peabody Publishing L.P., Memphis, NT; 1997): 345-363.

that were significantly larger than the others. The average discount for companies with revenues less than $10 million was 32.9 percent.

In 2008, Management Planning preformed another study of private placements that took place between 2000 and 2007. They began with 2,000 transactions and settled on 1,600. The average discount was 14.6 percent. Of these companies, 100 had registered the stock and the average discount was 9.5 percent.

BRUCE JOHNSON STUDY

Bruce Johnson studied 72 private placement transactions that occurred from 1991 through 1995, covering the first half of the decade after the Rule 144 restrictions were relaxed. The range was a 10 percent premium to a 60 percent discount, with an average discount for these 72 transactions of 28 percent. The results seem to indicate that discounts are lower when the holding period is shorter.

COLUMBIA FINANCIAL ADVISORS, INC. RESTRICTED STOCK STUDIES

Columbia Financial Advisors, Inc. ("CFAI") conducted an analysis of restricted securities from January 1, 1996 to April 30, 1997 that were transacted. Using 23 private common equity placement transactions (eight involving restricted securities and 15 involving private placements with no registration rights), the average discount was 21 percent, with a median discount of 14 percent. The 1990 adoption of Rule 144A seemed to have had an effect on these discounts.

CFAI conducted a second study to assess the effects of another change to Rule 144 as of April 29, 1997, when mandatory holding periods were reduced from two years to one year. CFAI analyzed 15 transactions where the stock was privately placed. The average discount for this group was 13 percent, with a median of 9 percent. These discounts were clearly impacted by the shorter holding period.

TRUGMAN VALUATION ASSOCIATES, INC. RESTRICTED STOCK STUDIES

TVA conducted an analysis of private placements of restricted stock for 2007 and 2008. Analyzing 80 transactions, the average discount was 18.1 percent and the median discount

was 14.4 percent. The TVA Restricted Stock Study was the first study published after the Rule 144 holding period was reduced to six months, which became effective on February 15, 2008.

TVA performed a more detailed analysis of the 80 private placement transactions by examining the impact that certain variables had on the magnitude of the implied discounts. The study analyzed variables related to risk, liquidity, size, earning capacity and contractual rights.

The first part of the analysis included an examination of the linear relationships between the different variables and the magnitude of the implied discounts. These linear relationships were measured by performing a correlation analysis, which is a statistical technique that can show how strongly pairs of variables are related. The correlation analysis revealed that stock price volatility, which in this instance was measured by the stock's one-year annualized, historical daily price volatility, had a solid linear relationship with the magnitude of the implied discount. In this instance, stock price volatility had an R-squared statistic of 0.60, which means that 60 percent of the variation in the implied discounts included in the sample are explained by the price volatility of the underlying security.

Other variables that had notable relationships with the size of the discount included the exchange the stock was traded on, the number of shares placed in relation to the stock's trading volume and the period of time in which the stock remained unmarketable. Stocks traded on the Over-the-Counter Bulletin Board Exchange, transactions with a large number of shares placed in relationship to the stock's trading volume and stocks that remained unmarketable for longer periods of time, on average, had higher discounts.

The second part of the analysis performed by TVA consisted of dividing the data into four quartiles based on the different variables. This analysis revealed that discounts tend to be higher for transactions with longer holding periods, transactions involving financially distressed companies and transactions involving illiquid offerings.

TVA concluded that although the 18.1 percent average implied discount falls below the range of previous studies, various company-specific and transaction-specific factors can warrant a discount significantly higher or lower than the average.

In 2011, TVA published an update to its restricted stock study, which analyzed data from 2007 to 2010. The purpose of this update was to analyze the impact of the changes to the Rule 144 holding period, as well as to update the statistical analysis that was performed in the first study. The restricted stock study update included an analysis of 136 transactions. Forty-seven of these transactions took place before the change to the Rule 144 holding period, while 89 transactions took place after the rule change. The average and median discounts were 17.9 and 14.8 percent, respectively, before the rule change and 15.9 and 14.2 percent, respectively, after the rule change.

While decreases in the average and median discounts took place before and after the rule change, the decreases were not as drastic as one would expect. A possible explanation for this is the level of volatility that was present in the marketplace during these two time periods. In late 2008 and the beginning of 2009, stock market volatility, as measured by the Chicago Board of Options Exchange Volatility Index (“VIX”), was extremely high in comparison to 2007. Considering that the change to the Rule 144 holding period was announced in November 2007 and became effective in February 2008, the transactions that occurred after the rule change took place during a more highly volatile market.

PLURIS STUDY

In this study, Pluris analyzed 1,016 private placements of unregistered common stock from the first quarter of 2007 through the third quarter of 2009. After eliminating certain transactions based on the analysis criteria selected, Pluris studied 681 transactions. Pluris found that the average discount for these transactions was 18.8 percent, while the median was 18.6 percent. Similar to the findings of other studies, Pluris found that the highest discount quintile had lower than average market capitalization, higher volatility and greater market-to-book ratios.

STOUT RISIUS ROSS STUDY

The Stout Risius Ross (“SRR”) study included transactions from September 2005 through May 2010. After screening these transactions based on a number of selected criteria, SRR analyzed 98 transactions. Based on these transactions, the average discount was 10.9 percent and the median discount was 9.3 percent.

SRR analyzed various factors and how they affect the DLOM. A strong relationship was found between subject company volatility, block size, dividends and profitability. Growth, size and leverage showed a moderate relationship, while financial distress, recent price performance and registration rights did not show any type of conclusive relationship.

REVENUE RULING 77-287

In Revenue Ruling 77-287, the Internal Revenue Service specifically recognized the relevance of the data about discounts for restricted stocks. The purpose of the ruling was "to provide information and guidance to taxpayers, Internal Revenue Service personnel and others concerned with the valuation, for Federal tax purposes, of securities that cannot be immediately resold because they are restricted from resale pursuant to Federal security laws."[39] The ruling specifically acknowledges the conclusions of the SEC's *Institutional Investor Study* and the values of restricted securities purchased by investment companies as part of the "relevant facts and circumstances that bear upon the worth of restricted stock."

All of the studies regarding restricted stock deal with noncontrolling blocks of stock in public companies. Therefore, the restricted stock studies may be a useful guide in assessing a DLOM for a noncontrolling interest. The average DLOM ranges between 25 and 45 percent based on the studies discussed.

STOUT DLOM CALCULATOR™[40]

One of the models used in this valuation is the Stout DLOM Calculator™ created by Stout Risius Ross, the author of the Stout Restricted Stock Study ("Stout Study"). This tool includes over 750 transactions that occurred between 1980 and October 31, 2020.

Most of the transactions in the Stout Study were discovered through searches using a number of sources, including Security Data Corp., SDC; EDGAR and EDGAR Pro; Dow Jones News Retrieval; Disclosure CompactD/SEC and S&P Corporate Transactions

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[39] Revenue Ruling 77-287 (1977-2 C.B. 319), Section I.

[40] The information about this product is provided in "Stout Restricted Stock Study: Companion Guide," 2019 Edition (Business Valuation Resources: 2019).

Records. More recent transactions come from Sagient Research, a data research company that compiles PIPE transactions. For each transaction identified, Stout states that it reviewed all relevant public filings and exhibits thereto, including but not limited to forms 8K, 10K, 10Q, S-1, S-3, S-4, stock purchase agreements and registration rights agreements. Overall, thousands of private placement transactions were reviewed during the construction of the Stout Study. Transactions were eliminated from the study for the following reasons:

1. The transaction was not a private placement of unregistered shares (i.e., the stock was registered prior to the transaction date), or the stock was registered and became fully marketable within 30 days of the transaction.

2. The private placement included debt, preferred stock, convertible preferred stock, or some kind of hybrid equity-derivative security (the security issued must be identical to the publicly traded common stock in all respects other than its unregistered status).

3. The private placement was issued as part of a stock-warrant unit or had warrants attached, or detachable warrants or options were issued with the common stock.

4. The transaction did not close (i.e., was announced and later withdrawn).

5. The stock was not traded on a domestic exchange; the underlying company is a 6-K filing foreign company (as opposed to an 8-K filing domestic company).

6. The stock traded below $1 for the entire month of the transaction, or the trading volume is extremely low.

7. We were unable to determine the private placement discount because significant pieces of information were unavailable, such as the following:

    a. The market reference price for the fully liquid shares was unavailable;
    b. The private placement transaction price was unavailable; and
    c. Only the net transaction proceeds to the issuer were reported publicly (net of unknown transaction costs and fees), not the gross purchase price.

8. There were special contractual arrangements between buyer and seller limiting either the economic upside or downside of the buyer (e.g., an agreement to increase the number of shares purchased if the market trading price were to fall below a certain level within some specified period of time).

9. The stock was issued in connection with a strategic business relationship, a merger or acquisition, in exchange for services or in connection with any other transaction that could cast doubt on the fair market value of the restricted stock.

10. The lead purchaser in the transaction was, based on explicit language provided in the issuer's public filings (or, if not explicitly stated, based on our best judgment considering all available evidence), a 'related party' or received one or more seats on the issuer's board of directors as a result of the transaction.

11. Transactions indicating premiums (negative discounts) in the study were removed. While we do not have access to the underlying purchase contracts, we believe that many of these premiums may be the result of an investment opportunity not available to other investors or an unidentifiable relationship with the seller.[41]

Using the Stout DLOM Calculator™, the DLOM is calculated by dividing the difference between the private placement price and the market reference price by the market reference price. The market reference price is represented by the high-low average stock price for the month of the transaction because for many transactions in the study, only the month of the transaction, not the exact transaction date, is specified.

The issue is to determine which company-specific and broader market variables are relevant determinants of the DLOM. In general, these variables relate to the issuer's risk profile, the degree of liquidity of the privately-placed stock and the overall level of stock market volatility around the time of the transaction.

Each transaction in the Stout Study occurring after June 1990 includes a VIX variable, which represents the level of expected future volatility in equity markets around the time of the transaction. Many valuation analysts have determined that a public company's stock price volatility is a key determinant of the DLOM. The real issue, however, is that the volatility of private company stock can be extremely difficult (if not impossible) to estimate. In response to this dilemma, Stout has made an empirical connection between DLOMs and overall stock market volatility, making it possible to incorporate stock market volatility as a consideration when determining DLOMs for noncontrolling, nonmarketable interests in private companies. This is especially important for valuations with valuation dates during 2008 and 2009, when stock markets demonstrated unprecedented levels of volatility and

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[41] Ibid.: 17.

when, as a result, investors fled to the safety of highly liquid, low volatility assets such as short-term Treasury bills.

The main conclusions of the Stout Study are that the magnitude of the DLOM is

Negatively correlated with:

1. The issuing firm's market value of equity;
2. The issuing firm's revenues;
3. The issuing firm's total assets;
4. The issuing firm's book value of shareholders' equity; and
5. The issuing firm's net profit margin.

Positively correlated with:

1. The issuing firm's MTB ratio;
2. The issuing firm's stock price volatility;
3. The block size of the placement, described as a percentage of the total ownership; and
4. The level of market volatility prevailing as of the transaction date, as measured by VIX.[42]

When valuing minority interests in privately-held entities, valuation analysts often use a valuation framework with three different levels of value: control; minority, marketable (publicly-traded equivalent); and minority, nonmarketable (private equity). However, the difference between the public and private levels of value can be further refined by another, intermediate, level of value-the restricted stock equivalent value. This is helpful because there is no empirical data available that provides a directly observable measure of the difference between the public and private equity levels of value. Through this more detailed framework, we can measure the DLOM for noncontrolling interests in private companies more accurately by first determining the discount applicable as if the company was a public company issuing restricted stock through an empirical comparison with actual restricted stock issuers. From there, we can determine a discount increment to account for the greater illiquidity of private company stock versus typical restricted stock in public companies.

There are several important differences between restricted stock in public companies and private company interests. However, the difference is one of degree and not of kind. That is, interests in private entities and the restricted stock of public entities are both illiquid

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[42] Ibid.: 25.

securities. Furthermore, in both cases, their illiquidity is a function of being cut off from public markets. In the case of restricted stock, this condition is a temporary one, whereas for private entities it is more long-lasting and in many cases, even permanent. It is important to note that both restricted stock in public companies and interests in private entities may generally be sold at any time in private transactions. What they each lack is access to public markets.

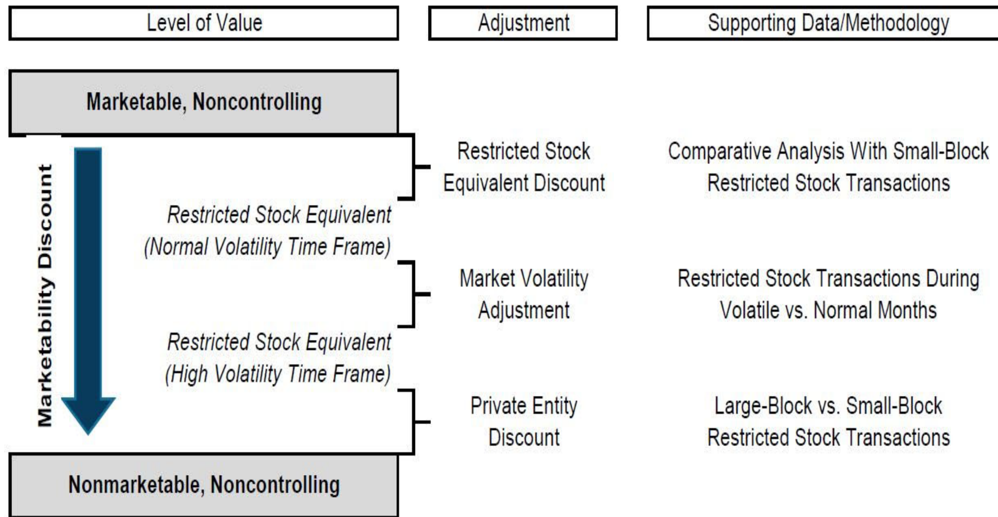
An analysis of the Stout Study data suggests that the most important determinants of the DLOM are (1) the issuing firm's financial and market risk; (2) the level of stock market volatility prevailing around the transaction date and (3) the degree of liquidity of the securities. Accordingly, Stout's determination of the appropriate DLOM for noncontrolling interests in private companies involves a three-step analysis:

1. *Restricted stock equivalent discount (RSED)* – The discount applicable to the shares (or other equity interest) in a private company, as if they were typical restricted shares in a public company. The determination of the RSED is based on a comparative analysis of the subject company and the companies in the study issuing small blocks of restricted stock (less than 30% shares placed).

2. *Market volatility adjustment* – The adjustment to the RSED required in the event that equity markets demonstrate unusually high volatility around a given valuation date. The adjustment factor is derived from a comparison of the transactions in the study occurring during months with normal trailing six-month average VIX values versus those occurring during months with very high trailing six-month average VIX values. The result of applying the market volatility adjustment to the RSED is the adjusted restricted stock equivalent discount, referred to hereinafter as the *"ARSED."*

3. *Private equity discount (PED)* – The discount required for a private entity, which reflects the fact that interests in private entities are significantly less liquid than all but the most illiquid issues (i.e., the largest blocks) of restricted stock in public companies. The adjustment to go from the ARSED to the PED is based on the adjustment factors derived from the comparison of discounts associated with small-block versus large-block transactions in the study.

These three steps relate to the alternative levels of value framework as shown in the following diagram.



As the diagram indicates, the Stout Study uses the difference between the discounts for large-block and small-block stock transactions to calculate a private equity discount. The appropriateness of this additional discount depends on the facts and circumstances of the valuation subject. In this instance, we determined that a 51 percent interest in RKMF is not similar to a large block of restricted stock in terms of illiquidity. In this instance, the subject company is financially healthier and has a consistent history of distributions that has a mitigating effect on the illiquidity discount.

We used the Stout DLOM Calculator™ by inserting the following financial data of RKMF into the calculator:

Market Value of Equity[1]	$	4,700,000
Revenues[2]		10,100,000
Total Assets		995,000
Shareholder's Equity		426,000
Net Income[2]		629,000
Volatility[3]		13.8%

[1] Marketable value for the subject company as determined in this valuation.
[2] Pro forma metrics were used.
[3] Based on volatility of iShares Insurance Index (will be discussed later in this report)

The next step in the analysis is to determine the appropriate amount of weight to apply to each metric. In determining the appropriate weights, the valuation analyst gave higher consideration to the profitability metric to account for RKMF's favorable profitability in comparison to the companies included in the restricted stock studies. A higher level of consideration was also given to the volatility metric as previous restricted stock studies have found that this metric typically has the highest correlation with the implied discounts. We also gave weight to the size metrics based on the balance sheet to account for the size differentials between RKMF and the public companies.

Based on the financial metrics entered, the calculator determined the RSED for The Company as follows:

	Subject Company Value	Stout Study Quintile	Discount Indication	Selected Weight
Size Characteristics				
Market Value (000s)	$ 4,700	5th Quintile	23.5%	2
Revenues (000s)	10,100	4th Quintile	20.9%	1
Total Assets (000s)	995	5th Quintile	27.3%	3
Balance Sheet Risk Characteristics				
Members' Equity (000s)	426	5th Quintile	20.8%	2
Market-To-Book Ratio	11.0	4th Quintile	20.7%	1
Profitability Characteristics				
Net Profit Margin	6.1%	2nd Quintile	14.4%	5
Market Risk Characteristics				
Volatility	13.8%	1st Quintile	10.0%	5
Weighted Average Indicated Restricted Stock Equivalent Discount			**17.6%**	

The next step is to adjust the RSED using the market's volatility over the six months leading up to the valuation date. While volatility was elevated in the stock markets, we already accounted for volatility by using the insurance industry index. Therefore, no additional adjustment was made.

The Stout DLOM Calculator™ uses an adjustment factor that takes the subject company value from the restricted stock equivalent level of value to the private equity (noncontrolling, nonmarketable) level of value. This adjustment factor is based on an analysis of the largest

(most illiquid) blocks of restricted stock in the Stout Study and involves comparing the discount indications for large block transactions with those for small block transactions. Stout notes that the large block transactions most resemble private equity due to the illiquid nature of these shares. Stout goes on to state:

> Unlike differing percentage noncontrolling interests in public companies, which have differing degrees of liquidity due to the factors discussed above, differing percentage noncontrolling interests in private entities generally have similar degrees of liquidity. Furthermore, the degree of liquidity of typical noncontrolling interests in private companies is most similar to the degree of liquidity of large blocks of restricted stock in public companies. Therefore, a large-block comparison is appropriate for noncontrolling-interest private entity valuations of any percentage interest because of the more similar degree of illiquidity.

Exhibit 16. Discounts Associated With Block Sizes Greater Than 30% Versus Those Associated With Block Sizes Less than 30%

Block Size and Discounts

In Millions of U.S. Dollars

	Median Statistics	
% Shares Placed	Total Assets [a]	Discount
0%-10%	$43.5	14.7%
10%-20%	49.9	15.5%
20%-30%	35.9	20.1%
30%-40%	46.0	33.2%
>40%	17.1	39.2%

[a] Adjusted for inflation as of January 2019.

As shown in Exhibit 16, the discounts associated with block sizes greater than 30% are substantially greater than those associated with block sizes less than 30%. There are differences in company financial characteristics between the small- and large-block groups, such as company size (measured by total assets, for example) that may account for a portion of the observed difference in discounts. Accordingly, in determining the appropriate PED adjustment factor, we first determine the RSED applicable to each large-block transaction. The RSED analysis is based only on a comparison between the subject company and issuers of small blocks of restricted stock. We then compare the actual discount for each large-block transaction with the indicated RSED and calculate a multiplicative adjustment factor related

to that transaction. For example, if the RSED is indicated at 15.0%, and the actual transaction discount is 30.0%, the multiplicative adjustment factor would be 2.0 (30.0%/15.0%). We perform this calculation for all large-block transactions, which produces the output in Exhibit 17.

Exhibit 17. Calculating Multiplicative Adjustment Factor for All Large-Block Transactions

PED Adjustment	
	Median Multiplicative Adj. Factor
40th Percentile	1.60
Median	1.90
60th Percentile	2.00

As shown by the fact that the multiplicative adjustment factors are greater than 1.00, the RSED significantly underestimates the actual transaction discounts for large-block transactions. Accordingly, we determine that, for very illiquid interests, such as investments in private entities, a multiplicative adjustment factor range between 1.60x and 2.00x is appropriate to apply to the RSED to determine the PED. We note that, in certain circumstances, applying this range of adjustment factors may yield very high discounts (i.e., greater than 50%). While this may be appropriate, we also consider the fact that, in the study, only 6.1% of all transactions and 20.0% of large-block transactions have discounts greater than 50%. The distribution of discounts is presented in Exhibit 18.

Exhibit 18. Distribution of Discounts

	Discounts		
Percentile	All Transactions	Small Blocks	Large Blocks
10th	3.9%	3.9%	6.9%
20th	7.4%	7.3%	13.7%
30th	9.9%	9.6%	20.0%
40th	12.8%	12.5%	26.6%
50th	15.8%	15.4%	38.8%
60th	20.1%	20.0%	40.3%
70th	25.9%	25.0%	42.9%
80th	33.3%	32.4%	50.5%
90th	43.1%	41.8%	63.1%
100th	91.3%	91.3%	87.0%

The appropriate adjustment factor to derive the PED is selected from the ranges derived from these adjustment factors, giving consideration to all of the available data and all relevant factors. For most valuations, absent strong

arguments to the contrary, the PED for the subject interest is likely to be drawn from the midpoint or median of the multiplicative range. An example of this analysis is provided in Exhibit 19.

Exhibit 19. Determining the PED From the Appropriate Adjustment Factor

PED Calculation - Example			
RSED/ARSED			**20.0%**
	40th Percentile	Median	60th Percentile
Indicated Adjustment Factor	1.60	1.90	2.00
Indicated Private Entity Discount	**32.0%**	**38.0%**	**40.0%**

As previously discussed, based on the characteristics of the subject interest, we determined that the adjustment factor based on large blocks of stock was not appropriate for this valuation. Therefore, when considering RKMF's financial metrics, the Stout DLOM Calculator™ calculated a discount of 17.6 percent. However, we still must consider RKMF's dividend paying history. According to Stout:

> *Dividend yield* – Liquidity represents the ease of converting an asset into cash. For publicly traded stock, this typically occurs through the sale of the securities for cash. In addition, anticipated dividends impact the liquidity of the publicly traded security and are incorporated in the stock price by market participants. A private entity that pays significant and consistent dividends has greater liquidity attributes relative to a non-dividend-paying company. That is, the presence of dividends shortens the duration of the security. The subjects of the transactions contained in the study generally do not pay dividends. Accordingly, to the extent the subject company pays consistent, material distributions, this attribute has a downward impact on the DLOM, all else held constant.

This will be considered in our final determination of the DLOM.

PRE-INITIAL PUBLIC OFFERING STUDIES

Another manner in which the business valuation community and users of its services determine discounts for lack of marketability is with the use of closely-held companies that

underwent an initial public offering ("IPO") of its stock. In these instances, the value of the closely-held stock is measured before and after the company went public.

ROBERT W. BAIRD & CO. STUDIES

Robert W. Baird & Co., a regional investment banking firm has conducted 11 studies over time periods ranging from 1980 through 2000, comparing the prices in closely-held stock transactions when no public market existed with the prices of subsequent IPOs in the same stocks. Based on the studies, the average discount has been 47 percent, while the median discount is 48 percent.

WILLAMETTE MANAGEMENT ASSOCIATES STUDY

A similar private, unpublished study has been performed by Willamette Management Associates. Based on these studies, which were performed from 1975 through 2002, the average discounts ranged from a low of 8 percent to a premium of 195.8 percent.

CONCLUSION - QUALITATIVE ANALYSIS

As far back as 1977, through Revenue Ruling 77-287, the Internal Revenue Service recognized the effectiveness of restricted stock study data in providing useful information for the quantification of discounts for lack of marketability. The Baird, Willamette and Valuation Advisors' studies of transactions in closely-held stocks did not exist at that time, but the IRS and the courts have been receptive to using this data to assist in quantifying discounts for lack of marketability. The pre-IPO studies are proof that larger discounts can be justified than those quoted from the restricted stock studies.

One of the best explanations of why a DLOM varies from case to case was included in an article published by Robert E. Moroney entitled "Why 25% Discount for Nonmarketability in One Valuation, 100% in Another?"[43] In Moroney's article, he points out 11 factors that should be considered in the application of a DLOM. These factors are as follows:

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[43] *Taxes*, May 1977.

1. High dividend yield: Companies that pay dividends tend to be more marketable than companies that do not.

2. Bright growth prospects: Companies that have bright growth prospects are easier to sell than companies that do not. This makes them more marketable.

3. Swing value: If a block of stock has swing value, it may be more marketable than the typical small block of stock. This swing value could include a premium. This can be emphasized where a 2 percent interest exists with two 49 percent interests. The 2 percent interest can be worth quite a bit to either 49 percent interest if it will give that interest control of the company.

4. Restrictions on transfer: Restrictions on transfer make the stock less marketable due to the difficulty in selling them.

5. Buy-sell agreements: Buy-sell agreements can go either way. The agreement can create a market for the stock, making it more marketable, or the agreement can restrict the sale making it less marketable.

6. Stock's quality grade: The better the quality of the stock, the more marketable it will be. This can be evidenced by comparing the subject company to others for supporting strengths and weaknesses.

7. Controlling shareholder's honesty: The integrity of the controlling shareholder can make a big difference regarding the ability to sell a partial interest in a company. If the controlling shareholder tends to deal with the other shareholders honestly, the other interests in that company tend to be more marketable.

8. Controlling shareholder's friendliness: Similar to the shareholder's honesty, the manner in which he or she deals with others can make the stock more marketable.

9. Prospects for the corporation: If a corporation has good prospects for the future, it will generally be more marketable.

10. Prospects for the industry: A company that is in an industry with good prospects will also generally be more marketable.

11. Mood of the investing public: When the investing public is bullish, they are more readily willing to make an investment. This can increase the marketability.

The factors that affect the subject percent interest are as follows:

Dividend Yield: The Company has historically made significant distributions to shareholders. This is a positive factor that reduces the DLOM.

Growth Prospects: The growth outlook for The Company is modest based on the sluggish growth in the demand for life insurance. This is negative factor that increases the DLOM.

Degree of Control: The subject interest lacks control. This was considered in the derivation of the DLOC.

Restrictions on Transfer: The subject interest is restricted by The Agreement. This is a negative factor that increases the DLOM.

Stock Quality Grade: If The Company's stock was publicly-traded, it would be a low quality grade based on The Company's smaller size and volatile earnings. This was considered to be a negative factor that increases the DLOM.

Mood of the Investing Public: Consumer and business sentiment measures were improving as of the valuation date. This is a positive factor that reduces the DLOM.

DLOM - QUANTITATIVE ANALYSIS

Another methodology used to quantitatively determine the DLOM is stock option models. As an additional methodology to quantify the DLOM, the valuation analyst looked at the Black-Scholes option pricing model. David B.H. Chaffe III reflects on the use of option pricing models to estimate the costs of marketability as follows:

> When provided with an option to sell, otherwise non-marketable shares are given marketability. (For instance, we see this type of provision in Employee Share Ownership Plans where, in such cases, marketable level values are found).
>
> Following this logic, the cost or price of the option to sell (a put option) represents all (or a major portion) of the discount to be taken from the marketable price to price the non-marketable shares.[44]

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[44] David B.H. Chaffe III, "Option Pricing as a Proxy for Discount for Lack of Marketability in Private Company Valuations," *Business Valuation Review*, Vol. 12, No. 4 (December 1993): 182.

This writer indicates that the cost of marketability is similar to buying a put option on the underlying security. The put option gives the investor the right to sell a stock at some point in the future, which reflects marketability. J. Michael Julius and Matthew R. Crow of Mercer Capital, Inc. agree in their article titled, “Why Not Black-Scholes Rather Than The QMDM?” where they state:

> We find the Black-Scholes option pricing model useful when valuing options on publicly traded securities and restricted stocks with registered counterparts.[45]

An equity interest in RKMF is in essence a restricted holding in a company. In this case, the interests have not been restricted by the SEC, but instead by The Agreement and the private nature of the entity. The restrictions on the equity are based on the lack of a public market. While this is not a pure case of where a stock option model applies, it can provide us with a reasonable basis for a discount.

Due to the fact that there are no publicly-traded equity options on RKMF, we estimated The Company’s volatility using the iShares U.S. Insurance Exchange Traded Fund (“IAK”) which is composed of U.S. equities in the insurance sector. We calculated the volatility through December 31, 2019, to remove the impact of the pandemic.

Using the Black-Scholes option pricing model, we calculated the values of put options using the volatility of IAK, as this serves as a proxy for RKMF. By purchasing an “at the money” put option, an investor can protect the market price of his or her investment by locking in the market price of his or her position, which defends against a drop in market value.

In calculating the value of put options, we used the Black-Scholes option pricing model with the following inputs:

- The Company’s minority, marketable value was used as the stock price and exercise price.

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[45] J. Michael Julius, ASA, CFA and Matthew R. Crow, A.M., “Why Not The Black-Scholes Option Pricing Model Rather Than The QMDM,” Z. Christopher Mercer, ASA, CFA, *Quantifying Marketability Discounts* (Memphis: Peabody, 1997): 403.

- A term of five years was used in an attempt to mimic the long-term holding period of an interest in a closely-held company.

- The five-year historic volatility of IAK was used as the volatility measure.

- The risk-free rate was estimated based on the yield on a five-year treasury note which approximates the term of the option.

Based on the assumptions, the DLOM using the put option model was calculated as shown in Table 20.

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TABLE 20
BLACK SCHOLES CALCULATION

INPUTS VARIABLES	
Term (In Years):	5
Volatility (Annual):	14.97%
Annual Rate of Quarterly Dividends:	0.00%
Risk Free Rate:	0.41%
INTERMEDIATE COMPUTATIONS	
Present Value of Stock Ex-Dividend	1.00
Present Value of Exercise Price	0.99
Cumulative Volatility	0.33
CALL OPTION	
Proportion of Stock Present Value	59.04%
Proportion of Exercise Price PV	-45.77%
Call Option Value	0.1420
PUT OPTION	
Proportion of Stock Present Value	-40.96%
Proportion of Exercise Price PV	54.23%
Put Option Value	0.1217
Implied DLOM	**12.17%**

Based on these inputs, the implied DLOM was 12.7 percent. This discount serves as a proxy for the cost of liquidity for an investor in RKMF.

The largest assumption in the option pricing model is that the future volatility of IAK will resemble the past.

SUMMARY OF DLOMS

The studies described on the previous pages indicate that when an investor does not have access to an active, liquid market, his investment is worth less. An investor in RKMF does not have access to an active, liquid market and therefore, these studies have relevance as they are objective information and data that measures the loss in value due to illiquidity.

A seller on the other hand would gain liquidity and the ability to determine his or her own investments. The ability to obtain control and liquidity has value to a seller that might cause him to reduce the selling price.

The implied illiquidity discounts provide guidance about the reduction in value that would be required in a hypothetical transaction of an interest in RKMF as of November 13, 2020. A noncontrolling owner would not be able to realize the pro rata share of The Company's fair market value as of the valuation date. Therefore, a DLOM is warranted.

In order to determine the appropriate DLOM to apply to RKMF, we considered the DLOM indications under the Stout Calculator and the Black-Scholes Model, which were 17.60 percent and 12.17 percent respectively. Primary weight was placed on the Black-Scholes Model as it considers the volatility of the insurance industry and a holding period that is more reflective of an investment in a closely-held business. Furthermore, the companies included in the Stout Study are mostly non-dividend paying companies that have negative earnings. Therefore, 75 percent of the weight was placed on the Black-Scholes indication with the remainder of the weight being placed on the Stout Study. This results in a DLOM of 13.53 percent, or 13.50 percent on a rounded basis.

TAXES RELATED TO PASSTHROUGH ENTITIES

One of the most controversial subjects in the valuation profession has been the topic of premiums related to passthrough entities. For many years, the passthrough tax status was generally ignored in the valuation process. Passthrough entities were tax-affected as if they were taxpaying companies. Near the end of the 1990s and early 2000s, a number of court case decisions (both in and out of the Tax Court) were issued that changed the manner in which the business valuation profession addressed the tax-affecting of passthrough entities. More recently, new cases have been decided that changed, yet again, the thinking of the Tax Court based on the facts and circumstances of the cases.

Passthrough entities are those entities, that for tax purposes, do not pay income taxes at the entity level, but instead, pass the profit or loss through to the owners of the entity, who pay the taxes at the individual level. The most common forms of passthrough entities are S corporations, limited liability companies, or partnerships. While this discussion will primarily focus on S corporations, the same economic theory can be applied to other passthrough entities as well.

WHAT IS AN S CORPORATION?

Although this is not a treatise on income tax laws, a good place to begin a discussion about the value of an S corporation is to understand the rules regarding this type of entity. The term *S corporation* means a small business corporation for which an election to be taxed under Subchapter S of the Internal Revenue Code ("IRC") is in effect for that year.[46] Once made, this election remains in effect until it is revoked. To be classified as a small business corporation for purposes of Subchapter S, a corporation must meet all of the following requirements:

- The corporation must be a domestic corporation.

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[46] IRC Section 1361(a)(1).

- It must not be an ineligible corporation.
- It must not have more than 100 shareholders.
- Only individuals, decedents' estates, estates of individuals in bankruptcy, and certain trusts may be shareholders. Partnerships, corporations, and many types of trusts may not be shareholders.
- No shareholder may be a nonresident alien.
- The corporation may have only one class of stock, but different voting rights are allowed.[47]

A corporation can elect to become an S corporation by filing the appropriate form with the Commissioner of the IRS. This election can also be revoked, voluntarily or involuntarily, under certain circumstances. Once elected, a corporation will remain an S corporation until such time as a revocation takes place. There is no cost to making the election.

Keeping this discussion of the tax law simple, an S corporation is a passthrough entity. This means that the profits and losses are passed through to the shareholders, and any tax that is payable will be paid by the shareholders and not the corporation. The original purpose of an S election was to allow these small business corporations to be treated as partnerships, while continuing to provide the shareholders with the legal protection of operating in a corporate form.

Being an S corporation provides the shareholders with certain tax benefits. These include, but are not limited to, the following:

- Not being questioned by the IRS about reasonable compensation for shareholder employees (this pertains to excess compensation and not payroll taxes).
- Not being subjected to the accumulated earnings tax if dividends are not paid to the shareholders.
- Avoiding double taxation upon sale of the corporation's assets (other than those assets that may be subject to the built-in gains tax—see discussion that follows).

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[47] IRC Section 1361(b).

While there are certain tax advantages to electing S corporation status, there are also disadvantages. The major disadvantage relates to C corporations that convert to S corporations. Any gain that the corporation recognizes within the 10 years after the election is made to convert a C corporation to an S corporation is taxed as if the asset was owned by a C corporation at the time of the conversion to S corporation status. This is known as the *built-in gains tax.* Various tax stimulus bills shortened the 10-year period to seven or five years for the periods 2009 to 2011, but this reverted back to 10 years in 2012. Not only does the corporation pay tax on these items, but the shareholders will also be taxed on the income that flows through after corporate taxes are paid. This constitutes double taxation. Some valuation analysts argue that this is really not a disadvantage, but merely defers the advantage of escaping the built-in gains tax for 10 years.

Another tax consideration relating to the S election is the shareholder's income tax basis in the corporation's stock. Whereas in a C corporation, the income tax basis is generally the purchase price of the stock, an S corporation's shareholders will constantly be adjusting the income tax basis of their shares. The S corporation's shareholders will increase their basis for all earnings reported by the company that are not distributed. A simplified basis calculation is as follows:

Original Investment	$	1,000
+ Profit - Year 1		500
- Distributions - Year 1		(200)
= Basis - End of year 1	$	1,300
+ Profit - Year 2		800
- Distributions - Year 2		(400)
= Basis - End of year 2	$	1,700

The tax implication of the adjusted basis is that the amount of tax that is paid by the shareholder upon the eventual sale of the corporate stock will depend on whether the sale is for a greater or lesser amount than the tax basis. While a tax basis adjustment, in and of itself, does not affect the value of the corporate stock, the shareholder's return will be affected. Investment decisions may vary depending upon the shareholders' goals relating to a particular investment.

KEY COURT CASES

Various court cases have made the business valuation community think differently about the valuation of S corporations. A brief discussion of these Tax Court cases follows:

- *Gross v. Commissioner*, T.C. Memo. 1999-254, affd. 272 F.3d 333 (6th Cir. 2001).
- *Heck v. Commissioner*, T.C. Memo. 2002-34, Filed February 5, 2002.
- *Wall v. Commissioner*, T.C. Memo 2001-75, March 27, 2001.
- *Adams v. Commissioner*, T.C. Memo. 2002-80, Filed March 28, 2002 .
- *Dallas v. Commissioner*, T.C. Memo 2006-212, September 28, 2006.
- *Kress v. United States*, 2019 U.S. Dist. LEXIS 49850; 2019 WL 1352944 (March 26, 2019).
- *Jones v. Commissioner, T.C. Memo 2019-101* Filed August 19, 2019.

Two important non-Tax Court cases are:

- *Delaware Open MRI Radiology Associates, P.A., Petitioner, v. Howard B. Kessler, et al., Respondents. and Howard B. Kessler, et al., Plaintiffs, v. George J. Broder, et al., Defendants*, in the Court of Chancery of the State of Delaware, in and for Newcastle County, Consolidated, C.A. No. 275-N.
- *Judith E. Bernier v. Stephen A. Bernier*, 2007 Mass. LEXIS 598 (May 7, 2007).[48]

Gross v. Commissioner. In this case, the taxpayer's expert argued that the S corporation earnings of G&J Pepsi-Cola Bottlers, Inc. (“G&J”) should be tax-affected and that its C corporation equivalent earnings should be capitalized with an after-tax discount rate based on the Capital Asset Pricing Model. The expert for the IRS argued that G&J's earnings were after corporate taxes, particularly since an S corporation does not pay any taxes, and that G&J’s earnings were before personal taxes of the shareholders. Consequently, according to this expert, the appropriate discount rate applicable to the S corporation's earnings was

[48] This case was appealed relating to the computation, but the methodology was affirmed.

an after-tax discount rate. The court agreed with this argument in its written opinion. The valuation subject consisted of small, minority interests of G&J.

Heck v. Commissioner. In this case, the expert for the taxpayer used a discounted cash flow method in which the pretax flow-through earnings of F. Korbel & Bros., Inc. ("Korbel") were considered. The discount rate that he used was an after-tax WACC. The expert for the IRS used a similar discounted cash flow methodology and an after-tax WACC. The court's opinion cited *Gross* on the issue of the cost of capital. The finding of the court in this case was based on discounting the pretax earnings of Korbel with an after-tax cost of capital. In this instance, a 39.6 percent minority interest was being valued.

Wall v. Commissioner. This case involved several small gifts of S corporation stock. Both experts tax-affected the income stream in the application of the income approach, although at different rates. The Tax Court cited *Gross* and determined that the income stream should not be tax-affected.

Adams v. Commissioner. In this case, the taxpayer's expert, rather than proposing that the S corporation earnings of Waddel Sluder Adams & Co., Inc. ("WSA") be tax-affected, developed an after-tax discount rate using a build-up method and converted the corresponding capitalization rate (after the subtraction of expected growth) to a pretax capitalization rate. He deemed this discount rate applicable to the S corporation earnings of WSA. This stream of income was before corporate taxes and any distributions that may have been distributed to the shareholders to pay their personal income taxes. The IRS expert argued that an after-tax discount rate was applicable to the S corporation earnings of WSA. While this seems to be consistent with *Gross* and *Heck*, with respect to the issue of pretax earnings and an after-tax discount rate, the valuation subject in *Adams* was a 61.6 percent controlling interest.

Dallas v. Commissioner. After a long hiatus of decisions in cases involving S corporations, the *Dallas* case was decided. In this case involving Dallas Group of America, Inc. ("DGA"), one of the issues related to the tax-affecting of the income. The first taxpayer's valuation analyst tax-affected S corporation earnings using a 40 percent tax rate and the second taxpayer's valuation analyst used a 35 percent tax rate. According to the court, the testimony of the taxpayer's analysts was that they tax-affected under the assumption that DGA would lose its S corporation status after or as a result of the hypothetical sale of its

stock. The court said there was no evidence that DGA expected to lose its S corporation status. The court also noted that DGA had a history of distributing sufficient cash for the shareholders to pay their taxes on their share of S corporation earnings and there was no evidence that this practice would change. The court gave little weight to the taxpayer's valuation analysts' testimony. As the court stated, "We conclude there is insufficient evidence to establish that a hypothetical buyer and seller would tax-affect DGA's earnings and that tax-affecting DGA's earnings is not appropriate."

Kress v. United States. An important decision was issued by the United States District Court – Eastern District of Wisconsin ("The Court") in March 2019, in which Chief Judge William C. Griesbach relied largely on the findings of the taxpayers' experts to value gifts of minority interests in an S corporation operating company, Green Bay Packaging, Inc. ("GBP"). In those experts' reports, the S corporation was first valued on a C corporation equivalent basis, which included tax-affecting the entity's earnings, followed by quantitative and qualitative adjustments to address whether any S corporation premium should be ascribed to the S election.

The Court's acceptance of the valuation, particularly with regards to the manner in which the earnings were tax-affected, not only led to a victory for the taxpayer in this case, but it was the first time that the tax affecting issue was able to overcome the decision in *Gross* in 1999. While the *Kress* decision may not have the same weight as a U.S. Tax Court decision, it may be persuasive to other courts considering the issue going forward. Though not precedential, other courts will likely look at the opinion put forth in the *Kress* case.

While The Court did not accept the Government expert's analysis, it is worth noting that even this expert tax-affected the earnings. The opinion stated that the Government expert, within the income approach, "applied an effective tax rate to GBP as if it were a C corporation, and then applied an adjustment to reflect the value of GBP as an S-corporation." Unfortunately, the specific methods applied by the Government expert to quantify this adjustment are unknown.

After acknowledging the efficacy of tax-affecting, the Court went even further stating, "The court finds GBP's subchapter S status is a neutral consideration with respect to the valuation of its stock. Notwithstanding the tax advantages associated with subchapter S status, there are also noted disadvantages, including the limited ability to reinvest in the

company and the limited access to credit markets. It is therefore unclear if a minority shareholder enjoys those benefits."

Jones v. Commissioner. In May 2009, Aaron U. Jones made gifts to his three daughters, as well as to trusts for their benefit, of interests (voting and non-voting) from two family owned companies, Seneca Jones Timber Co. ("SJTC"), an S corporation, and Seneca Sawmill Co. ("SSC"), a limited partnership. These gifts were reported on his gift tax return with a total value of approximately $21 million. The IRS asserted a gift tax deficiency of approximately $45 million on a valuation of approximately $120 million. The Tax Court ruled that the value was approximately $24 million, agreeing with the taxpayer's appraiser. In this case, the Tax Court again concluded that "tax-affecting" earnings of an S corporation was appropriate in determining value under the income method.

In this case, the taxpayer's expert computed after-tax earnings based on a 38 percent combined proxy for federal and state taxes. He further computed the benefit of the dividend tax avoided by the partners of SJTC, by estimating a 22 percent premium based on a study of S Corporation acquisitions. Respondent argued that since SJTC is a partnership, the partners would not be liable for tax at the entity level and there is no evidence that SJTC would become a C corporation. Therefore, respondent argued that the entity level tax rate should be zero.

The Court concluded that the taxpayer's expert's tax-affecting "may not be exact, but is more complete and convincing than respondent's zero tax rate." The Court also noted that the contention from respondent on this tax-affecting issue seems to be more of a "fight between lawyers," as the criticism appeared more in trial briefs than in expert reports. In fact, the respondent's expert argued that tax-affecting was improper because SJTC is a natural resources holding company and therefore its "rate of return is closer to the property rates of return" rather than challenging the lack of an actual entity level tax.

Delaware Open MRI Radiology Associates, P.A., Petitioner, v. Howard B. Kessler, et al., Respondents. and Howard B. Kessler, et al., Plaintiffs, v. George J. Broder, et al., Defendants. In this non-Tax Court case, the Chancellor found that tax-affecting should not be an all or none decision. He used one of the tax-affecting models that will be discussed later in this section to calculate the benefit, if any, of having the S election. This deviates

from the Tax Court rulings, but since the Chancery Court was more concerned with equity, the ruling is an important one.

Judith E. Bernier v. Stephen A. Bernier. This case was the first reported matrimonial case that addressed the issue of S corporation taxation as part of a marital dispute. The court followed the guidance from *Delaware Open MRI* in deciding this case.

SO WHERE DO WE GO FROM HERE?

Every valuation analyst faces the question of what to do about taxes when valuing an entity that has elected to be treated as an S corporation under the IRC. Some analysts believe that being an S corporation adds value to the entity because the entity does not pay income taxes. Others believe that making an S election reduces the value of an ownership interest because of personal taxes that will be paid on profits that are allocated to the shareholder, without the benefit of receiving distributions that enable the individual to pay personal taxes when they come due. The following discussion is intended to address the specific issues that arise when valuing an S corporation.

VALUATION ISSUES

In the valuation of an interest in an S corporation, two main issues arise. First, do the income tax advantages of the S election create value? This question raises the additional questions of the value to whom, and how do we account for the incremental value in the valuation process? The second issue is, if we value an S corporation by comparing this entity to non-S corporation entities, what adjustments are necessary in the valuation process?

For many years valuation analysts believed that an S corporation should be valued in the same fashion as a C corporation. This was because

- C corporations are in substance nearly identical to S corporations.

- S corporations are likely to lose their S status in the future and convert to C corporations.
- Most measures of corporate performance used in valuation models, such as growth and discount rates, are derived from C corporations; therefore, S corporations should be valued as C corporations to maintain consistency with these measures.[49]

According to the IRS,

> S Corporations lend themselves readily to valuation approaches comparable to those used in valuing closely held corporations [C corporations]. You need only to adjust the earnings from the business to reflect estimated corporate income taxes that would have been payable had the Subchapter S election not been made.[50] [Bracketed material added for clarification.]

Some valuation analysts believe that the tax benefits of having made an S election should increase the value of the entity. Many of the fundamental issues that affect the valuation process must be considered for the determination of whether or not an S corporation election adds value. Some of these factors include the following:

- Standard of value
- Control vs. minority
- Distributing vs. Non-distributing
- Holding period of the investment
- Time value of S corporation benefits

STANDARD OF VALUE

The standard of value in any business valuation assignment can have a significant effect on the final estimate of value. Valuing an entity that has elected S status is no different. More significant differences will probably arise between fair market value and investment value.

If the purpose of the valuation assignment is to determine the fair market value of a controlling interest in an S corporation for purchasing, selling, or merging the corporation, the

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[49] William E. Simpson and Peter D. Wrobel, "Income Tax Issues in Valuing S Corporations," *CPA Expert* (Spring 1996).

[50] IRS, *Valuation Guide for Income, Estate and Gift Taxes (*Commerce Clearing House).

corporation's tax structure may have little or no effect on value. If the most probable willing buyer is an ineligible shareholder (that is, a C corporation), then that shareholder will not pay for income tax benefits that it cannot take advantage of. Therefore, corporate income taxes should be a part of the valuation calculations. Conversely, if the willing buyer can qualify for the S election, that buyer may pay for the benefits that will be received, and no corporate income taxes may be appropriate in the determination of the benefit stream to the investor.

An important component of determining fair market value is the determination of who the willing buyer would be. This became evident in the *Estate of Samuel Newhouse*,[51] where it was demonstrated that different classes of investors would pay different amounts under a fair market value scenario. Following this logical foundation, a valuation analyst must make certain assumptions about who the most likely purchaser will be. However, care must be exercised not to fall into a tax trap by identifying a specific buyer. The Tax Court has gone on record to state:

> We need not identify exactly who the buyer would be or even what class of investors the buyer would belong to. The 'willing buyer' is supposed to be a hypothetical amalgam of potential buyers in the marketplace. Although we have, in prior opinions, identified types of hypothetical buyers, we did so only to determine which valuation approach, among several reasonable approaches, would result in the highest bid, and therefore the one most acceptable to a willing seller. The question is not so much 'who', but 'how'.[52]

The issue of who the most likely purchaser of the property will be is an essential element of the determination of the highest price that would be offered to a prudent seller. During periods of industry consolidation, companies are offered greater amounts (higher premiums) than they might get from "nonsynergistic" buyers. If there is the expectation by the seller that his or her company will sell to one of the industry players, then it seems that fair market value warrants the valuation to be performed in this fashion. This argument can be carried one step further by stating that when a valuation analyst reviews market data, a determination is generally made as to who is buying these companies. Therefore, the issue of whom the willing buyer is most likely to be needs to be addressed.

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[51] Estate of Samuel Newhouse, 94 T.C. 193.

[52] *Estate of Mueller v. Commissioner,* T.C. Memo No. 1992-284 at 1415, 63 TCM 3027-16 (citations omitted).

For smaller valuation subjects, this determination will be made more easily. Small businesses are frequently purchased by an individual, or a group of a few individuals, who will continue to qualify as S corporation shareholders. For these types of businesses, the continuity of an S election appears to be a reasonable assumption. However, even small businesses may not qualify to be an S corporation if they are purchased. As the melting pot of the United States continues to grow, a large influx of nonresident aliens are entering the marketplace as possible purchasers of these businesses. It may no longer be a reasonable assumption that the S election will continue after the acquisition.

Larger corporations are even more problematic than small corporations when the valuation analyst must make assumptions about the willing buyer. Larger entities are more likely to be purchased by a C corporation, which would immediately negate the S election. Therefore, it may not be reasonable to assume that the target company will be able to continue with its present tax status.

PURPOSE OF THE ASSIGNMENT

In addition to the standard of value, the purpose of the assignment may also cause the valuation analyst to make certain assumptions. For example, if the valuation is being performed for the determination of fair market value to be used in a matrimonial litigation, it may be considered unfair to the nonbusiness owner spouse to make the assumption that the S election will be lost. However, since matrimonial courts are courts of equity, it may be equally unfair to the business owner not to assume that taxes will be paid, because they are paid at the personal level even if no distributions are made.

When the standard of value is investment value, consideration should be given about whether the specific buyer will be able to elect to be taxed as an S corporation. The specific buyer’s goals regarding rates of return, or whether he or she wants current cash flow or capital appreciation must be considered when deciding on an S election. More often than not, valuations performed for transaction purposes use pretax earning streams because it is the buyer’s expected tax status that should be considered in place of the seller’s historical tax structure.

CONTROL VS. MINORITY

If the business interest being valued is a minority ownership interest—that is, the valuation of the ownership interest not having the prerogatives of control—then a direct comparison with values of other minority interests is the most appropriate method of valuation. In essence, if the minority interest cannot effectuate a change in the company's tax structure, no such change should be assumed.

An argument could be made that a minority shareholder could, in fact, cause a change to an S election by selling the shares to a nonqualified shareholder of the S corporation. This violation of the rules regarding ownership could terminate the election, therefore, changing the status involuntarily. However, a valuation analyst should also consider the likeliness of the shareholder's actions. It would seem that the shareholder would have to have special motivations to intentionally terminate the S election for the balance of the shareholders. These special motivations may be enough to violate the definition of fair market value.

The S election may have been made by the shareholders for reasons that have nothing to do with value. For example, an S election may be made so that the issue of reasonable compensation might be avoided upon audit by the IRS. Another reason for an S election may be to avoid double taxation at the time that the company is sold. For a shareholder to want to intentionally violate the S election, the company could be exposed to a greater risk of loss, thus reducing its value. The prudent shareholder would not want to diminish the value of his or her investment.

Although the minority shareholder can cause the S election to be involuntarily terminated, it does not seem logical to assume that this will occur. However, the facts and circumstances of the situation must dictate whether or not to make such an assumption.

DISTRIBUTING VS. NON-DISTRIBUTING

An S election may be favorable or unfavorable depending on whether the corporation has the ability to distribute its earnings to its shareholders. If only some, or possibly none, of the earnings can be distributed, the result can be extremely unfavorable to the investor. It is readily accepted that an investor in common stock of any corporation makes an economic investment for the following reasons:

1. Immediate cash flow (dividends).
2. Future cash flow (capital appreciation).
3. A combination of 1 and 2.

The total expected return to the shareholder consists of a part that is currently taxable and a part that is tax deferred until the time of sale. Under the current tax law, the deferred portion may be subject to favorable capital gains tax rates. Although the discount rate used in the application of a discounting model ignores personal tax rates, the investor does not.

If the shareholders of an S corporation have control of the company, they will generally do everything possible to insure that distributions are made in sufficient amounts to cover personal taxes. They do not want to reach into their own pockets to pay taxes on profits that they did not receive. Shareholders of a C corporation will usually take the opposite position, as they generally want to avoid paying tax on dividend distributions. However, the current tax law favors the tax treatment of dividends from a C Corporation versus the distributions from an S Corporation.

Because shareholders of an S corporation will frequently attempt to pass through dividends to themselves in an amount at least equal to the estimated tax obligation, the actual dividend distributions may appear to be attractive. This could give the appearance of a company that is a “great” dividend payer, and it makes the investment appear as if it has excellent liquidity. The opposite is true with the shareholders of a C corporation. They will generally do everything possible to avoid dividends. This would give the appearance of an investment with far less liquidity. This contrasting position of the shareholders makes dividend paying capacity a more attractive manner in which to assess value.

David C. Dufendach raises an interesting point about these returns.[53] He states,

> Research has shown that the slope of the actual security market line is less than predicted by the CAPM.[54] Riskier stocks have lower required returns than predicted, whereas less risky stocks suffer from higher required returns.

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[53] David C. Dufendach, “Valuation of Closely Held Corporations: ‘C’ v. ‘S’ Differentials,” *Business Valuation Review* (1996): 176–179.

[54] Eugene F. Brigham and Louis C. Gapenski, *Financial Management: Theory and Practice,* 6th ed.: 156–157.

> One possible explanation is that riskier stocks provide relatively more of their return in the form of nontaxable price appreciation. One study suggests that this is the case.[55] If true, then investors who wish to avoid current tax liability on dividend income would prefer higher risk/lower dividend stocks, driving down their required return below that predicted by the CAPM. Another study supported this view, implying that dividends are undesirable (presumably because of their immediate taxability), and that stocks with higher dividends are penalized in the form of higher required returns.[56]

The various studies cited by Dufendach lead to the conclusion that if all other risk factors are equal, a stock that pays a dividend, causing an immediate tax consequence, is worth less than a stock that provides capital appreciation, which is tax deferred and then possibly taxed at more favorable rates. The factor that causes the difference in value is apparently personal taxes. Because we accept the premise that a prudent investor considers personal income taxes in investment decisions (otherwise, if all else were equal, why would anyone buy tax free bonds?), we should not ignore the personal tax-effect of the investment. The difficulty is determining which tax rates to use.

CORPORATE OR PERSONAL INCOME TAX RATES

One of the difficulties that the valuation analyst faces is the determination of which set of income taxes is appropriate to use in valuing the S corporation. This will most likely depend on the standard of value. If the standard of value is fair market value, the appropriate income tax rates should be those rates that will be applicable in the hands of the willing buyer. The problem is that we do not know who that specific buyer will be. Will it be an individual, another S corporation, or a C corporation? Once again, there is no specific answer. Depending upon the facts and circumstances, the valuation analyst may be able to make an assumption about the most probable willing buyer (or category of buyer). The other problem that we face is that in fair market value, the buyer and seller are hypothetical parties, rather than actual parties. Our assumptions could convert our valuation results into an investment standard of value.

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[55] Thomas E. Copeland and J. Fred Weston, *Financial Theory and Corporate Policy*, 2nd ed.: 513. Refers to a study by I. Friend and M. Puckett, "Dividends and Stock Prices," *American Economic Review,* (1964): 656–682.

[56] Ibid.: 515–516. Refers to a study by R. Greenenberger and K. Ramaswamy, "The Effect of Personal Taxes and Dividends on Capital Asset Prices: Theory and Empirical Evidence," *Journal of Financial Economics* (1979): 163–196.

If the standard of value is investment value, the valuation analyst should consider the tax rates of the specific buyer. In this instance, the valuation analyst is estimating value to a particular buyer. This makes this task a little bit easier.

Once the standard of value has been identified, the valuation analyst is still faced with the choice of which rates to use. If corporate tax rates are used, the valuation analyst can calculate the taxes based on the rates applicable at the time. However, if personal rates are to be used, this calculation can become even more complicated due to factors such as personal exemptions, itemized deductions, phase-out rules, and other income or losses from unrelated activities that could affect the income tax rates that may be applicable.

HOLDING PERIOD OF THE INVESTMENT

Many valuation analysts feel that both S and C corporations should be valued on an after-tax basis. Many subscribe to the premise that the “after-tax” is to the corporation and not the individual. Because capitalization rates are determined from market evidence, usually on a pretax basis to the individual, more comparability can be achieved in the selection of these rates. Adjusting the income returns for personal taxes would make the discount rate selection more difficult, particularly because rates of return reported in the empirical literature are based on pretax returns to the investor.

Some analysts adjust the benefit stream of an S corporation for the amount of distribution needed to make the shareholders whole after paying personal taxes. It is fairly common to see distributions being made in at least the amount necessary to pay personal taxes so the shareholders do not pay taxes from monies that they have not received. The problem with this approach is that the tax law provides that the shareholders of an S corporation can increase their income tax basis in the S corporation for monies that are taxed and not distributed. Therefore, comparability cannot truly be achieved between S corporation shareholders and C corporation shareholders.

Another consideration related to this is that S corporation shareholders are permitted to take subsequent distributions from the S corporation without current tax implications. Shareholders’ undistributed taxable income from previous years is available for distribution because the shareholders have already paid tax on the profits in the year that it was earned. This also

causes a significant difference in the timing of the cash flows between the shareholders of these different types of entities.

An argument can be made that the difference between a perpetual S corporation and a C corporation is the present value of the annual corporate tax savings. In each valuation assignment regarding an S corporation, the analyst faces the question of what the holding period of the investment will be while the corporation keeps its S election. Some authors believe that a corporation will lose its S election at some point.[57] This means that the interest in the corporation being valued will be an S corporation for certain years and then a C corporation for its remaining life.

When a valuation analyst is requested to determine the fair market value of an enterprise, one of the factors to be determined by the analyst is who, or what group of investors, would be the most likely "willing buyer." Another factor to be considered in the "willing buyer" scenario is, will the willing buyer qualify to be an S corporation? Once it is determined that the willing buyer can be an S corporation, the next question to be answered is for how long?

TIMING OF THE VALUATION

Conventional wisdom dictates that when a business valuation is performed of an interest in a corporation, the value determined is based on the value of the interest without regard to the investor. This means that when we value shares of stock in a corporation, it does not matter who the shareholder is, nor do we consider the tax implications of a sale of the interest by that shareholder. Personal taxes generally have no effect on the valuation of corporate stock (assuming that the shareholder is an individual). Obviously, not all shareholders are individuals, and not all shareholders are taxpaying entities. Pension plans, for example, do not pay taxes. Therefore, should the value of a share of IBM be different if an individual owns it or if a pension plan owns it?

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[57] Robert E. Duffy and George L. Johnson, "Valuation of 'S' Corporations Revisited: The Impact of the Life of an 'S' Election Under Varying Growth and Discount Rates," *Business Valuation Review* (1993): 155–167.

WHAT DO VALUATION ANALYSTS DO?

At this point, we have come almost full circle in our discussion about willing buyers. The investing public calculates rates of return on an after-tax basis. Because different classes of investors have different tax structures, required rates of return will vary among the classes. In determining an appropriate discount rate for the net cash flow of an S corporation versus a C corporation, it is reasonable to assume that there is an increased risk relative to the net cash flow of the S corporation because the enterprise may, at some point in time, pay taxes and have a lower cash flow. This could be justification for a different discount rate for the two entities. The question to be raised is, by how much?

Without empirical data in the marketplace, it becomes difficult, if not impossible, to quantify the exact level of adjustment. Mathematical quantification cannot be used as readily as it is for the conversion of pretax and after-tax discount rates. Valuation analysts continue to struggle with the notion of whether the corporate cash flows from an S corporation are after-tax. Authors have argued that there should be a tax equivalency made to reflect the personal taxes that will have to be paid by S corporation shareholders.[58] The reality of the situation is that personal taxes will be paid whether distributions are made to the shareholder or not. It seems reasonable to consider these taxes in a similar fashion as corporate taxes. Either way, the government is going to be paid. The exception is that there may be a tax rate differential that could additionally benefit the shareholder in the form of an adjustment to his or her basis in the corporate stock.

Arguments have been raised for years regarding the built-in gains tax. For a long time, the position of the Tax Court was been that no discount would be permitted for a built-in gains tax, even though investors in the real world consider this tax in making investment decisions. In the *Estate of Artemus D. Davis v. Commissioner*,[59] part of the DLOM was attributed to the built-in gains tax. This could influence future valuations of S corporations, particularly those that have exposure to the built-in gains tax in the post conversion period. This raises the issue of the S election having a possible discount associated with it because

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[58] See George G. Cassiere, “The Value of S-Corp Election—The C-Corp Equivalency Model,” *Business Valuation Review* (1994): 84–91.

[59] *Estate of Artemus D. Davis v. Commissioner*, 110 T.C. 35.

of the taxes that potentially could be paid at the corporate level. In fact, the Tax Court has allowed the deduction of taxes in this situation in *Litchfield*, T.C. Memo 2009-21.

Valuation in the hands of the owner of the investment in an S corporation may result in a more realistic valuation. However, that is clearly not fair market value. Personal tax rates may vary depending on many factors that have nothing to do with the investment. A valuation analyst cannot be expected to consider items such as personal exemptions and itemized deductions.

EMPIRICAL EVIDENCE OF AN S CORPORATION PREMIUM

There are two commonly referenced studies that attempted to test for the existence of an S corporation premium for controlling interests. In September 2002, a study was published by Merle Erickson and Shiing-wu Wang that showed that S corporations were purchased at higher relative values than comparable C corporations. In their study, Erickson and Wang looked at 77 pairs of stock acquisitions of S and C corporations that occurred between 1994 and 2000. Companies were paired based on their one-digit SIC code and then compared with one another based on six purchase price multiples, including price to pretax income; EBITDA; operating cash flows; and operating cash flows before working capital adjustments. This analysis led Erickson and Wang to conclude that the organizational structure of S corporations is worth 12 to 17 percent more than that of the comparable C corporation.

A second study was published by Michael J. Mattson, Donald S. Shannon, and David E. Upton in the November and December 2002 editions of *Business Valuation Update*. This study analyzed approximately 2,500 asset and stock transactions contained within the *Pratt's Stats*® database that occurred between January 21, 1991 and March 19, 2002. Mattson, Shannon, and Upton determined through their research that there was no evidence that S corporations sold for premiums over C corporations. In fact, C corporations generally sold at higher price to sales multiples than S corporations.

In order to test the conclusions of the Erickson and Wang study, Mattson, Shannon, and Upton conducted a separate analysis on the stock transactions (totaling 1,227 transactions). This analysis also concluded that S corporations did not consistently sell for higher price to sales multiples than C corporations. However, the results of this analysis were not necessarily inconsistent with those of the Erickson and Wang study. The largest companies within the Mattson, Shannon, and Upton study's dataset showed that S corporations sold for higher price to sales multiples than C corporations. The companies analyzed by Erickson and Wang were generally within the same size range, indicating that while the largest S corporations might sell for higher multiples than their C corporation counterparts, the relationship does not exist universally.

Further evidence of the inconsistency of the S corporation premium was obtained by Erickson and Wang through interviews with various buyers and sellers of S corporations. In numerous cases, sellers and buyers were either unaware of the acquired passthrough benefits or simply did not give consideration to them. On the other hand, a number of buyers and sellers reported that a premium was incorporated in the purchase price for an S corporation. So what does all of this mean? The studies show that sometimes there may be a premium paid for an S corporation and sometimes no consideration is given to it.

The Tax Court, has stated, "The net cash flow and the capitalization rate used to compute the fair market value of the WSA stock should have the same tax character; i.e., before corporate tax or after corporate tax."[60] The opinion stated the following:

> We disagree that Shriner (the taxpayer's expert) improperly converted the capitalization rate because there was no need to do so. The parties agree that Shriner's estimated capitalization rate (before he converted it to before corporate tax) is an after tax corporate tax rate. Thus, as in Gross, the tax character of Shriner's estimate of WSA's prospective net cash flows matches that of the unconverted capitalization rate because both are after corporate tax. It follows that Shriner should not have converted the capitalization rate from after corporate tax to before corporate tax because the tax character of both his estimated net cash flows for WSA and unconverted capitalization rates is after corporate tax.[61]

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[60] *Morrison*: 13.

[61] Ibid.: 14–15.

Every valuation treatise discusses the importance of properly matching the benefit stream with the discount or capitalization rate. The reason for this, simply stated, is consistency. If the numerator is changed in a capitalization model, the denominator must also change in order to maintain the same value. Clearly, the value should not change as a result of using a different benefit stream.

However, the Tax Court has taken the position through its opinions that while they are not disputing our theory, they find that the benefit stream of an S corporation is higher than the benefit stream of a similar C corporation due to the nonpayment of taxes at the entity level. Because we are attempting to reach an economic value, we should consider all economic activities that affect value. In almost every case, S corporations distribute at least enough of their earnings so that their shareholders can pay their taxes based on the amount of profits that flow through to the shareholders. This can almost be thought of as an entity-related tax. Therefore, if S corporations did not distribute cash flow to pay individual income taxes, the shareholders would most likely revoke the S election, assuming that they had the ability to do so.

While there appears to be a possible benefit if the willing buyer can continue the S election into the future, there is no guarantee that this will happen. Consideration should be given to all of the factors that influence value in making a determination. The premium or discount issue must be examined on a case by case basis because there is no other way to do it. In many instances, the increase or decrease in value will be based on the manner in which the benefit stream is taxed. With that in mind, there have been several models used by the business valuation community to measure the impact of the passthrough entity taxes.

S CORPORATION MODELS

Over the past decade, various S corporation models have surfaced. The purpose of these models is to calculate the tax differential relating to the S corporation. Valuation analysts seem to agree that there is little or no difference in the market values of controlling interests in S and C corporations under most circumstances. If there is a difference in the values, it is based on finding a buyer who can take advantage of the potential tax savings.

However, the valuation community also seems to agree that there may be differences in value at the shareholder level for noncontrolling interests. All of the models have been constructed to address the valuation of noncontrolling shareholder interests in S corporations.

The three models that are used most often include those that were designed by Roger Grabowski, Dan Van Vleet and Chris Treharne. In addition, Nancy Fannon provides a simplified approach to valuing S corporations, which also creates a similar model to the other three. Each model is solid in its quest to determine the tax-affecting of an S election. Some are more complicated than others, but the results of all of these models are very similar.

THE GRABOWSKI MODELS

Roger Grabowski has stated that interests in S corporations and other passthrough entities should have a higher value than an otherwise identical taxpaying entity. According to Grabowski, there are three major benefits to owning a business as a passthrough entity: (1) income is only taxed once (i.e., no dividend tax); (2) owners receive a step-up in their investment basis when income exceeds distributions; (3) and owners may realize more proceeds in the event of a sale due to a step-up in basis for the buyer of the entity's assets. This last point refers to a lower tax liability for the purchaser when the target company is eventually sold to another buyer and only exists for the controlling shareholder. The first two points, however, are applicable to both minority and controlling shareholders.

Grabowski offers three models to value S corporations: the C corp. equivalent model, the modified traditional model, and the modified Gross model.[62] These models all measure the benefits in avoiding dividend taxes and the step-up in investment basis when income exceeds distributions. Importantly, each model assumes the sale of the subject company as a C corporation at the end of the projection period.

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[62] The modified traditional model expands the traditional S corporation valuation model used prior to the court cases discussed earlier in this chapter. Similarly, the modified Gross model expands on the Tax Court's S corporation valuation model utilized in the *Gross* case.

C CORP. EQUIVALENT MODEL

The C corp. equivalent model is the easiest of the three Grabowski models to understand. This model assumes a sale of the subject company at the end of the projection period to a C corporation buyer. The calculation itself is broken up into two separate parts. The first calculation values the subject company's cash flow and tax-avoidance benefits to the S corporation shareholder assuming a sale as a C corporation at the end of the projection period. The second calculation measures the tax savings in capital gains taxes due to the build-up in basis. This model takes into consideration personal income taxes through the projection period, which eliminates the need to account for the difference in personal and corporate income taxes later.

MODIFIED TRADITIONAL MODEL

The modified traditional model completes the same overall analysis as the C corp. equivalent model. However, this model first values the subject company as if it were a C corporation, and then breaks out each component of value (or detriment) generated by the subject company's status as an S corporation.

MODIFIED GROSS MODEL

The modified Gross model starts by calculating the pretax net present value of the subject company's cash flow during the projection period. The terminal value again is calculated on a C corporation basis. The model then makes various adjustments to account for value attributable to various differences in S corporation and C corporation taxes and the build-up of basis.

All of Grabowski's models assume the sale of the subject company at the end of the projection period. If a minority interest is being valued, it should be remembered that a minority shareholder cannot force the sale of a company. Either way, the analyst is forced to make an assumption about when the interest will be sold.

THE VAN VLEET MODEL

This model, otherwise known as the S Corp. Economic Adjustment Model, was developed by Dan Van Vleet and calculates the net economic benefit to shareholders of the subject company in C corporation and S corporation form. In this case, economic benefits include the after-tax dividend income and after-tax capital gains recognized by shareholders in the subject company. With these calculated economic benefits, the analyst derives a multiple that converts a C corporation-equivalent value to an S corporation value. One of the key strengths of the Van Vleet model is that the economic adjustment multiple can be applied to an equity value derived under the income and market approaches.

A few assumptions behind the model are important. First, the Van Vleet model assumes that an investor would place equal value in current distributions and retained net income. This may be true for an investor in a public company, who can collect dividends and have the ability to sell the stock to recognize any appreciation in value. However, for the minority shareholder in a privately-held company with an indefinite holding period, this may not be the case. Thus, the model somewhat overcompensates for the economic benefit generated by capital gains to the private company investor. An analyst using this model would have to account for the longer holding period with a larger DLOM.

Another important point to consider is that the Van Vleet model assumes no change in future corporate, personal, dividend, and capital gains taxes. In reality, effective tax rates change given the amount of income being taxed, as well as changes in marginal tax rates.

Finally, the Van Vleet model, unlike the Grabowski models, assumes that the S corporation benefit is realized into perpetuity. While this may be an appropriate assumption for a minority interest valuation in a company that has no prospect of a sale, it would not be appropriate in a controlling interest valuation of a company whose owners could be looking to sell the business within a few years.

THE TREHARNE MODEL

Chris Treharne believes that S corporations have three primary benefits over C corporations: (1) distributions are made to shareholders before any taxes are paid; (2) the avoidance of dividend taxes; (3) and the differential between personal and corporate income taxes. Treharne's model is composed of four separate calculations, the first of which calculates the value of the subject company's retained cash flow on a C corporation basis. Not surprisingly, the remaining three calculations are designed to account for each of the S corporation benefits listed previously.

As with the Grabowski and Van Vleet models, there are important considerations in determining when this method is appropriate for use. First, this model does not explicitly calculate the build-up in basis for an S corporation. Treharne states that the build-up in basis should be considered on a case-by-case basis. Treharne's model also assumes that the avoided dividend tax and difference in corporate and personal income taxes will continue indefinitely. Thus, the model assumes a long-term holding period. If the subject interest is a minority interest in a company that has a sale date planned three years from now, there may be a material benefit generated by the build-up in basis and this might not be relevant. In addition, if the subject company was sold and lost its status as an S corporation, it would be incorrect to reflect the impact of avoided dividend taxes and the differential between corporate and personal income tax rates in the company's value.

THE FANNON MODEL

Nancy Fannon identifies the difficulty that analysts run into when attempting to explain the models previously discussed. As a solution to this issue, Fannon developed what she considers to be a simplified model using a discounted cash flow analysis to measure the benefit of avoided dividend taxes and to consider the benefit of the build-up in basis. When using this model, an assumption must be made with regard to when the subject company will be sold (or if it will continue indefinitely as an S corporation), as well as the likelihood that a purchaser would benefit from the S election. These assumptions necessitate the

identification of potential buyers for the company. Analysts using this model need to investigate the facts and circumstances of each case (restrictions in the shareholder agreement, transaction data, etc.) in order to estimate whether or not the buyer would benefit from the subject company's S election.

The greatest strength of Fannon's simplified model is that it is relatively straightforward. It takes into account personal taxes, avoided dividend taxes, and the build-up in basis. It also allows the analyst to consider the likelihood of a buyer being able to benefit from the subject company's S corporation status. However, this model (like the previous models) has its weaknesses as well. One of the largest issues with the model is the fact that it can be difficult to explain. The concept of identifying the most likely buyer may conflict with the concept of the hypothetical willing buyer. Identifying the probability of a buyer benefitting from the S election can also be an issue.

USING A MODEL IN THIS VALUATION

Based on our experience, all of the models discussed result in a similar calculation of the effect of passthrough taxes on the valuation. The Treharne's model was the model that was referenced in *Delaware Open MRI*. Chancellor Strine did an excellent job of explaining what he did.

Using the methodology stated above, we will use a simple illustration to demonstrate the appropriate level of tax to be applied to the subject company. Assume that the subject company had a pretax profit of $100. If 100 percent of the earnings were being distributed to the shareholders, the difference between being a C corporation and a passthrough can be shown by the calculations in the following table.

	C Corporation		S Corporation	
Annual Earnings		$ 100.00		$ 100.00
Corporate Income Tax	26.14%	(26.14)	0.00%	0
Net Income Available to Shareholders		$ 73.86		$ 100.00
Dividends		$ 73.86		$ 100.00
Personal Income Tax	27.06%	(19.98)	40.73%	(40.73)
Net Cash Flow to Shareholders		$ 53.88		$ 59.27
Benefit of Being an S Corporation				**$ 5.39**

The data in the table above shows the fact that in a situation when all of the after-corporate tax profits are being distributed to the shareholders, the effective corporate tax rate for an S corporation is 0 percent since the entity does not pay tax. At the valuation date, the tax rates in effect would have required the shareholders of a C corporation to pay a 27.06 percent dividend tax after the corporation would have paid approximately 26.14 percent in income tax. The amount of money available to the shareholders after all taxes were paid would have been $53.88.

As an S corporation, the shareholders avoid a corporate tax, but they pay personal taxes on the “passthrough” earnings regardless of the amount of distributions. Since only one 40.73 percent tax is paid, the shareholders end up with $59.27 in their pockets after all taxes are paid. In this instance, being an S corporation produces a benefit of $5.39.

Now we must deal with the realities of The Company. RKMF has historically distributed approximately 79.92 percent of its adjusted pretax earnings. This is the distribution percentage that will be used to recalculate the effective tax rate of The Company. The result is as follows:

COMPARISON OF C CORPORATION TO PASS-THROUGH CORPORATION

		C Corporation		Pass-Through
Income Before Tax		100.00		100.00
Corporate Income Tax	26.14%	(26.14)	0.00%	-
Net Income Available to Shareholders		73.87		100.00
Less: Addition to Retained Earnings	20.08%	14.83		20.08
Distributions	79.92%	59.03	79.92%	79.92
Less: Personal Taxes	27.06%	(15.97)	40.73%	(40.73)
Net Cash Flow to Shareholders		43.06		39.19
Net Decrement to Shareholder				**(3.87)**

Note: Figures may not add due to rounding.

The concept behind this calculation is that the S corporation implied tax is reverse-engineered based on there being parity between two types of corporate entities. In this instance, the shareholder would have more money in his or her pocket if The Company operated as a C Corporation. Therefore, the combined federal corporate and state tax rates that were in effect as of the valuation date were used to tax-affect RKMF's adjusted pre-tax income.

RONALD K. MORRISON AND ASSOCIATES, INC.
BALANCE SHEET
AS OF

	December 31,					October 31,
	2015	2016	2017	2018	2019	2020
Current Assets						
Cash	$ 310,620	$ 80,147	$ 261,024	$ 137,444	$ 501,525	$ 656,222
Prepaid Expenses	-	-	-	-	-	19,681
Prepaid Taxes	2,345	-	-	-	-	-
Sales Staff - Draws Receivable	45,376	72,975	86,368	157,719	85,922	54,387
Due from Related Parties	10,000	40,190	29,116	3,137	-	244,179
Total Current Assets	$ 368,341	$ 193,312	$ 376,508	$ 298,300	$ 587,447	$ 974,470
Fixed Assets	$ 871,986	$ 908,240	$ 959,063	$ 946,777	$ 1,007,837	$ 1,028,210
Accumulated Depreciation	753,391	807,996	869,650	862,340	928,242	928,242
Net Fixed Assets	$ 118,595	$ 100,244	$ 89,413	$ 84,437	$ 79,595	$ 99,968
Other Assets						
Stockholder Loans	$ 212,060	$ 147,060	$ 142,940	$ 142,940	$ 160,309	$ 120,309
Investment in IDA, LLC	17,617	15,313	15,006	14,053	12,321	12,321
Total Other Assets	$ 229,677	$ 162,373	$ 157,946	$ 156,993	$ 172,630	$ 132,630
TOTAL ASSETS	**$ 716,613**	**$ 455,929**	**$ 623,867**	**$ 539,730**	**$ 839,672**	**$ 1,207,068**
Current Liabilities						
Accounts Payable	$ -	$ -	$ -	$ -	$ 10,202	$ -
Notes Payable	12,461	400,000	245,000	300,000	-	547,000
Payroll Taxes Payable	202,643	8,704	30,558	10,646	461	21,943
Cash Overdraft	65,000	-	-	-	-	-
Pension Payable	-	177,711	180,528	218,755	113,038	-
Due to Related Party	-	-	-	-	20,000	20,000
Total Current Liabilities	$ 280,104	$ 586,415	$ 456,086	$ 529,401	$ 143,701	$ 588,943
Long-Term Liabilities	46,321	27,171	7,067	-	-	565,685
Total Liabilities	$ 326,425	$ 613,586	$ 463,153	$ 529,401	$ 143,701	$ 1,154,628
Stockholders' Equity	390,188	(157,657)	160,714	10,329	695,971	52,440
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 716,613**	**$ 455,929**	**$ 623,867**	**$ 539,730**	**$ 839,672**	**$ 1,207,068**

Note: Figures may not add due to rounding.

To be used only in conjunction with valuation report as of November 13, 2020.

RONALD K MORRISON AND ASSOCIATES, INC.
INCOME STATEMENT
FOR THE

	Year Ended December 31,					Latest 12 Months Ended October 31,
	2015	2016	2017	2018	2019	2020
Revenues	$ 11,108,773	$ 8,855,394	$ 9,874,031	$ 10,255,797	$ 10,189,867	$ 9,802,715
Operating Expenses						
Advertising	$ 58,580	$ 14,443	$ 12,145	$ 22,753	$ 21,868	$ 13,183
Auto Expense	80,632	67,061	53,900	73,180	63,341	56,393
Bank Charges	1,494	1,300	1,772	1,053	863	860
Charitable Contributions	36,629	19,521	10,703	20,076	12,074	8,856
Commissions	5,403,768	3,362,179	3,430,917	4,151,853	3,674,072	4,028,090
Data Processing	99,775	86,136	81,640	105,293	98,227	104,707
Depreciation	46,705	69,477	67,732	38,921	67,320	67,320
Employee Benefit Programs	14,780	284,841	342,756	275,831	333,939	362,089
Entertainment	12,883	12,703	22,469	15,853	23,468	10,987
Officers' Compensation	931,363	944,204	998,315	1,040,939	890,203	742,768
Insurance - General	311,829	67,995	70,622	94,208	76,970	55,049
Insurance - Life	1,457	2,881	2,343	2,382	2,563	2,563
Legal Fees	81,842	45,211	127,616	84,197	71,882	74,678
Licenses & Fees	43,654	36,707	62,581	7,249	56,992	45,166
Miscellaneous	17	2,327	18	193	39	39
Office Expenses	18,615	23,946	25,335	12,490	11,928	11,498
Outside Services	58,301	76,204	86,240	76,538	85,623	62,122
Penalties	12,246	3,220	2,290	336	1,299	(484)
Retirement Plans	206,923	182,311	181,068	240,334	117,220	114,931
Postage & Delivery	88,932	83,565	95,011	43,604	66,857	42,182
Rents	158,200	287,100	316,600	358,663	357,297	398,247
Repairs and Maintenance	8,691	3,385	8,222	1,869	755	1,915
Equipment Rental	-	4,219	7,721	13,755	12,696	12,665
Salaries & Wages	1,759,879	1,801,787	2,094,516	2,264,993	2,347,881	2,598,538
Seminars & Meetings	10,053	-	11,583	3,359	36,358	45,362
Taxes - Other	53,228	49,319	47,735	35,265	42,531	50,402
Taxes - Payroll	187,110	189,699	216,392	213,728	217,703	217,703
Telephone	73,636	89,342	89,478	97,474	123,842	112,800
Travel	226,480	236,057	279,095	273,044	312,463	185,329
Utilities	17,288	14,300	14,641	15,784	15,091	13,652
APS Service Fee	85,500	55,004	36,635	16,920	28,033	26,049
Credit Card Fees	3,890	11,641	9,910	8,983	14,030	13,624
Dues & Subscriptions	68,133	85,966	64,649	84,481	96,416	106,404
Janitorial & Cleaning	18,324	17,443	12,274	15,707	18,811	10,779
Small Tools & Equipment	12,838	13,291	15,418	14,029	4,242	6,714
Trash Removal	6,472	7,918	7,842	4,583	1,770	1,430
Total Operating Expenses	$ 10,200,147	$ 8,252,703	$ 8,908,184	$ 9,729,920	$ 9,306,667	$ 9,604,612

RONALD K MORRISON AND ASSOCIATES, INC.
INCOME STATEMENT
FOR THE

	Year Ended December 31,					Latest 12 Months Ended October 31,
	2015	2016	2017	2018	2019	2020
Operating Income	$ 908,626	$ 602,691	$ 965,847	$ 525,877	$ 883,200	$ 198,103
Other Income						
Interest Income	$ 21	$ 16	$ 21	$ 17	$ 14	$ 14
Gain on Sale of Assets	8,500	-	1,952	220	-	-
Other Income	26	5	-	-	377	377
IDA, LLC	-	1,965	158	519	389	389
New York Tax Refund	-	-	-	75	-	-
Total Other Income	$ 8,547	$ 1,986	$ 2,131	$ 831	$ 780	$ 780
Other Expenses						
Interest Expense	$ 24,479	$ 12,290	$ 14,492	$ 15,677	$ 27,402	$ 22,812
Loss on Sale of Assets	-	-	-	250	2,473	2,473
Other Expenses	-	2,345	-	-	-	-
Total Other Expenses	$ 24,479	$ 14,635	$ 14,492	$ 15,927	$ 29,875	$ 25,285
Total Other Income (Expenses)	$ (15,932)	$ (12,649)	$ (12,361)	$ (15,096)	$ (29,095)	$ (24,505)
NET INCOME	**$ 892,694**	**$ 590,042**	**$ 953,486**	**$ 510,781**	**$ 854,105**	**$ 173,598**

Note: Figures may not add due to rounding.

SOURCES OF INFORMATION UTILIZED

Several sources of information were used to complete this business valuation. These were as follows:

1. Form 1120S, U.S. Income Tax Return for an S Corporation for Ronald K. Morrison & Associates, Inc. for 2015.
2. Form 1120S, U.S. Income Tax Return for an S Corporation for Ronald K. Morrison & Associates, Inc. for 2016.
3. Form 1120S, U.S. Income Tax Return for an S Corporation for Ronald K. Morrison & Associates, Inc. for 2017.
4. Form 1120S, U.S. Income Tax Return for an S Corporation for Ronald K. Morrison & Associates, Inc. for 2018.
5. Form 1120S, U.S. Income Tax Return for an S Corporation for Ronald K. Morrison & Associates, Inc. for 2019.
6. RKM Financial, LLC & Ronald K. Morrison and Associates, Inc. combined profit & loss January through December 2015.
7. RKM Financial, LLC & Ronald K. Morrison and Associates, Inc. combined profit & loss January through December 2016.
8. RKM Financial, LLC & Ronald K. Morrison and Associates, Inc. combined profit & loss January through December 2017.
9. RKM Financial, LLC & Ronald K. Morrison and Associates, Inc. combined profit & loss January through December 2018.
10. RKM Financial, LLC & Ronald K. Morrison and Associates, Inc. combined profit & loss January through December 2019.
11. RKM Financial, LLC & Ronald K. Morrison and Associates, Inc. combined profit & loss January through October 2019.
12. RKM Financial, LLC & Ronald K. Morrison and Associates, Inc. combined profit & loss January through October 2020.

SOURCES OF INFORMATION UTILIZED

13. RKM Financial, LLC & Ronald K. Morrison and Associates, Inc. combined balance sheet as of December 31, 2015 through December 31, 2019.

14. RKM Financial, LLC & Ronald K. Morrison and Associates, Inc. combined balance sheet as of October 31, 2019.

15. RKM Financial, LLC & Ronald K. Morrison and Associates, Inc. combined balance sheet as of October 31, 2020.

16. RKM Financial, LLC & Ronald K. Morrison and Associates, Inc. combined balance sheet as of November 13, 2020.

17. 2020 Depreciation and Amortization Report.

18. RKM Financial organization chart.

19. RKM Financial, LLC top five customers for the years 2018, 2019 and the 10 months ended October 31, 2020.

20. RKM Finanical, LLC top vendors for the years 2018 and 2019 and the 10 months ended October 31, 2020

21. Schedule of compensation/distributions made to owners for the years 2015 to 2019 and the 10 months ended October 31, 2020 and 2019.

22. Breakdown of rent expense by entity for the years 2015 to 2019 and the 10 months ended October 31, 2020.

23. Ronald K. Morrison and Associates Certificate of Incorporation dated September 1, 1993.

24. ByLaws of Ronald K. Morrison and Associates.

25. Executive Employment Agreement dated as of June 1, 2004 between Ronald K. Morrison and Associates and Ronald K. Morrison.

26. Executive Employment Agreement dated as of August 1, 2004 between Ronald K. Morrison and Associates and Thomas J. Green.

27. Stock Purchase and Sale Master Agreement between Ronald K. Morrison and Thomas J. Green dated December 31, 2004.

SOURCES OF INFORMATION UTILIZED

28. Seller's Certificate of Representations executed by Ronald K. Morrison dated December 31, 2004.

29. Buyer's Certificate of Representations executed by Thomas J. Green dated December 31, 2004.

30. Full-Recourse Promissory Note in the original principal amount of $671,300 executed by Thomas J. Green dated December 31, 2004.

31. Escrow Agreement among Ronald K. Morrison and Associates, Ronald K. Morrison, Thomas J. Green and Crenshaw Hayes LLP dated December 31, 2004.

32. Pledge and Security Agreement between Thomas J. Green and Ronald K. Morrison dated December 31, 2004.

33. Shareholders Agreement between Ronald K. Morrison and Associates, Ronald K. Morrison and Thomas J. Green dated December 31, 2004.

34. Certificate of Good Standing for Ronald K. Morrison and Associates dated August 10, 2004 by the Secretary of State of the State of New York.

35. Secretary's Certificate of Ronald K. Morrison and Associates dated December 31, 2004.

36. Action by Unanimous Written Consent of the Board of Directors and Sole Shareholder Without a Meeting amending Bylaws, electing officers and approving actions dated December 31, 2004.

37. Ronald K. Morrison' Affidavit of Ownership of Lost Share Certificate No. 1, dated September 17, 1993, evidencing ownership of 200 shares of Ronald K. Morrison and Associates Common Stock dated August 17, 2004.

38. Share Certificate No. 2 evidencing ownership of 98 shares of common stock in Thomas J. Green's name, together with stock power executed in blank.

39. Share Certificate No. 3 evidencing ownership of 102 shares of common stock in Ronald K. Morrison' name.

40. Unanimous Written Consent in Lieu of a Meeting of the Board of Directors electing Thomas J. Green to Board of Directors dated December 31, 2004.

SOURCES OF INFORMATION UTILIZED

41. Ascensus LLC Defined Contribution Pre-Approved Plan.

42. Community Bank, National Association loan documents for Ronald K. Morrison and Associates.

43. IDA, LLC 2019 Partnership Form 1065 Schedule K-1 for Ronald K. Morrison.

44. IDA, LLC 2019 Partnership Form 1065 Schedule K-1 for Tom Green.

45. Appraisal of vacant land parcel located at 111 ABCD Ave., Albany, NY for Ronald Morrison Estate as of November 13, 2020.

46. Restricted appraisal of commercial property located at 222-234 West Haven Street, Albany, NY for Ronald Morrison Estate as of November 13, 2020.

47. Restricted appraisal of commercial property located at 333-356 West Haven Street, Albany, NY for Ronald Morrison Estate as of November 13, 2020.

48. Individual condo unit appraisal report located at 1234 Tipper Blvd. Unit # 222, Naples, FL as of November 13, 2020.

49. Appraisal of a condominium unit located at 77 Jewel Street, Boston, MA for the estate of Ronald Morrison as of November 13, 2020.

50. Other items referenced throughout this report.

In addition to the written documentation provided, a management interview and several telephone conversations took place with Thomas Green, Katherine Oslo and Todd Morrison. Information gathered during the interview and calls became an integral part of this report.

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

This valuation is subject to the following assumptions and limiting conditions:

1. The conclusion of value arrived at herein is valid only for the stated purpose as of the date of the valuation.

2. Financial statements and other related information provided by the business or its representatives, in the course of this engagement, have been accepted without any verification as fully and correctly reflecting the enterprise's business conditions and operating results for the respective periods, except as specifically noted herein. Trugman Valuation Associates, Inc. has not audited, reviewed, or compiled the financial information provided to us and, accordingly, we express no audit opinion or any other form of assurance on this information.

3. Public information and industry and statistical information have been obtained from sources we believe to be reliable. However, we make no representation as to the accuracy or completeness of such information and have performed no procedures to corroborate the information.

4. We do not provide assurance on the achievability of the results forecasted by or for the subject company because events and circumstances frequently do not occur as expected; differences between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans, and assumptions of management.

5. The conclusion of value arrived at herein is based on the assumption that the current level of management expertise and effectiveness would continue to be maintained, and that the character and integrity of the enterprise through any sale, reorganization, exchange, or diminution of the owners' participation would not be materially or significantly changed.

6. This report and the conclusion of value arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. They may not be used for any other purpose or by any other party for any purpose. Furthermore the report and conclusion of value are not intended by the author and should not be construed by the reader to be investment advice in any manner whatsoever. The conclusion of value represents the considered opinion of Trugman Valuation Associates, Inc., based on information furnished to them by the subject company and other sources.

7. Neither all nor any part of the contents of this report (especially the conclusion of value, the identity of any valuation specialist(s), or the firm with which such

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

valuation specialists are connected or any reference to any of their professional designations) should be disseminated to the public through advertising media, public relations, news media, sales media, mail, direct transmittal, or any other means of communication without the prior written consent and approval of Trugman Valuation Associates, Inc.

8. Future services regarding the subject matter of this report, including, but not limited to testimony or attendance in court, shall not be required of Trugman Valuation Associates, Inc. unless previous arrangements have been made in writing.

9. Trugman Valuation Associates, Inc. is not an environmental consultant or auditor, and it takes no responsibility for any actual or potential environmental liabilities. Any person entitled to rely on this report, wishing to know whether such liabilities exist, or the scope and their effect on the value of the property, is encouraged to obtain a professional environmental assessment. Trugman Valuation Associates, Inc. does not conduct or provide environmental assessments and has not performed one for the subject property.

10. Trugman Valuation Associates, Inc. has not determined independently whether the subject company is subject to any present or future liability relating to environmental matters (including, but not limited to CERCLA/Superfund liability) nor the scope of any such liabilities. Trugman Valuation Associates, Inc.'s valuation takes no such liabilities into account, except as they have been reported to Trugman Valuation Associates, Inc. by the subject company or by an environmental consultant working for the subject company, and then only to the extent that the liability was reported to us in an actual or estimated dollar amount. Such matters, if any, are noted in the report. To the extent such information has been reported to us, Trugman Valuation Associates, Inc. has relied on it without verification and offers no warranty or representation as to its accuracy or completeness.

11. Trugman Valuation Associates, Inc. has not made a specific compliance survey or analysis of the subject property to determine whether it is subject to, or in compliance with, the American Disabilities Act of 1990, and this valuation does not consider the effect, if any, of noncompliance.

12. No change of any item in this valuation report shall be made by anyone other than Trugman Valuation Associates, Inc., and we shall have no responsibility for any such unauthorized change.

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

13. Unless otherwise stated, no effort has been made to determine the possible effect, if any, on the subject business due to future Federal, state, or local legislation, including any environmental or ecological matters or interpretations thereof.

14. We have conducted interviews with the current management of the subject company concerning the past, present, and prospective operating results of the company. Except as noted, we have relied on the representations of these individuals.

15. Except as noted, we have relied on the representations of the owners, management, and other third parties concerning the value and useful condition of all equipment, real estate, investments used in the business, and any other assets or liabilities, except as specifically stated to the contrary in this report. We have not attempted to confirm whether or not all assets of the business are free and clear of liens and encumbrances or that the entity has good title to all assets.

16. All facts and data set forth in the report are true and accurate to the best of the valuation analyst's knowledge and belief. We have not knowingly withheld or omitted anything from our report affecting our value estimate.

17. Possession of this report, or a copy thereof, does not carry with it the right of publication of all or part of it, nor may it be used for any purpose without the previous written consent of the valuation analyst, and in any event only with proper authorization. Authorized copies of this report will be signed in blue ink by a director of Trugman Valuation Associates, Inc. Unsigned copies, or copies not signed in blue ink, should be considered to be incomplete.

18. Unless otherwise provided for in writing and agreed to by both parties in advance, the extent of the liability for the completeness or accuracy of the data, opinions, comments, recommendations and/or conclusions shall not exceed the amount paid to the valuation analysts for professional fees and, then, only to the party(s) for whom this report was originally prepared.

19. The conclusion reached in this report is based on the standard of value as stated and defined in the body of the report. An actual transaction in the business or business interest may be concluded at a higher value or lower value, depending on the circumstances surrounding the company, the subject business interest and/or the motivations and knowledge of both the buyers and sellers at that time. Trugman Valuation Associates, Inc. makes no guarantees as to what values individual buyers and sellers may reach in an actual transaction.

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

20. No opinion is intended to be expressed for matters that require legal or other specialized expertise, investigation or knowledge beyond that customarily employed by valuation analysts valuing businesses.

Valuation of a 51 percent interest in Ronald K. Morrison and Associates, Inc.

VALUATION ANALYST'S REPRESENTATION

We represent that, to the best of our knowledge and belief:

- 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 are our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- we have no present or prospective interest in the property that is the subject of this report, and we have no personal interest with respect to the parties involved.
- we have performed no services, as a valuation analyst or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
- we have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- 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 business valuation.
- our analyses, opinions, and conclusions were developed and this report has been prepared in conformity with the *Statement on Standards for Valuation Services No.* 1, promulgated by the American Institute of Certified Public Accountants, the *Uniform Standards of Professional Appraisal Practice*, promulgated by the Appraisal Foundation and the business valuation standards of the American Society of Appraisers.
- The American Institute of Certified Public Accountants and The American Society of Appraisers have a mandatory recertification program for all of its senior accredited members. All senior accredited members of our firm are in compliance with all of these organizations' programs.
- no one provided significant business and/or intangible asset valuation assistance to the person signing this certification other than William Harris.

GARY R. TRUGMAN, C.P.A./A.B.V., A.S.A., M.V.S.
PROFESSIONAL QUALIFICATIONS

Experience

President of Trugman Valuation Associates, Inc., a firm specializing in business valuation, economic damages and litigation support services. Business valuation experience includes a wide variety of assignments including closely-held businesses, professional practices and thinly traded public companies. Industries include but are not limited to security, automotive, funeral homes, health care, securities brokerage and financial institutions, retail, restaurants, manufacturing, trucking, service and professional business establishments. Assignments have also included the valuation of stock options and various types of intangible assets.

Business valuation, economic damages and litigation support services have been rendered for a variety of purposes including, but not limited to family law matters, business damages, lender liability litigation, buy-sell agreements, shareholder litigation, estate and gift tax matters, buying and selling businesses, malpractice litigation, wrongful death, sexual discrimination, age discrimination, wrongful termination, workers' compensation and breach of contract. Additional litigation services include reasonable compensation analysis for tax and non-tax assignments. Representation in litigation includes plaintiff, defendant, mutual and court-appointed neutral.

Court Testimony. Has been qualified as an expert witness in State Courts of Florida, New Jersey, New York, Pennsylvania, California, Connecticut, Michigan and Federal District Court in Newark, New Jersey; Hammond, Indiana; Atlanta, Georgia; Arlington, Virginia and New York, New York as well as in Bankruptcy Court in Dallas, Texas and has performed extensive services relating to court testimony. Testimony has also been provided in arbitration cases before the National Association of Securities Dealers and the American Stock Exchange, as well as other forms of arbitration.

Court Appearances. Has appeared in the following courts: *Florida* • Santa Rosa, Palm Beach, Polk, Lee, Broward, Miami-Dade, Leon, Pinellas, Duval, Collier and Escambia. *New Jersey* • Morris, Atlantic, Sussex, Bergen, Burlington, Passaic, Mercer, Middlesex, Monmouth, Essex, Hunterdon, Warren, Hudson and Union. *New York* • Bronx, Kings and Westchester. *Connecticut* • Fairfield, Milford/Ansonia and Middlesex. *Pennsylvania* • Montgomery, Lehigh, Philadelphia and Chester. *Massachusetts* • Middlesex. *Indiana* • Marion. *California* • San Jose. *Michigan* • Ottawa.

Court Appointments. Has been court appointed in New Jersey's Morris, Sussex, Essex, Union, Hunterdon, Somerset, Monmouth, Middlesex, Passaic, Warren, Bergen and Hudson counties by numerous judges, as well as Orange County, Florida and Cass County, Minnesota.

Mutual Expert. Regularly serves as a mutually-agreed upon expert.

Professional Designations

- **CPA**: Licensed in Florida (*1996*), New Jersey (1978) and New York (*1977*). (NJ and NY are inactive.)
- **ABV**: Accredited in Business Valuation designated by The American Institute of Certified Public Accountants *(1998).* Reaccredited in 2016.
- **MCBA:** Master Certified Business Appraiser designated by The Institute of Business Appraisers, Inc. (1999). Original certification (CBA) in 1987. Reaccredited in 2013. (Retired August 1, 2017).
- **ASA**: Accredited Senior Appraiser designated by the American Society of Appraisers (*1991*). Reaccredited in 2021.

GARY R. TRUGMAN, C.P.A./A.B.V., A.S.A., M.V.S.
PROFESSIONAL QUALIFICATIONS

Education

- Masters in Valuation Sciences, Lindenwood College, St. Charles, MO (*1990*). Thesis topic: *Equitable Distribution Value of Small Closely-Held Businesses and Professional Practices.*
- B.B.A. in Accountancy, Bernard M. Baruch College, New York, NY (*1977*).

Faculty

- *National Judicial College,* Reno, Nevada 1997 through 2018.

Appraisal Education

- *7-Hour USPAP Update Course for Business Valuation*, American Society of Appraisers, 2021
- *2020 Forensic & Valuation Services Conference*, Association of International Certified Professional Accountants
- 2019 *Forensic & Valuation Services Conference*, American Institute of Certified Public Accountants
- *2018 Advanced Business Valuation Conference*, American Society of Appraisers, 2018.
- *Forensic & Valuation Services Conference 2017*, Las Vegas, NV, American Institute of CPAs, 2017.
- *Forensic & Valuation Services Conference 2016*, Nashville, TN, American Institute of CPAs, 2016.
- *2016 Advanced Business Valuation Conference*, Boca Raton, FL, American Society of Appraisers, 2016.
- *2015 AICPA Forensic and Valuation Services Conference*, Las Vegas, NV, American Institute of Certified Public Accountants, 2015.
- *Business Valuation Conference*, Harrisburg, PA, Pennsylvania Institute of Certified Public Accountants, 2015.
- *2015 Advanced Business Valuation Conference*, Las Vegas, NV, American Society of Appraisers, 2015.
- *2015 Business Valuation and Litigation Conference*, Louisville, KY, KY Society of Certified Public Accountants, 2015.
- *2015 Valuation, Forensic Accounting and Litigation Services Conference*, Ft. Lauderdale, FL, Florida Institute of Certified Public Accountants, 2015.
- *AICPA Forensic & Valuation Services Conference 2014*, New Orleans, LA, American Institute of Certified Public Accountants, 2014.
- *2014 Business Valuation Conference,* Louisville, KY, KY Society of Certified Public Accountants, 2014.
- *2014 Valuation, Forensic Accounting and Litigation Services Conference,* Ft. Lauderdale, FL, Florida Institute of Certified Public Accountants, 2014.
- *2013 AICPA Forensic and Valuation Services Conference,* Las Vegas, NV, American Institute of Certified Public Accountants, 2013.
- *2013 ASA Advanced Business Valuation Conference*, San Antonio, TX, American Society of Appraisers, 2013.
- *AICPA Forensic and Valuation Services Conference,* Orlando, FL, American Institute of Certified Public Accountants, 2012.
- *TSCPA Southeastern FVS Conference,* Nashville, TN, Tennessee Society of Certified Public Accountants, 2012.

GARY R. TRUGMAN, C.P.A./A.B.V., A.S.A., M.V.S.
PROFESSIONAL QUALIFICATIONS

Appraisal Education

- *ASA Advanced Business Valuation Conference,* Phoenix, AZ, American Society of Appraisers, 2012.
- *Business Valuation Symposium,* Chicago, IL, IL Society of Certified Public Accountants, 2012.
- *AICPA National Business Valuation Conference*, Las Vegas, NV, American Institute of Certified Public Accountants, 2011.
- *Valuation, Forensic Accounting and Litigation Services Conference*, FL Institute of Certified Public Accountants, Ft. Lauderdale, FL, 2011.
- *AICPA National Business Valuation Conferenc*e, Washington, DC, American Institute of Certified Public Accountants, 2010.
- *Valuation for SFAS 123R/IRC 409A,* South Beach Miami, FL, American Society of Appraisers, 2010.
- *2010 ASA-CICBV Business Valuation Conference*, South Beach Miami, FL, American Society of Appraisers and Canadian Institute of Certified Business Valuers, 2010.
- *AICPA National Business Valuation Conference,* San Francisco, CA, American Institute of Certified Public Accountants, 2010.
- *The NACVA/IBA 2010 Annual Consultants' Conference*, Miami Beach, FL, National Association of Certified Valuation Analysts and The Institute of Business Appraisers, 2010.
- *FICPA Valuation, Forensic Accounting and Litigation Services Conference*, Ft. Lauderdale, FL, Florida Institute of CPAs, 2010.
- *AICPA National Business Valuation Conference,* San Francisco, CA, American Institute of Certified Public Accountants, 2009.
- *FICPA Valuation, Forensic Accounting and Litigation Services Conference*, Ft. Lauderdale, FL, Florida Institute of CPAs, 2009.
- *2008 AICPA/ASA National Business Valuation Conference*, Las Vegas, NV, American Institute of CPAs and American Society of Appraisers, 2008.
- *NJ Law and Ethics*, Webcast, New Jersey Society of CPAs, 2008.
- *AICPA National Business Valuation Conference*, New Orleans, LA, American Institute of Certified Public Accountants, 2007.
- *FCG Conference,* New Orleans, LA, Financial Consulting Group, 2007.
- *Advanced Business Valuation Conference,* San Diego, CA, American Society of Appraisers, 2007.
- *IBA Symposium 2007,* Denver, CO, The Institute of Business Appraisers, 2007.
- *FICPA Valuation, Accounting and Litigation Services Conference*, Ft. Lauderdale, FL, Florida Institute of Certified Public Accountants, 2007.
- *AICPA National Business Valuation Conference,* Austin, TX, American Institute of Certified Public Accountants, 2006.
- *FCG Conference*, Austin, TX, Financial Consulting Group, 2006.
- *Personal Goodwill,* BV Resources Telephone Conference, 2006.
- *FICPA Valuation, Accounting and Litigation Services Conference,* Ft. Lauderdale, FL, Florida Institute of Certified Public Accountants, 2006.
- *Valuation*^{2}, Las Vegas, NV, American Institute of Certified Public Accountants and American Society of Appraisers, 2005.
- *AICPA National Business Valuation Conference*, Orlando, FL, American Institute of Certified Public Accountants, 2004.

GARY R. TRUGMAN, C.P.A./A.B.V., A.S.A., M.V.S.
PROFESSIONAL QUALIFICATIONS

Appraisal Education

- *23rd Annual Advanced Business Valuation Conference*, San Antonio, TX, American Society of Appraisers, 2004.
- *2004 National Business Valuation Conference,* Las Vegas, NV, Institute of Business Appraisers, 2004.
- *New Jersey Law and Ethics Course,* Parsippany, NJ, New Jersey Society of Certified Public Accountants, 2004.
- *22nd Annual Advanced Business Valuation Conference,* Chicago, IL, American Society of Appraisers, 2003.
- *AICPA National Business Valuation Conference*, New Orleans, LA, American Institute of Certified Public Accountants, 2002.
- *Brown v. Brown: The Most Important Equitable Distribution Decision Since Painter*, Fairfield, NJ, New Jersey Institute for Continuing Legal Education, 2002.
- *2001 National Business Valuation Conference,* Las Vegas, NV, American Institute of Certified Public Accountants, 2001.
- *2001 Share the Wealth Conference,* Orlando, FL, The Institute of Business Appraisers, 2001.
- *2000 National Conference on Business Valuation,* Miami, FL, American Institute of Certified Public Accountants, 2000.
- *19th Annual Advanced Business Valuation Conference*, Philadelphia, PA, American Society of Appraisers, 2000.
- *Hot Issues in Estate and Gift Tax Returns: What do the Auditors Look For?,* Fairfield, NJ, New Jersey Institute for Continuing Legal Education, 2000.
- Has performed extensive reading and research on business valuation and related topics.

Lecturer

- *Extreme Uncertainty: How Valuation Experts Should Respond to Today's Volatility and Risk,* Business Valuation Resources, 2020.
- *Valuation and Covid-19 Update: BVR Townhall and Q&A*, Business Valuation Resources, 2020.
- *Discounted Cash Flow: Speculative or Convincing*, Business Valuation Resources, 2020.
- *What Should We Be Doing to Value That Company in Light of COVID-19?*, Minnesota Society of CPAs, 2020.
- *Valuation Report Writing Workshop*, Forensic & Valuation Services Conference, 2020.
- *Transaction Method - Maneuvering the Databases*, Forensic & Valuation Services Conference, 2020.
- *Valuation Report Writing Workshop*, Forensic & Valuation Services Conference, 2019.
- *Introduction to Valuation Methodologies,* Forensic & Valuation Services Conference, 2019.
- *Report Writing*, Las Vegas, NV, Forensic & Valuation Services Conference, 2017.
- *Valuation and Common Sense*, Nashville, TN, Forensic & Valuation Services Conference, 2016.
- *Navigating the Family Law Minefield*, Nashville, TN, Forensic & Valuation Services Conference, 2016.
- *Multi Discipline Mock Trial*, Boca Raton, FL, Advanced Business Valuation Conference, 2016.
- *The Do's and Don't of Expert Witnessing*, Lake of Ozarks, MO, Missouri Society of CPAs Annual Conference, 2016.

GARY R. TRUGMAN, C.P.A./A.B.V., A.S.A., M.V.S.
PROFESSIONAL QUALIFICATIONS

Lecturer

- *The Do's and Don't of Expert Witnessing*, Baltimore, MD, 2016 MD Society of CPAs Forensic and Valuation Services Conference, 2016.
- *Income Approach*, Las Vegas, NV, 2015 AICPA Forensic and Valuation Services Conference, 2015.
- *Panel Discussion: CAPM vs. Build-Up Model,* Harrisburg, PA, PA Business Valuation Conference, 2015.
- *You Think You Have Problems? Try Forecasting for a Smaller Business,* Harrisburg, PA, PA Business Valuation Conference, 2015.
- *Do's and Don'ts of Expert Testimony,* Las Vegas, NV, ASA 2015 Advanced Business Valuation Conference, 2015.
- *The Income Approach,* Louisville, KY, KY 2015 Business Valuation and Litigation Conference, 2015.
- *The Good, the Bad & the Ugly of Valuing Small Businesses: Everything you Want to Know But are Afraid to Ask*, Glen Allen, VA, VSCPA's Business Valuation, Fraud & Litigation Services Conference, 2014.
- *The ABCs of the Income Approach,* Savannah, GA, ASA International Appraisers Conference, 2014.
- *Hot Topics in Business Valuation,* Louisville, KY, KY Business Valuation Conference, 2014.
- *Tax Affecting Pass Through Entities: Where Are We Today and Do the Models Really Work?,* Louisville, KY, KY Business Valuation Conference, 2014.
- *Valuation Reports*, Webcast, American Institute of Certified Public Accountants, 2014.
- *Tax Effecting S Corporations and Pass Through Entities*, Ft. Lauderdale, FL, 2014 Valuation, Forensic Accounting and Litigation Services Conference, 2014.
- *Alternative Strategies for Deriving Minority Interest Values in Operating Companies*, Las Vegas, NV, 2013 AICPA Forensic and Valuation Services Conference, 2013.
- *DLOMs - Let's Get Practical!*, Las Vegas, NV, 2013 AICPA Forensic and Valuation Services Conference, 2013.
- *Do's and Don'ts of Expert Testimony*, Brentwood, TN, Tennessee Society of CPAs' Business Valuation Conference, 2013.
- *Discounts for Lack of Marketability - Where Are We?*, Brentwood, TN, Tennessee Society of CPAs' Business Valuation Conference, 2013.
- *Expert Witness : Tips and Techniques to Defend Your Position*, San Antonio, TX, 2013 ASA Advanced Business Valuation Conference, 2013.
- *Hot Topics in Business Valuation*, Louisville, KY, Kentucky Society of CPAs' Business Valuation Conference, 2013.
- *The Income Approach: Should You Use Equity or Invested Capital?*, Louisville, KY, Kentucky Society of CPAs' Business Valuation Conference, 2013.
- *Personal Goodwill and Covenants Not to Compete,* Chicago, IL, Illinois Chapter of the National Association of Certified Valuators and Analysts, 2013.
- *Discounts and Premiums,* Chicago, IL, Illinois CPA Society Business Valuation Conference, 2013.
- *Marketing Your BV Practice,* Chicago, IL, Illinois CPA Society Business Valuation Conference, 2013.
- *Personal Goodwill,* Baltimore, MD, Maryland Association of CPAs Business Valuation Conference, 2013.

GARY R. TRUGMAN, C.P.A./A.B.V., A.S.A., M.V.S.
PROFESSIONAL QUALIFICATIONS

Lecturer

- *Valuations in Matrimonial Law*, Orlando, FL, Florida Chapter of the Association of Family & Conciliation Courts Conference, 2013.
- *Valuing the Small Business,* Nashville, TN, TSCPA Southeastern FVS Conference, 2012.
- *Personal vs. Enterprise Goodwill: Where Are We and How Do I Deal With it?,* Orlando, FL, AICPA Forensic and Valuation Services Conference, 2012.
- *The Capitalized Cash Flow Method of the Income Approach,* Orlando, FL, AICPA Forensic and Valuation Services Conference, 2012.
- *Hardball with Hitchner,* Orlando, FL, AICPA Forensic and Valuation Services Conference, 2012.
- *Litigation Support: Does the Job Manage You or Should You Manage the Job?,* Phoenix, AZ, ASA Advanced Business Valuation Conference, 2012.
- *You Think You Have Problems? Try Forecasting for a Smaller Business,* Phoenix, AZ, ASA Advanced Business Valuation Conference, 2012.
- *A Potpourri of Business Valuation Topics,* Chicago, IL National Association of Certified Valuators and Analysts, 2012.
- *Medical Practice Valuations,* Louisville, KY, Kentucky Society of CPAs Healthcare Conference, 2012.
- *Business Valuation Practice Administration,* Chicago, IL, Business Valuation Symposium, 2012.
- *Valuing Covenants Not to Compete*, Las Vegas, NV, AICPA National Business Valuation Conference, 2011.
- *Practical Applications of the Market Approach (co-presenter)*, Las Vegas, NV, AICPA National Business Valuation Conference, 2011.
- *Management and Marketing of a Valuation Practice (co-presenter)*, Las Vegas, NV, AICPA National Business Valuation Conference, 2011.
- *Using Forecasts in Business Valuation*, New York, NY, NY State Society of Certified Public Accountants, 2011.
- *Using Forecasts in Business Valuation*, Ft. Lauderdale, FL, FL Institute of Certified Public Accountants, 2011.
- *Developing Discount and Capitalization Rates,* Washington, DC, AICPA National Business Valuation Conference, 2010.
- *Applications of Standards,* Washington, DC, AICPA National Business Valuation Conference, 2010.
- *Defining The Engagement,* Washington, DC, AICPA National Business Valuation Conference, 2010.
- *Small Business Valuation Including Personal and Professional Goodwill*, Chicago, IL, Illinois CPA 2010 Family Law Conference, 2010.
- *Business Valuation During Crazy Economic Times,* Naples, FL, Get Away Convention, New Jersey Society of CPAs, 2010.
- *Forecasting: The Good, The Bad & the Ugly - Valuation the Public vs. the Private Company*, South Beach Miami, FL, 2010 ASA-CICBV Business Valuation Conference, 2010.
- *Other Valuation Adjustments - What Should We Do With Them?*, Miami Beach, FL, The NACVA/IBA 201 Annual Consultants' Conference, 2010.
- *Working in a Distressed Economy*, Ft. Lauderdale, FL, FICPA Valuation, Forensic Accounting and Litigation Services Conference, 2010.
- *Thinking Outside the Box: Using the Market Approach to Develop a Cost of Capital,* Ft. Lauderdale, FL, FICPA Valuation, Forensic Accounting and Litigation Services Conference, 2010.

GARY R. TRUGMAN, C.P.A./A.B.V., A.S.A., M.V.S.
PROFESSIONAL QUALIFICATIONS

Lecturer

- *Using Forecasts in Business Valuation,* San Francisco, CA, AICPA National Business Valuation Conference, 2009.
- *Thinking Outside the Box: Using the Market Approach to Develop a Cost of Capital,* San Francisco, CA, AICPA National Business Valuation Conference, 2009.
- *Complying with Standards and Writing a Good Report,* San Francisco, CA, AICPA National Business Valuation Conference, 2009.
- *Exit Strategies for Increasing Your Business' Selling Price*, Orlando and Ft. Lauderdale, FL, FICPA Accounting Show/FABExpo, 2009.
- *So You Want to be an Expert Witness?,* Orlando and Ft. Lauderdale, FL, FICPA Accounting Show/FABExpo, 2009.
- *Business Valuation During Crazy Times*, Ft. Lauderdale and Tampa, FL, CPAs in Industry Conference, 2009.
- *Fishman, Mard and Trugman on Divorce Valuations*, Webinar, Financial Consulting Group, 2009.
- *Ask the Experts*, Ft. Lauderdale, FL, FICPA Valuation, Forensic Accounting and Litigation Services Conference, 2009.
- *SSVS1 and the Very Small Business*, Ft. Lauderdale, FL, FICPA Valuation, Forensic Accounting and Litigation Services Conference, 2009.
- *Hardball with Hitchner*, Las Vegas, NV, 2008 AICPA/ASA National Business Valuation Conference, 2008.
- *Valuing Small Main Street (Mom & Pop) Businesses*, Las Vegas, NV, 2008 AICPA/ASA National Business Valuation Conference, 2008.
- *Construction Firm Valuation Issues: What You Need to Know,* Orlando, FL, FICPA Construction Industry Conference, 2008.
- *How to Build a Valuable Practice,* Ft. Lauderdale, FL, FICPA Practice Management Conference, 2008.
- *AICPA Statement on Standards for Valuation Services*, Tallahassee, FL, Tallahassee Chapter of the FICPA, 2008.
- *Keeping Yourself Out of Trouble as an Appraiser,* IBA Teleconference, 2008.
- *Business Valuation for Litigation*, Detroit, MI, MACPA's 2008 Litigation & Business Valuation Conference, 2008.
- *Current Issues in Business Valuation and Litigation Support... And the Beat Goes On*, Detroit, MI, MACPA's 2008 Litigation & Business Valuation Conference, 2008.
- *Personal Goodwill,* Orlando, FL, American Academy of Matrimonial Lawyers, 2008.
- *Valuing the Very Small Business*, Teleconference, Business Valuation Resources, 2008.
- *Personal Goodwill - What to Do With It*, Teleconference, Institute of Business Appraisers, 2008.
- *Discount and Cap Rates - Are They Really Such a Mystery*?, Teleconference, Institute of Business Appraisers, 2008.
- *Ask the Experts,* Ft. Lauderdale, FL, FICPA Valuation, Accounting and Litigation Services Conference, 2008.
- *Tax Effecting S Corporations and Other Flow Through Entities*, Ft. Lauderdale, FL, FICPA Valuation, Accounting and Litigation Services Conference, 2008.
- *Dream the Impossible Dream: Can Specific Company Risk Really Be Quantified?,* New Orleans, LA, AICPA National Business Valuation Conference, 2007.

GARY R. TRUGMAN, C.P.A./A.B.V., A.S.A., M.V.S.
PROFESSIONAL QUALIFICATIONS

Lecturer

- *Hardball with Hitchner*, New Orleans, LA, AICPA National Business Valuation Conference, 2007.
- *Valuing Small Business and Personal and Professional Goodwill*, New Orleans, LA, FCG Conference, 2007.
- *Personal Goodwill*, Richmond, VA, VASCPA Business Valuation Conference, 2007.
- *Expert Witness - A Primer*, Orlando, FL, FICPA FABExpo, 2007.
- *Personal Goodwill: Does the Non-Propertied Spouse Really Lose the Battle?,* Ft. Lauderdale, FL, Florida Bar Family Law Section, 2007.
- *Do's and Don't's of Expert Testimony*, Ft. Lauderdale, FL, FICPA Valuation, Accounting and Litigation Services Conference, 2007.
- *Valuing Small Businesses for Divorce*, Austin, TX, AICPA National Business Valuation Conference, 2006.
- *Ask the Experts*, Austin, TX, AICPA National Business Valuation Conference, 2006.
- *Changes to the 2006 USPAP*, Overland Park, KS, Kansas Valuation Conference, 2006.
- *Tax Effecting S Corporations and Other Flow Through Entities*, Overland Park, KS, Kansas Society of CPAs Valuation Conference, 2006.
- *Valuation Discounts*, Minneapolis, MN, MN Society of CPAs Valuation Conference, 2006.
- *Malpractice and Business Valuation*, Minneapolis, MN, MN Society of CPAs Valuation Conference, 2006.
- *Mock Trial - Being an Expert Witness*, Woodbridge, NJ, NJ Divorce Conference, 2006.
- *Expert Reports Used in Divorce*, Las Vegas, NV, AICPA Divorce Conference, 2006.
- *Ask the Expert*, Ft. Lauderdale, FL, FICPA Valuation, Accounting and Litigation Services Conference, 2006.
- *Valuing the Very Small Company*, Las Vegas, NV, Valuation^2, American Institute of Certified Public Accountants and American Society of Appraisers, 2005.
- *Being an Effective Witness*, Las Vegas, NV, Valuation^2, American Institute of Certified Public Accountants and American Society of Appraisers, 2005.
- *Divorce Valuation versus Other Valuations*, Richmond, VA, Virginia Society of CPA's Conference, 2005.
- *Hot Topics in Business Valuation*, Cleveland, OH, SSG, 2005.
- *Valuing Small Businesses and Professional Practices,* Atlanta, GA, George Society of CPAs' Super Conference, 2005.
- *Personal Goodwill in a Divorce Setting,* Ft. Lauderdale, FL, Florida Institute of Certified Public Accountants' Valuation & Litigation Services Conference, 2005.
- *The Market Approach*: *Case Study,* Orlando, FL, American Institute of CPAs, 2004.
- *Valuing Professional Practices*, Orlando, FL, American Institute of CPAs, 2004.
- *How to Develop Discount Rates,* Ft. Lauderdale, FL, Florida Institute of CPAs Valuation and Litigation Conference, 2004; Detroit, MI, MI Valuation Conference, 2004.
- *To Tax or Not to Tax - That is the Question: Tax Effecting S Corporations,* Chicago, IL, Illinois Business Valuation Conference, 2004.
- *Controversial Topics,* Richmond, VA, VA Valuation and Litigation Conference, 2004.
- *Guideline Company Methods: Levels of Value Issues,* Telephone Panel, Business Valuation Resources, 2004.

GARY R. TRUGMAN, C.P.A./A.B.V., A.S.A., M.V.S.
PROFESSIONAL QUALIFICATIONS

Lecturer

- *Small Business Case Study,* Phoenix, AZ, American Institute of Certified Public Accountants National Business Valuation Conference, 2003; Ft. Lauderdale, FL, Florida Institute of CPAs, 2004.
- *Valuation Issues - What You Need to Know,* San Antonio, TX, AICPA National Auto Dealer Conference, 2003.
- *Professional Practice Valuations,* Tampa, FL, The Florida Bar - Family Law Section, 2003.
- *Business Valuation Basics,* Orlando, FL, The Florida Bar Annual Meeting, 2003.
- *Business Valuation for Divorce,* Orlando, FL, The Florida Bar Annual Meeting, 2003.
- *Business Valuation in a Litigation Setting,* Las Vegas, NV, CPAmerica International, 2003.
- *The Transaction Approach - How Do We Really Use It?*, Tampa, FL, American Society of Appraisers International Conference, 2003.
- *Advanced Testimony Techniques,* Chicago, IL, Illinois Business Valuation Conference, 2003.
- *To Tax or Not to Tax? Issues Relating to S Corps and Built-In Gains Taxes,* Washington, DC, Internal Revenue Service, 2003.
- *Issues for CPAs in Business Valuation Reports,* New Orleans, LA, American Institute of Certified Public Accountants, 2002.
- *Guideline Public Company Method: Minority Versus Control – Dueling Experts,* New Orleans, LA, American Institute of Certified Public Accountants, 2002.
- *To Tax or Not To Tax? - That Is The Question,* Minneapolis, MN, Minnesota Society of Certified Public Accountants, 2002.
- *Pressing Problems and Savvy Solutions When Retained by the Non-Propertied Spouse,* Las Vegas, NV, American Institute of Certified Public Accountants/American Academy of Matrimonial Lawyers, 2002.
- *The Transaction Method - IBA Database,* Atlanta, GA, Financial Consulting Group, 2002.
- *Valuation Landmines - How Not To Get In Trouble,* Washington, DC, 2002 Annual Business Valuation Conference, The Institute of Business Appraisers, 2002.
- *Guest Lecturer on Business Valuation,* New York, NY, Fordham Law School, 2002.
- *Guideline Company Analysis,* Chicago, IL, Illinois CPA Foundation, 2002.
- *Guideline Company Analysis,* Las Vegas, NV, American Institute of Certified Public Accountants, 2001.
- *Discount and Capitalization Rates,* Bloomington, MN, Minnesota Society of CPAs, 2001.
- *Valuation Premiums and Discounts,* Louisville, KY, Kentucky Tax Institute, 2001.
- *Business Valuation,* St. Louis, MO, Edward Jones, 2001.
- *Business Valuation for Marital Dissolutions,* Dublin, OH, Ohio Supreme Court, 2001.
- *Testimony Techniques,* Chicago, IL, Illinois CPA Society, 2001.
- *Valuing the Very Small Business,* Chicago, IL, Illinois CPA Society, 2001.
- *Valuations in Divorce*, Ft. Lauderdale, FL, Florida Institute of Certified Public Accountants, 2001.
- *Valuation Land Mines To Watch Out For,* Miami, FL, American Institute of Certified Public Accountants, 2000.
- *Ask the Experts - Discounts and Premia,* Miami, FL, American Institute of Certified Public Accountants, 2000.
- *Understanding a Financial Report,* Columbia, SC, South Carolina Bar Association, 2000.

GARY R. TRUGMAN, C.P.A./A.B.V., A.S.A., M.V.S.
PROFESSIONAL QUALIFICATIONS

Lecturer

- *Business Damages*, Columbia, SC, South Carolina Bar Association, 2000.
- *A Fresh Look at Revenue Rulings 59-60 and 68-609,* New Orleans, LA, Practice Valuation Study Group, 2000.

Instructor

- *Valuation Potpourri: Concentrating on the Small Business*, National Association of Certified Valuation Analysts, Hartford, CT, 2011.
- *Advanced Topics in Business Valuation,* American Society of Appraisers, Bethesda, MD, 2010; Washington, D.C., 2011.
- *Principles of Business Valuation - Part 1,* American Society of Appraisers, Atlanta, GA, 2009; Las Vegas, NV, 2010; Annapolis, MD, 2010; Bethesda, MD, 2011.
- *Essentials of Business Appraisal,* The Institute of Business Appraisers, Ft. Lauderdale, FL, 2008.
- *Business Valuation Basics,* New Jersey Judicial Conference, Teaneck, NJ, 2007.
- *Standards and Ethics: An Appraiser's Obligation,* The Institute of Business Appraisers, Denver, CO, 2007.
- *Principles of Valuation - Part 2,* American Society of Appraisers, Austin, TX, 2005; Chicago, IL, 2006; Brooklyn, NY, 2006; Herndon, VA 2007; Chicago, IL, 2007, 2008; Deloitte & Touche, NY, 2007; Arlington, VA, 2008; Houston, TX, 2009.
- *Small Business Valuation: A Real Life Case Study,* American Institute of Certified Public Accountants, Rocky Hill, CT, 2005; Richmond, VA, 2005; Columbia, MD, 2005; Providence, RI, 2007.
- *Valuation Discount and Capitalization Rates*, *Valuations Premiums and Discounts,* Rhode Island Society of CPAs, Providence, RI, 2004.
- *Mergers and Acquisitions*, Rhode Island Society of CPAs, Providence, RI, 2004.
- *Valuing a Small Business: Case Study,* Rhode Island Society of CPAs, Providence, RI, 2004.
- *Discounts & Premiums in a Business Valuation Environment,* American Institute of Certified Public Accountants, Roseland, NJ, 2004; Rocky Hill, CT, 2005.
- *Advanced Cost of Capital Computations,* American Society of Certified Public Accountants, Rhode Island, 2004; New Jersey, 2004.
- *Fundamentals of Business Valuation - Part 2,* American Institute of Certified Public Accountants, Atlanta, GA, 2004.
- *Splitting Up is Hard to Do: Advanced Valuation Issues in Divorce and Other Litigation Disputes,* American Institute of Certified Public Accountants, Providence, RI, 2002.
- *Fundamentals of Business Valuation - Part 1,* American Institute of Certified Public Accountants, Dallas, TX, 2001.
- *Advanced Topics,* The Institute of Business Appraisers, Orlando, FL, 2001.
- *Business Valuation,* Federal Judicial Center, Washington, DC, 2001.
- *Business Issues: Business Valuation-State Issues; Marital Dissolution; Shareholder Issues and Economic Damages,* National Judicial College, Charleston, SC, 2000.
- *Business Valuation for Marital Dissolutions,* National Judicial College, San Francisco, CA, 2000.
- *Business Valuation Workshop,* 2000 Spring Industry Conference, American Institute of Certified Public Accountants, Seattle, WA, 2000.

GARY R. TRUGMAN, C.P.A./A.B.V., A.S.A., M.V.S.
PROFESSIONAL QUALIFICATIONS

Instructor

- *Developing Discount & Capitalization Rates,* The Institute of Business Appraisers, Phoenix, AZ, 2000.
- *Financial Statements in the Courtroom (Business Valuation Component),* American Institute of Certified Public Accountants for the National Judicial College, Texas, 1997; Florida, 1997, 1998, 2001, 2003, 2013, 2014; Louisiana, 1998, 1999; Nevada, 1999, 2001; South Carolina, 2000, 2006; Georgia, 2000; Arizona, 2001; New York, 2002; Colorado, 2003; Ohio, 2003; New Jersey, 2005, 2007, 2013; Illinois, 2008.
- *Preparing for AICPA's ABV Examination Review Course,* American Institute of Certified Public Accountants, New York, 1997, 2000, 2001; Pennsylvania, 1998; Kansas, 1998; Maryland, 2000, 2001; Massachusetts, 2000; Virginia, 2002.
- *Business Valuation Theory,* New Jersey, 1994, 1995, 1996, 1997, 1999, 2000, 2002; Rhode Island, 2004.
- *Business Valuation Approaches and Methods,* New Jersey, 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2002; North Carolina, 1997, 1999, 2000; Louisiana, 1997, 1998; Massachusetts, 1997, 1998, 1999; Pennsylvania, 1997; New York, 1997, 2000; Indiana, 1997; Connecticut, 1997, 2000; Ohio, 1998; Rhode Island, 1999, 2003.
- *Business Valuation Discount Rates, Capitalization Rates, Valuation Premiums and Discounts,* New Jersey, 1998, 2000, 2002; North Carolina, 1997, 1999, 2000; Louisiana, 1997; Massachusetts, 1997, 1998; Rhode Island, 1997, 1999; Indiana, 1997; Connecticut, 1997, 2000.
- *Principles of Valuation: Introduction to Business Valuation,* American Society of Appraisers, 1998, 1999, 2001, 2002.
- *Principles of Valuation: Business Valuation Methodology,* American Society of Appraisers, 1992, 1993, 1995, 1996, 1997, 1998, 1999, 2001.
- *Principles of Valuation: Case Study,* American Society of Appraisers, 1993, 1999, 2000, 2001, 2002, 2003.
- *Principles of Valuation: Selected Advanced Topics,* American Society of Appraisers, 1992, 1994, 1995, 1996, 1998, 2002.

Organizations

- American Society of Appraisers.
- American Institute of Certified Public Accountants.
- Florida Institute of Certified Public Accountants.

Awards

- Presented with the "Volunteer of the Year Award" by the American Institute of Certified Public Accountants in 2011 for outstanding service in furthering the goals of the business valuation profession.
- Presented with the "Outstanding Chair Award" by the Florida Institute of Certified Public Accountants in June 2007 for service to the 2006-2007 Valuation, Forensic Accounting and Litigation Services Section.
- Presented with the "Hall of Fame Award" by the American Institute of Certified Public Accountants in December 1999 for dedication towards the advancement of the business valuation profession.

GARY R. TRUGMAN, C.P.A./A.B.V., A.S.A., M.V.S.
PROFESSIONAL QUALIFICATIONS

Awards

- Presented with the "Fellow Award" by The Institute of Business Appraisers Inc., in January 1996 for contributions made to the profession.

Professional Appointments

- *The Institute of Business Appraisers, Inc.,* Former Regional Governor for the Mid-Atlantic Region consisting of Delaware, Kentucky, Maryland, New Jersey, Pennsylvania, Ohio, Virginia and West Virginia.
- *The American Society of Appraisers Chapter 73,* Treasurer, 1996-1997.

Past Committee Service

- Chair - ASA Constitution and By-Laws Committee.
- Chairman - ASA International Ethics Committee.
- Chairman - ASA Business Valuation Education Committee.
- 2015 Advanced Business Valuation Conference Committee, American Society of Appraisers.
- ASA Business Valuation Committee.
- 2011 AICPA Business Valuation Conference Committee.
- AICPA ABV Examination Task Force.
- 2010 ASA BV Education Subcommittee.
- 2010 AICPA Business Valuation Conference Committee.
- Chairman of Disciplinary and Ethics Committee -The Institute of Business Appraisers, Inc. (committee established 1989).
- Chairman of Valuation, Forensic Accounting and Litigation Services Section - Florida Institute of CPAs.
- AICPA Committee with the Judiciary.
- AICPA ABV Credential Committee.
- AICPA Management Consulting Services Division, Executive Committee.
- Chairman of the Valuation Standards Subcommittee - NJ Society of Certified Public Accountants Litigation Services Committee.
- Matrimonial Subcommittee, NJ Society of Certified Public Accountants Litigation Services Committee.
- Co-Chair of Courses and Seminars for Certified Public Accountants Subcommittee - NJ Society of Certified Public Accountants.
- Education Committee, The Institute of Business Appraisers, Inc.
- Chairman of Education Committee - North Jersey Chapter of American Society of Appraisers.
- AICPA Subcommittee on Business Valuation & Appraisal.
- International Board of Examiners, American Society of Appraisers.
- Qualifications Review Committee, The Institute of Business Appraisers, Inc.

Editor

- Editorial Advisor for *Business Valuation Update,* Business Valuation Resources, LLC
- Editorial Advisor for *Financial Valuation and Litigation Expert*, Valuation Products and Services.

GARY R. TRUGMAN, C.P.A./A.B.V., A.S.A., M.V.S.
PROFESSIONAL QUALIFICATIONS

Editor

- Former Editorial Advisor for *CPA Expert*, American Institute of Certified Public Accountants.
- Former Editorial Advisor for *The Journal of Accountancy*, American Institute of Certified Public Accountants.
- Former Editorial Advisor of *BV Q&A*, Business Valuation Resources.
- Former Editorial Board of *CPA Litigation Service Counselor*, Harcourt Brace, San Diego, CA.
- Former Editorial Board of *Business Valuation Review*, American Society of Appraisers, Herndon, VA.

Author

- *Answering Tough Cross-Examination Questions,* Financial Valuation and Litigation Expert (June/July 2019).
- *Should You Ever Use the MCAPM to Value Small-Sized Businesses?*, Financial Valuation and Litigation Expert (December 2016/January 2017).
- Contributing author to *How to Be a Successful Expert Witness: SEAK's A-Z Guide to Expert Witnessing*, SEAK (2014).
- Contributing author to *How to Write an Expert Witness Report,* SEAK (2014).
- Co-author of course entitled *Advanced Topics in Business Valuation*, American Society of Appraisers (2011).
- Course entitled *Principles of Business Valuation: Part 1*, American Society of Appraisers (2010).
- Co-author of *How Should You Value Closely Held Businesses During Crazy Times?*, Business Valuation Update (August 2009).
- *Essentials of Valuing a Closely Held Business*, American Institute of CPAs (2008).
- *Practical Solutions to Problems in Valuing the Very Small Business*, Business Valuation Update (2008).
- Course entitled *Standards and Ethics: An Appraiser's Obligation*, The Institute of Business Appraisers (2007).
- Course entitled *Small Business Valuation: A Real Life Case Study*, American Institute of Certified Public Accountants (2005).
- *Guideline Public Company Method - Control or Minority Value?*, Shannon Pratt's Business Valuation Update (2003).
- *Signed, Sealed, Delivered*, Journal of Accountancy (2002).
- *A CPA's Guide to Valuing a Closely Held Business*, American Institute of Certified Public Accountants (2001).
- Course entitled *Business Issues - State Courts*, National Judicial College, Reno, NV (2000).
- *Understanding Business Valuation: A Practical Guide to Valuing Small to Medium-Sized Businesses,* American Institute of Certified Public Accountants, First Edition (1998), Second Edition (2002), Third Edition (2008), Fourth Edition (2012), Fifth Edition (2017).
- Contributing author to *The Handbook of Advanced Business Valuation*, McGraw-Hill (1999).
- Course entitled *Valuation Issues in Divorce Settings,* American Institute of Certified Public Accountants (1997).
- Co-author of course entitled *Accredited Business Valuer Review Course* (Market Approach Chapter), American Institute of Certified Public Accountants (1997).

GARY R. TRUGMAN, C.P.A./A.B.V., A.S.A., M.V.S.
PROFESSIONAL QUALIFICATIONS

Author

- *Understanding Business Valuations,* The Institute of Continuing Legal Education (1997).
- Six Day Business Valuation Series consisting of *Business Valuation Theory*, *Valuation Approaches & Methods* and *Advanced Topics in Business Valuation* (1994, 1995.)
- *Valuation of a Closely-Held Business*, Practice Aid, American Institute of Certified Public Accountants (1993).
- Co-author of *Guide to Divorce Engagements*, Practitioners Publishing Company, Fort Worth, TX (1992).
- *A Threat to Business Valuation Practices*, *Journal of Accountancy* (December 1991).
- Course entitled *Advanced One Day Seminar,* The Institute of Business Appraisers, Inc. (1991).
- Course entitled *Understanding Business Valuation for the Practice of Law*, Institute of Continuing Legal Education in NJ.
- *An Appraiser's Approach to Business Valuation, Fair$hare*, Prentice Hall Law & Business (July & August, 1991).
- *What is Fair Market Value? Back to Basics, Fair$hare*, Prentice Hall Law & Business (June 1990).

Technical Reviewer

- Shannon P. Pratt and Alina V. Niculita, *Valuing a Business: The Analysis and Appraisal of Closely Held Companies, 5th Edition (McGraw Hill: New York, 2008).*
- Shannon P. Pratt, Robert F. Reilly and Robert P. Schweihs, *Valuing a Business: The Analysis and Appraisal of Closely Held Companies, 4th Edition (McGraw Hill: New York, 2000).*
- Shannon P. Pratt, Robert F. Reilly and Robert P. Schweihs, *Valuing Small Businesses & Professional Practices, 3rd Edition (McGraw Hill: New York, 1998).*
- James R. Hitchner, *Financial Valuation: Applications and Models*, *1st Edition* (Wiley Finance: New Jersey, 2003).
- Jay E. Fishman, Shannon P. Pratt and Williams J Morrison, *Standards of Value: Theory and Applications* (John Wiley & Sons, Inc.: New Jersey), 1st edition, 2007; 2nd edition, 2013.

WILLIAM HARRIS, ASA, CFA
PROFESSIONAL QUALIFICATIONS

Experience

Director at Trugman Valuation Associates, Inc. specializing in the valuation of businesses and intangible assets. Valuation experience includes a wide variety of assignments including closely-held businesses, professional practices, early stage companies, thinly traded public companies, intangible assets, and derivatives. Industries include but are not limited automotive, construction, health care, financial institutions, retail, restaurants, manufacturing, trucking, service, and professional business establishments. Assignments have also included the valuation of stock options, preferred stock, debt securities, and various types of intangible assets. Business valuation, economic damages and litigation support services have been rendered for a variety of purposes including, but not limited to shareholder litigation, financial reporting, employee stock option plans ("ESOP"), estate and gift tax matters, buying and selling businesses, family law matters, business damages, buy-sell agreements, malpractice litigation, wrongful termination, workers' compensation and breach of contract. Additional litigation services include reasonable compensation analysis for tax and non-tax assignments.

Professional Designations

- ASA: Accredited Senior Appraiser designated by the American Society of Appraisers (2013). Reaccredited in 2021.
- CFA: Chartered Financial Analyst designated by the CFA Institute (2012).

Education

- M.S., Finance, Chapman Graduate School of Business at Florida International University, 2007.
- B.S., Business Administration, Belk College of Business at the University of North Carolina at Charlotte, 2006.

Appraisal Education

- *USPAP for Business Valuation*, Webcast, American Society of Appraisers, 2021.
- *International Conference*, Live Webcast, American Society of Appraisers, 2020.
- *Advanced Business Valuation Conference*, New York, NY, American Society of Appraisers, 2019.

WILLIAM HARRIS, ASA, CFA
PROFESSIONAL QUALIFICATIONS

Appraisal Education

- *Advanced Business Valuation Conference*, Live Webcast, American Society of Appraisers, 2018.
- *The Impact of TCJA on Cost of Capital*, Live Webcast, American Society of Appraisers, 2018.
- *Advanced Business Valuation Conference*, Houston, TX, American Society of Appraisers, 2017.
- *National USPAP Update Course*, Webinar, McKissock, 2016-2017.
- *Advanced Business Valuation Conference*, Boca Raton, FL, American Society of Appraisers, 2016.
- *Expert Witness Bootcamp*, Hollywood, FL, National Association of Certified Valuators and Analysts, 2015.
- *Advanced Business Valuation Conference*, Las Vegas, NV, American Society of Appraisers, 2015.
- *AICPA Forensic and Valuation Services Conference,* New Orleans, LA, American Institute of Certified Public Accountants, 2014.
- *AICPA Forensic and Valuation Services Conference,* Las Vegas, NV, American Institute of Certified Public Accountants, 2013.
- *Special Topics in the Valuation of Intangible Assets,* Reston, VA, American Society of Appraisers, 2013.
- *AICPA Forensic and Valuation Services Conference,* Orlando, FL, American Institute of Certified Public Accountants, 2012.
- *Valuation of Intangible Assets,* Skokie, IL, American Society of Appraisers, 2012.
- *AICPA National Business Valuation Conference,* Las Vegas, NV, American Institute of CPAs, 2011.
- *The Correct Way to Use Ibbotson and Duff and Phelps Risk Premium Data*, Webinar, Valuation Products and Services, 2011.
- *USPAP for Business Valuation,* South Beach Miami, FL, American Society of Appraisers, 2010.
- *Advanced Topics in Business Valuation*, Bethesda, MD, American Society of Appraisers, 2010.

WILLIAM HARRIS, ASA, CFA
PROFESSIONAL QUALIFICATIONS

Appraisal Education

- *AICPA National Business Valuation Conference*, San Francisco, CA, American Institute of CPAs, 2009.
- *The Market Approach*, Skokie, IL, American Society of Appraisers, 2009.
- *The Income Approach*, Orlando, FL, American Society of Appraisers, 2009.
- *Introduction to Business Valuation*, Minneapolis, MN, American Society of Appraisers, 2008.

Author

- Author of "Trugman Valuation Associates, Inc. (TVA) Restricted Stock Study," *Business Valuation Review* (Fall 2009).
- Co-Author of "How Should You Value Closely Held Businesses During These Crazy Times?," *Business Valuation Update* (August 2009).
- Author of "Trugman Valuation Associates, Inc. (TVA) Restricted Stock Study - An Update," *Business Valuation Review* (Winter 2011).
- Contributing Author to "Understanding Business Valuation: A Practical Guide to Valuing Small to Medium-Sized Businesses," American Institute of Certified Public Accountants, Fourth Edition (2012).
- Contributing Author to "Understanding Business Valuation: A Practical Guide to Valuing Small to Medium-Sized Businesses," American Institute of Certified Public Accountants, Fifth Edition (2017).

Organizations

- American Society of Appraisers.
- CFA Institute.
- CFA Society of Miami.

Committee Service

- CFA Institute, Practice Analysis Working Body Member, Fiscal Year 2021