

**100 PERCENT OF THE EQUITY OF  
BLACK INSURANCE AGENCY, INC.**

**VALUATION REPORT**

**SEPTEMBER 24, 2018**

May 1, 2019

Law Office of Stevens Law Center, P.A.  
1234 NW 9th Drive  
City, FL 12345  
Attn: Joanne Stevens, Esq.

Re: Valuation of 100 percent of the equity of Black Insurance Agency, Inc.

Dear Ms. Stevens:

We have performed a valuation engagement, as that term is defined in the *Statement on Standards for Valuation Services* ("SSVS") of the Association of International Certified Professional Accountants of 100 percent of the equity of Black Insurance Agency, Inc. as of September 24, 2018. This valuation was performed solely to be used as part of a pending matrimonial litigation; 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 standards promulgated by The Appraisal Foundation and 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 100 percent of the equity of King Insurance Agency, Inc., as well as the amount subject to equitable distribution as of September 24, 2018 is as follows:

Fair Market Value of 100% of Black Insurance	\$	2,065,000
Less: Personal Goodwill		<u>(1,404,000)</u>
<b>Amount Subject to Equitable Distribution</b>	<b>\$</b>	<b><u>661,000</u></b>

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  
Attachment

## TABLE OF CONTENTS

	<u>Page</u>
<b>INTRODUCTION</b> .....	1
Description of the Assignment .....	1
Definition of Fair Market Value .....	1
Valuation Methodologies .....	2
Going Concern Valuation .....	2
Revenue Ruling 59-60 - Valuation of Closely-Held Stocks .....	4
<b>HISTORY OF THE COMPANY</b> .....	6
Current Operations .....	8
<b>ECONOMY/INDUSTRY INFORMATION</b> .....	12
National Economy .....	12
Regional Economy .....	15
Industry .....	17
<b>FINANCIAL ANALYSIS</b> .....	22
<b>VALUATION CALCULATIONS</b> .....	34
The Income Approach .....	34
Capitalization of Benefits Method .....	34
The Market Approach .....	36
Guideline Public Company Method .....	36
Transaction Method .....	37
The Asset-Based Approach .....	41
Reconciliation of Values .....	41
Reasonableness Tests .....	42
<b>GOODWILL</b> .....	44
Discussion about Goodwill .....	44
Personal Goodwill .....	44
Enterprise Versus Personal Goodwill .....	45
Overview of Florida Case Law Regarding Personal Goodwill .....	46
<i>Thompson v. Thompson</i> .....	46
<i>Young v. Young</i> .....	48
<i>Weinstock v Weinstock</i> .....	49
<i>Walton v. Walton</i> .....	51
<i>Williams v. Williams</i> .....	52
<i>Christians v. Christians</i> .....	52
<i>Held v. Held</i> .....	53

## TABLE OF CONTENTS

	<u>Page</u>
So Where Are We Today? . . . . .	54
So What Des All of This Mean? . . . . .	55
Allocation of Purchase Price . . . . .	56
Noncompetition Agreements Under Florida Law. . . . .	57
Personal Goodwill and Noncomeptition Agreements Are Not Just an Equitable Distribution Concept . . . . .	58
Personal Goodwill in Black Insurance. . . . .	62
<b>DISCOUNT AND CAPITALIZATION RATES . . . . .</b>	<b>66</b>

### **SCHEDULES**

Schedule 1 - Black Insurance Agency, Inc. Balance Sheet as of December 31, 2013 through August 31, 2018.

Schedule 2 - Black Insurance Agency, Inc. Income Statement for the Years Ended December 31, 2014 through Eight Months Ended August 31, 2018.

### **APPENDICES**

Sources of Information Utilized  
Contingent and Limiting Conditions  
Valuation Analyst's Representation  
Professional Qualifications of Valuation Analysts

## **INTRODUCTION**

### **DESCRIPTION OF THE ASSIGNMENT**

Trugman Valuation Associates, Inc. was retained by Cynthia Swanson, Esq. on behalf of Swanson Law Center, P.A. (“The Client” and “The Intended User”)<sup>1</sup> to perform a business valuation of 100 percent of the equity of King Insurance Agency of Gainesville, Inc. (“King Insurance” or “The Company”) as of September 24, 2018.

The purpose of this valuation is to determine the fair market value of the common stock to be used as part of a pending matrimonial litigation. 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 USPAP promulgated by The Appraisal Foundation and the standards of the American Society of Appraisers.

### **DEFINITION OF FAIR MARKET VALUE**

The most commonly used definition of fair market value is located in Revenue Ruling 59-60. This revenue ruling defines fair market value as

...the price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts. Court decisions frequently state in addition that the hypothetical buyer and seller are assumed to be able, as well as willing, to trade and to be well informed about the property and concerning the market for such property.

---

<sup>1</sup> The *Uniform Standards of Professional Appraisal Practice* (“USPAP”) requires the identity of “The Client” and “The Intended User” to be disclosed.

This concept is consistent with the directive of the Florida Supreme Court in *Thompson v. Thompson*<sup>2</sup> indicating that “the clearest method would be the fair market value approach, which is best described as what would a willing buyer pay and what would a willing seller accept, neither acting under duress for a sale of the business.”

## **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:

---

<sup>2</sup> *Thompson v. Thompson*, 576 So 2d 267 (Fla. 1991).

1. The Market Approach,
2. The Asset-Based Approach and
3. The Income 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 the same or a similar industry as the valuation subject, that provides the valuation analyst with the ability to make a comparison 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 provide the valuation analyst with the ability to determine the multiples that resulted from the transaction. These multiples can then be applied to the valuation subject, with or without adjustment, depending on the circumstances.

### **THE ASSET-BASED APPROACH**

The asset-based approach, sometimes referred to as the cost approach, is an asset-oriented approach rather than a 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.

## **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 used as a starting point in several of the acceptable methods under the premise that history will repeat itself. However, the future cannot be ignored, since valuation is a prophecy of the future.

## **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 the 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 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 business is the question at issue, one must understand the circumstances of this particular business. 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 business or business 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 specific shares of stock in an unlisted corporation 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 shares of stock of 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 business' fair market value as of a given date.

## **HISTORY OF THE COMPANY**

King Insurance was formed on January 8, 1974. The Company, a Florida S Corporation, operates as an insurance agency that primarily serves the Gainesville and Jacksonville metropolitan areas.

King Insurance was founded by Malcolm King, Sr. in 1974. The agency was established with the guiding principle, “Do all the good you can, in all the ways you can, for all the people you can, in every place you can, at all the times you can, as long as you can.” This has remained The Company’s core focus and mission since its formation.

Malcolm C. King, Jr. (“Chad”) attended college at the University of Kansas where he graduated in 1999 with a bachelors’ degree in business administration. Upon graduating from college, he moved to Jacksonville, Florida and worked for Merrill Lynch. While employed with Merrill Lynch, Chad earned various securities licenses including his Series 7 (General Securities Registered Representative), Series 63 (Uniform Securities Agent State Law Examination), Series 65 (Uniform Investment Adviser Law Examination) and Series 31 (Futures Managed Funds Exam). Chad also became licensed to sell life, health and variable annuities insurance.

In 2002, Chad earned his Master of Business Administration from the University of North Florida. After graduating, he moved to Los Angeles to work with Lehman Brothers where he was securitizing approximately \$1 billion per month in subprime mortgages. After the subprime mortgage crisis in 2008, Chad moved back to Gainesville to work for King Insurance. After working for The Company for several years, Chad purchased it from his parents on December 31, 2013.

Since Chad took over the family business, King Insurance’s revenues increased from approximately \$1.1 million in 2014 to \$2 million in 2017. In addition, during the years 2016, 2017 and 2018, King Insurance has been honored as one of 237 agencies out of 1,500 nominees to be named “Best Practices” by Independent Insurance Agents & Brokers of

America, Inc. (“IIABA”).<sup>3</sup> Only 10 agencies in the State of Florida qualified for this recognition.

Over the past several years, King Insurance has made several acquisitions of the “books of business” of other insurance agencies. A summary of these acquisitions appears in Table 1.

**TABLE 1  
ACQUISITIONS**

<b>Target Name</b>	<b>Acquisition</b>	<b>Purchase Price</b>	<b>Noncompete Terms</b>
Bell Family Insurance	4/20/2015	\$ 44,533	Five years, 75 mile radius
Birchell Insurance	5/19/2016	4,300	N/A
Brian Wiggins Insurance Services	9/28/2015	350,000	1. Noncompete - 100 mile radius for five years 2. Nonsolicitation agreement with seller's key employee
Monarch Insurance Agency	11/13/2015	110,000	120 months, 50 mile radius
South Marion Insurance Agency	3/24/2015	175,000	Five years, 50 mile radius
The Zurmac Group, Inc.	5/23/2016	90,000	1. Noncompete - two years, 50 mile radius 2. Nonsolicitation with seller's key employee

The acquired books of business generated approximately \$216,000 of revenue in 2017. Most of the acquisitions included covenants not-to-compete ranging from two to 10 years with a radius of up to 100 miles. In addition, two of the acquisitions included nonsolicitation agreements with key employees of the seller to prevent the employee of the seller from contacting the clients that were acquired by King Insurance.

---

<sup>3</sup> IIABA, *2018 Best Practices Study (“Best Practices”)*: 13.

## CURRENT OPERATIONS

King Insurance's customer base is primarily located in the Gainesville and Jacksonville metropolitan areas. The Company has a diversified range of product lines including, but not limited to, automobile (personal and business), commercial package, general liability, health, homeowners, property and workers' compensation insurance. According to The Company's internal commissions reports, only automobile and commercial package insurance accounted for more than 10 percent of The Company's total net commission revenue.

King Insurance writes policies for a diversified range of insurance carriers. The Company's largest carrier is Westfield Insurance, which accounted for 11.7 percent of The Company's total commission revenue during the eight months ended August 31, 2018. No other carrier accounted for more than 10 percent of King Insurance's commission revenue during this period. From 2014 through August 2018, the percentage of revenue generated from Westfield Insurance decreased from 23.1 percent to 11.7 percent, indicating that The Company has become more diversified in terms of carriers since Chad began running The Company.

The insurance industry in Gainesville is highly competitive. According to the State of Florida's online database, there were 152 licensed insurance agencies in the City of Gainesville and 192 agencies in Alachua County. According to management, The Company's competitors range from large billion dollar companies such as Brown & Brown, Inc. and HUB International Limited, to smaller local companies such as Johnson & Fletcher (or The Johnson Group) and Mark McGriff Insurance Agency. A discussion of each of these competitors follows.

**Brown & Brown, Inc.:** Brown & Brown, Inc. markets and sells insurance products and services in the United States, England, Canada, Bermuda and the Cayman Islands. It operates through four segments: retail, national programs, wholesale brokerage and services. The retail segment offers commercial packages, group medical, workers' compensation, property risk and general liability insurance products and group and individual life, accident, disability, health, hospitalization, medical, dental and other ancillary

insurance products, as well as risk management, loss control survey and analysis, consultancy and claims processing services. It serves commercial, public and quasi-public entities, professional and individual customers. Brown & Brown, Inc. was founded in 1939 and is headquartered in Daytona Beach, Florida.<sup>4</sup>

**HUB International Limited:** HUB International Limited provides insurance brokerage services. Its portfolio includes property and casualty, life and health, employee benefits and investment and risk management solutions. The company offers personal, business and employee benefits insurance products. It also provides excess risk purchasing group insurance programs for the commercial real estate and hospitality industries; risk control and claims management consulting services and employee benefits consulting, absence management, wellness programs, health advocacy and benefit administration services. The company was formerly known as The Hub Group Limited and changed its name to HUB International Limited in September 2000. HUB International Limited was founded in 1998 and is based in Chicago, Illinois with a network of offices in North America.<sup>5</sup>

**The Johnson Group:** The Johnson Group was founded in 1976. The company offers commercial insurance, life & health insurance and personal insurance. The commercial line covers business property, general liability, employment practices liability, professional liability, business auto, trucking, bond, workers compensation, crime, excess liability, inland marine, directors & officers and errors & omissions. The life & health insurance line covers individual health, group health, dental, vision, disability, cancer/accident policies, Medicare products, long-term care and life insurance. The personal insurance line includes homeowners, auto, renters, flood, boatowners, recreational vehicles and personal liability umbrella. The Johnson Group also offers business management and consultation for human resources management, talent acquisition, operations management, corporate development, corporate compliance and payroll implementation management.<sup>6</sup>

---

<sup>4</sup> Bloomberg, "Company Overview of Brown & Brown, Inc." <<https://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=2972447>>.

<sup>5</sup> Bloomberg, "HUB International Limited" <<https://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=695929>>.

<sup>6</sup> <[www.jgroupfl.com](http://www.jgroupfl.com)>.

**Mark McGriff Insurance Agency:** Mark McGriff Insurance Agency offers auto, home, business, property, life and health coverage. The company also offers banking products and annuities. Mr. McGriff has been a State Farm agent since 2000.<sup>7</sup>

In order to stay competitive in the local market, King Insurance engages in marketing activities such as direct mail, social media and Google keyword search. The Company also employs three individuals who work as cold callers. Chad also attends various networking events and is active in the local chamber of commerce and the Rotary Club of Gainesville. He also serves on the board of directors for SunState Federal Credit Union and is a member of the Old Dominion Insurance National Agent's Council. Chad sets The Company's advertising and marketing budget at 3 percent of King Insurance's net commission revenue. The process of generating new clients typically involves initial contact with Chad, who then delegates the account servicing activities to his producers.

As of the valuation date, King Insurance had approximately 16 employees. In addition to Chad, The Company's other key employees include Mary McDaniel, Director of Operations and Dan Turgeon, The Company's second largest producer. Both Ms. McDaniel and Mr. Turgeon have employment agreements with The Company, which include covenants not to compete. Mr. Turgeon's employment agreement also includes a nonsolicitation clause. All employees of King Insurance are subject to three-year noncompetition agreements.

Ms. McDaniel joined King Insurance in June 2014 and is described as Chad's "right-hand person." Prior to joining The Company she worked at Duke Insurance Agency as a manager of personal lines.

Mr. Turgeon joined The Company in November 2007. He strictly works as a salesperson and has no management responsibilities.

A breakdown of net commissions generated by producer appears in Table 2.

---

<sup>7</sup>

<[www.markmcgriff.com](http://www.markmcgriff.com)>.

**TABLE 2  
COMMISSIONS BY PRODUCER**

<b>Producer</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Annualized 2018</b>
Chad King - Organic	\$ 528,486	\$ 536,588	\$ 554,155	\$ 620,480	\$ 967,838
Chad King - Acquired	-	91,115	220,909	216,116	194,550
Danny Whiddon	44,049	7,937	3,076	725	678
David Turgeon	429,001	474,628	530,927	533,584	600,408
Nicole Harley	-	-	30,631	126,645	20,351
Other	142,205	218,639	297,424	504,881	242,209
<b>TOTAL COMMISSION REVENUE</b>	<b>\$ 1,143,741</b>	<b>\$ 1,328,907</b>	<b>\$ 1,637,122</b>	<b>\$ 2,002,431</b>	<b>\$ 2,026,033</b>

Note: Figures may not add due to rounding.

Since 2014, Chad has been The Company's largest producer. From 2014 to 2017, Chad's percentage of total commissions has declined from 46.2 percent in 2014 to 41.8 percent in 2017. This is primarily due to the acquisition of books of businesses and the hiring of new employees. However, in 2018, Chad's percentage of total commissions increased to 57.3 percent. This was primarily due to the termination of Nicole Harley's employment with The Company and the recoding of noncommission paying house accounts to Chad's book of business.

King Insurance's office is located at 2321 NW 41<sup>st</sup> Street in Gainesville, Florida. The Company operates in a 3,094 square foot building that is leased from related parties.

## **ECONOMY/ INDUSTRY INFORMATION**

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<sup>8</sup>**

According to advance estimates released by the Department of Commerce’s Bureau of Economic Analysis, 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 4.1 percent during the second quarter of 2018. GDP growth in the second quarter was up from growth of 2.2 percent in the first quarter of 2018 and represents the sixteenth straight quarter of growth. The growth rate of 4.1 percent was the strongest quarter of GDP growth the U.S. economy has experienced since the third quarter of 2014. Annualized GDP growth of 4.1 percent during the second quarter of 2018 compares to economists’ projections of 4.2 and 4.1 percent from *Bloomberg Survey* and *Wall Street Journal Survey*, respectively. Annualized GDP growth in the fourth quarter of 2017 and first quarter of 2018 measured 2.3 and 2.2 percent, respectively. Real GDP grew 2.2 percent during 2017, compared to growth of 2.9 percent in 2015 and 1.6 percent in 2016.

Exports increased 9.3 percent in the second quarter, compared to increases of 6.6 and 3.6 percent in the fourth quarter of 2017 and first quarter of 2018, respectively. Durable goods expenditures grew at an annualized rate of 9.3 percent over the quarter, following an

---

<sup>8</sup> Unless otherwise footnoted, this section is adapted from Mercer Capital’s *National Economic Review*, Second Quarter 2018.



increase of 12.7 percent in the fourth quarter of 2017 and a decrease of 2.0 percent in the first quarter of 2018, respectively.

Economists expect GDP growth to slow in future quarters. A survey of economists conducted by *The Wall Street Journal* reflects an average GDP forecast of 3.0 percent annualized growth in the third quarter of 2018.

According to the Bureau of Labor Statistics (“BLS”), the Consumer Price Index (“CPI”) increased 0.1 percent in June 2018 following increases of 0.2 percent in both April and May. The unadjusted CPI stood at 252.0, an increase 2.9 percent over the previous 12 months. The Core CPI, which excludes food and energy prices, increased 0.2 percent in June and 2.3 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 4.0 percent in the second quarter of 2018, following increases of 0.5 and 3.9 percent in the first quarter of 2018 and fourth quarter of 2017, respectively. According to the Bureau of Economic Analysis, durable goods purchases increased 9.3 percent in the second quarter of 2018, following a decrease of 2.0 percent in the first quarter of 2018 and an increase of 12.7 percent in the fourth quarter of 2017.

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 1,273,000 units in June 2018, 2.2 percent below the revised May rate of 1,301,000 units and 3.0 percent below the June 2017 rate. The seasonally adjusted annual rate of private housing units authorized by building permits was 1,173,000 units in June 2018, 12.3 percent below the revised May estimate of 1,337,000 and 4.2 percent below the June 2017 rate.

According to the BLS, the unemployment rate was 4.0 percent in June 2018, which is up from 3.9 percent in April 2018 and 3.8 percent in May 2018. The May 2018 unemployment rate of 3.8 percent matched an 18-year low. Economists surveyed by *The Wall Street Journal* anticipate unemployment rates of 3.7 and 3.6 percent in December 2018 and June 2019, respectively. The underemployment rate, which includes workers who are

involuntarily working part-time positions, increased to 7.8 percent, compared to 7.8 percent in April and 7.6 percent in May.

On September 10, 2018, 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 3.

**TABLE 3  
QUARTERLY FORECASTS**

	2018		2019				2020	
	3 <sup>rd</sup> Qtr.	4 <sup>th</sup> Qtr.	1 <sup>st</sup> Qtr.	2 <sup>nd</sup> Qtr.	3 <sup>rd</sup> Qtr.	4 <sup>th</sup> Qtr.	1 <sup>st</sup> Qtr.	2 <sup>nd</sup> Qtr.
Real Gross Domestic Product*	3.3	2.8	2.5	2.4	2.3	2.1	1.8	1.8
Nominal Gross Domestic Product*	5.3	5.2	4.8	4.8	4.5	4.3	4.1	4.0
Real Disposable Personal Income*	2.7	2.3	2.7	2.5	2.3	2.2	2.3	2.3
Real Personal Consumption*	2.9	2.6	2.3	2.4	2.3	2.2	1.9	2.0
Real Business Investment*	5.2	5.3	4.2	4.2	3.9	3.7	2.9	2.2
Industrial Production*	3.3	2.7	2.5	2.4	2.2	2.2	2.1	1.6
Consumer Prices*	2.2	2.4	2.4	2.2	2.3	2.3	2.5	2.2
Producer Prices*	1.9	2.2	2.1	2.0	1.8	2.1	2.6	2.4
Unemployment Rate, %	3.8	3.7	3.6	3.6	3.5	3.5	3.5	3.6
3 Month Treasury Bill Rate,% <sup>1</sup>	2.1	2.3	2.5	2.7	2.9	3.0	3.0	3.0
10 year Treasury Bond Yield, % <sup>1</sup>	3.0	3.1	3.2	3.3	3.4	3.5	3.5	3.5

\* % change from prior quarter, seasonally adjusted annual rate.

<sup>1</sup> End Quarter.

Source: Consensus Economics Inc., *Consensus Forecasts - USA*, September 10, 2018: 5.

Consensus Economics' forecasts indicate that GDP growth is expected to decelerate over the period analyzed. In addition, disposable income and personal consumption expenditures are expected to grow at modest rates. The unemployment rate is expected to remain steady over the forecast period, while inflation is expected to remain subdued. Interest rates are forecast to gradually increase over the forecast period.

Overall, King Insurance should operate in a moderate economic climate in the near term. The Company should benefit from sustained economic growth and a stable labor market.

## REGIONAL ECONOMY<sup>9</sup>

In 2013, as the state exited its “greater recession,” Florida’s economy accelerated with a growth rate of 2.1 percent with rising consumer confidence, progress in the housing market recovery, population growth and healing of the damage in the labor market; building a foundation for even faster economic growth in the state. Growth accelerated to 4.0 percent in 2015, but eased in 2016 to 2.6 percent and further to 2.2 percent in 2017. The national economy only grew 1.6 percent in that year. Florida is poised for another two-year acceleration in growth before it is expected to ease again in 2020 and 2021. A forecast of key economic indicators for Florida is presented in Table 4.

**TABLE 4  
FLORIDA ECONOMIC FORECASTS  
(% CHANGE OVER PRIOR YEAR)**

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Average 2021-2027</u>
Real Gross State Product	3.5	4.3	2.9	2.4
Personal Income	4.6	5.5	5.4	5.0
Disposable Income	2.9	3.6	3.1	3.0
Employment	1.9	2.1	1.4	0.8
Labor Force	1.5	1.8	1.6	1.0
Unemployment Rate (%)	3.7	3.4	3.6	4.4
Population	1.6	1.3	1.3	1.2
Housing Starts (Thous)	133.7	148.6	155.0	157.2

Source: Institute for Economic Competitiveness, Florida & Metro Forecast, 2018-2047.

Economic growth is expected to decelerate through 2027. Incomes in Florida are expected to remain steady and the labor market is expected to worsen with anticipated increases in the unemployment rate. Housing starts are expected to grow at a solid pace in the near term.

King Insurance serves the Gainesville and Jacksonville metropolitan statistical areas (“MSA”). The Gainesville MSA is expected to achieve moderate growth in personal income

---

<sup>9</sup> Much of this section is adapted from the Institute for Economic Competitiveness, *Florida & Metro Forecast*, 2018-2047.

and wage growth in the near future. Forecasts of key economic indicators for the Gainesville MSA are presented in Table 5.

**TABLE 5  
GAINESVILLE  
ECONOMIC FORECASTS (% CHANGE OVER PRIOR YEAR)**

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>Average 2021-2027</b>
Personal Income	4.1	4.6	4.8	4.6
Wages	3.4	3.5	4.2	4.3
Employment	1.4	1.2	0.7	0.4
Labor Force	2.2	3.2	2.7	0.8
Unemployment Rate (%)	3.4	2.9	3.0	3.8
Population	0.9	0.6	0.5	0.4
Housing Starts (units)	895	1,188	1,361	1,353

Source: Institute for Economic Competitiveness, *Florida & Metro Forecast, 2018-2047*.

Personal income and wages are expected to increase steadily and declines in the labor markets are expected, with anticipated decreases in employment and an increasing unemployment rate. Population growth in the area is forecast to be modest and stability in the housing market is expected, as evidenced by the forecasted growth in housing starts.

The Jacksonville MSA is also expected to see moderate growth over the next several years. Forecasts of key economic indicators for the Jacksonville MSA are presented in Table 6.

**TABLE 6  
JACKSONVILLE  
ECONOMIC FORECASTS (% CHANGE OVER PRIOR YEAR)**

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>Average 2021-2027</b>
Personal Income	5.0	5.8	5.7	5.3
Wages	2.9	3.3	4.0	4.0
Employment	2.8	2.6	1.7	1.2
Labor Force	2.5	1.5	1.4	0.9
Unemployment Rate (%)	3.5	3.2	3.4	4.1
Population	1.8	1.4	1.3	1.2
Housing Starts (units)	15,324	14,419	14,071	13,724

Source: Institute for Economic Competitiveness, *Florida & Metro Forecast, 2018-2047*.

Personal income and wages are expected to experience moderately over the period analyzed. The Jacksonville MSA is also expected to experience a gradual increase in unemployment and declines in housing starts. Population is forecast to decelerate over the forecast period.

The local economic indicators provide for a mixed outlook for King Insurance. The Company should benefit from forecasted increases in personal income and wage growth. However, a slowdown in the housing market and expected increases in unemployment could have an adverse impact on The Company, particularly for its homeowners and employment related insurance products.

## INDUSTRY

Insurance and risk management make up an immense global industry. In America alone, the insurance business employed about 2.7 million people in 2018. Gross insurance premiums totaled \$1.38 trillion.<sup>10</sup>

According to the latest quarterly *MarketScout* pricing survey, composite rates for commercial and personal lines were up 2 and 3 percent in the fourth quarter of 2017, respectively, compared to 1 and 2 percent in the third quarter. The composite rate for homes of all values was 4 percent in the fourth quarter of 2017, while average auto pricing increased from 2 percent in the third quarter to 3 percent in the fourth. Personal articles' rates held steady at 1 percent.<sup>11</sup>

Meanwhile, every commercial coverage class assessed rate hikes except directors and officers, professional liability and commercial auto. Average property pricing increased the

---

<sup>10</sup> Plunkett Research, Ltd., *Introduction to the Insurance Industry, Business and Industry Trends Analysis* <<https://www.plunkettresearch.com/trends-analysis/introduction-to-the-insurance-industry/>>.

<sup>11</sup> Connelly, Jacquelyn, "It Begins: 2017 Closes With P-C Rate Increases Across the Board," *Independent Agent Magazine* (July 10, 2018) <<https://www.iamagazine.com/news/read/2018/01/10/it-begins-2017-closes-with-p-c-rate-increases-across-the-board>> (accessed March 27, 2019).

most between the third and fourth quarters, from 1 to 3 percent. Auto and transportation accounts incurred the largest year-over-year rate increases at 5 percent.<sup>12</sup>

In 2018, the broad impact of 2017's mega losses from storm damage is expected to play a role in pricing. But at the same time, many specialty lines of insurance will go their own way, following their own supply and demand curves. Property rates, those impacted most directly by the recent hurricane onslaught, moved from predicted decreases to increases across the board. For 13 of the lines, predictions are unchanged from last spring; however, upward pressure is evident in seven lines, including casualty, where 2017 forecasts for small decreases have been replaced by predictions of small increases. For most commercial clients, the insurance spend in 2018 will be on the rise.<sup>13</sup>

The property market is expected to see some type of market correction after insurers have a chance to estimate their ultimate losses. However, the pricing impact to buyers will likely not manifest until the first or second quarter of 2018. Forecasting price still involves a high degree of uncertainty, but rates are expected to potentially rise 10 to 20 percent for catastrophe-exposed risks and 20 to 25 percent for catastrophe-exposed risks with recent losses. Other property insurance buyers can expect flat rates or low single-digit increases, ending what for many buyers have been several consecutive years of annual decreases. Meanwhile, several factors could dampen the upward pressure on rates including still-abundant capacity and what experts view as "still eager" alternative capital providers.<sup>14</sup>

Casualty rates, which had begun to drift downward for many organizations, are predicted to be flat or increase by small amounts as pressure from the recent catastrophe losses spills over into other lines of business. Auto rates for businesses will maintain single-digit increases, while workers' compensation rates are expected to be stable, moving one or two percentage points in either a positive or negative direction. For product recall, predicted rates range from -5 percent to +5 percent.<sup>15</sup>

---

<sup>12</sup> Ibid.

<sup>13</sup> Peiser, Joseph, "Connection Center: 2018 P-C Market Forecast," February 1, 2018 <<https://www.iamagazine.com/magazine/read/2018/02/01/corrections-center-2018-p-c-market-forecast>> (accessed April 11, 2019).

<sup>14</sup> Ibid.

<sup>15</sup> Ibid.

The directors and officers liability marketplace outlook is not as soft, as underwriters who are mindful of potentially adverse directors and officers claims' activity seek ways to avoid compounding the year-over-year impact of declining rates. For terrorism insurance, buyers should expect flat renewals rather than the decreases they have seen in recent renewals. Meanwhile, in the environmental insurance market, the high double-digit increases for combined environmental casualty programs have begun to ease.<sup>16</sup>

The cyber liability insurance market remains robust, with increased competition buoying market conditions. Demand for coverage continues to rise and supply of capacity is more than keeping up. Despite a string of high-profile breaches, cyber insurance program renewals for both primary and excess cover are averaging only single-digit rate increases. Underwriters have offered premium decreases to organizations that are able to demonstrate increased levels of security and internal policy controls. Experts forecast rate increases up to 5 percent for 2018.<sup>17</sup>

According to the 2017 Insurance Industry's *Best Practices*, a survey of the best performing insurance agencies in the United States, commission revenue growth slowed in 2017 in comparison to prior years. Revenue growth broken down by category for agencies with revenues between \$1.25 million and \$2.5 million is presented in Table 7.

**TABLE 7**  
**TOTAL REVENUE GROWTH**  
**U.S.-BASED INSURANCE AGENCIES**  
**(% CHANGE OVER PRIOR YEAR)**

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Commercial P&C	9.1%	8.3%	8.9%	9.0%	4.4%
Personal P&C	5.3%	7.5%	3.0%	3.3%	4.5%
Group Medical	0.1%	1.2%	1.4%	-0.3%	1.7%

Source: IIABA, *Best Practices Update, 2013-2017*.

Revenue growth for this category of insurance agencies has decelerated from 2013 to 2017. Commercial property and casualty revenue growth has performed the strongest in

---

<sup>16</sup> Ibid.

<sup>17</sup> Ibid.

recent years, posting growth rates of 9.1 and 9.0 percent in the years 2013 and 2016, respectively. Personal property and casualty revenue growth has also slowed significantly, growing by only 3.0 percent in 2015 after achieving growth of 3.3 percent or greater in prior and later years. Group medical actually had a decline in 2016 after posting small gains in the other four years.

Premium pricing within the property and casualty insurance underwriting industry has historically been cyclical in nature and has varied widely based upon market conditions with a “hard” market in which premium rates are increasing or a “soft” market, characterized by stable or declining premium rates in many lines and geographic areas. Premium pricing is influenced by many factors including loss experience, interest rates and the availability of capital being deployed into the insurance market in search of returns.<sup>18</sup>

According to Deloitte’s 2018 Insurance Mergers and Acquisitions (“M&A”) Outlook, valuations for property and casualty organizations were near the upper end of a 10-year range. The reasons for the increase are listed below:

1. Change at the top. The last couple of years marked quite a few significant leadership changes for a handful of major insurance players. A whole set of new chief executive officers (“CEO”) at globally prominent insurers that have a track record of growth by M&A have now entered the fray.
2. New buyer types. Sovereign wealth funds, pension funds and special purchase acquisition companies that have a materially lower cost of capital are emerging as highly competitive buyers in the U.S. insurance space.
3. European Interest. The U.S. insurance market continues to attract the interest of foreign investors, particularly from Japan and China. However, European buyers are also looking to get in on the action.<sup>19</sup>

Analysts at A.M. Best have been sufficiently impressed by commercial lines insurers’ pricing, underwriting and resilience in recent years to boost their outlook on this segment of the U.S. property and casualty industry from negative to stable for 2018. The uptick is

---

<sup>18</sup> Brown & Brown, Inc. Form 10-K, December 31, 2017: 5.

<sup>19</sup> Jones, Will, “3 Trends Fueling M&A Activity in 2018,” January 1, 2018 <<https://www.iamagazine.com/magazine/read/2018/06/01/3-trends-fueling-m-a-activity-in-2018>> (accessed April 11, 2019).



the first by A.M. Best for commercial lines in seven years. A.M. Best, which has had a negative outlook on the commercial lines segment since the start of 2011, said it expects the segment to post an underwriting loss for 2017, but still record net profits, driven primarily by investment results. In August 2017, A.M. Best maintained its negative outlook on the commercial lines segment, citing a competitive pricing environment; rising losses, particularly in the commercial automobile sector and the prolonged low interest rate environment, which it said would strain operating profitability.<sup>20</sup>

Despite the outlook revision to stable, A.M. Best notes that challenges persist and could drive longer-term deterioration for the segment. These challenges include: investment yields and reinvestment rates that are still lower than rates on maturing and called securities; ongoing competitive pressures given the level of capital in the segment that may make it difficult to achieve necessary rate increases; decreasing levels of favorable prior-year development and continued challenging results in the commercial automobile and certain other liability lines of business.<sup>21</sup>

Industry conditions appear to be stable as of the valuation date. The Company should benefit from continued increases in premium volume and insurance rates.

---

<sup>20</sup> Simpson, Andrew G., "Commercial Lines Insurance Outlook Improves for 2018, Says A.M. Best," January 8, 2018 <<https://www.insurancejournal.com/news/national/2018/01/08/476512.htm>> (accessed April 11, 2019).

<sup>21</sup> Ibid.

## **FINANCIAL ANALYSIS**

A financial analysis of The Company was performed as of August 31, 2018, the closest month-end prior to the valuation date. The historic balance sheets and income statements appear as Schedules 1 and 2, respectively at the back of this report. The Company's interim 2018 income statement was analyzed on an annualized basis.

As of the valuation date, King Insurance had a book value of negative \$161,785. The largest asset on The Company's balance sheet was goodwill of \$659,848 related to acquisitions of "books of business." The Company's other assets consist of cash, miscellaneous receivables and fixed assets, most of which consists of office furniture and equipment. The Company's liabilities primarily consist of notes payable relating to the acquisitions of the "books of business." As of the valuation date, The Company's balance sheet reflected total debt outstanding of \$838,569 related to acquisition debt. Of this amount, \$196,550 was classified as shareholder loans as Chad loaned King Insurance monies to finance certain acquisitions. The Company's other significant liabilities consist of miscellaneous payables, most of which consist of commissions due to producers and amounts due to insurance carriers.

With respect to the income statement, King Insurance's revenues increased from \$1,143,741 in 2014 to \$2,026,033 in 2018 on an annualized basis, a compound annual growth rate of 15.4 percent. However, after three consecutive years of double-digit revenue growth, King Insurance's revenues only increased by 1.2 percent in 2018. The revenue growth during this time period was driven by a combination of organic growth and growth related to acquisitions. A breakdown of the sources of revenue growth appear in Table 8.

**TABLE 8  
ORGANIC GROWTH VS. ACQUISITIONS**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018A</u>
Organic Revenues	\$ 1,143,741	\$ 1,237,792	\$ 1,416,213	\$ 1,786,315	\$ 1,831,481
<i>% Change</i>		8.2%	14.4%	26.1%	2.5%
Revenues From Acquisitions	\$ -	\$ 91,115	\$ 220,909	\$ 216,116	\$ 194,550
<i>% Change</i>		<i>n/m</i>	142.5%	-2.2%	-10.0%
<b>TOTAL REVENUE</b>	<b>\$ 1,143,741</b>	<b>\$ 1,328,907</b>	<b>\$ 1,637,122</b>	<b>\$ 2,002,431</b>	<b>\$ 2,026,031</b>
<i>% Change</i>		16.2%	23.2%	22.3%	1.2%

In 2015 and 2016, The Company's growth was primarily driven by acquisitions, however, since 2016, revenues from acquisitions have been on a declining trend and King Insurance's growth has primarily been driven by organic growth. Organic revenues increased by 26.1 percent and 2.5 percent in the years 2017 and 2018, respectively.

King Insurance's operating expenses primarily consist of salaries, producer commissions and related payroll costs, which account for approximately 80 percent of The Company's total operating expenses. King Insurance's cash operating expenses, excluding depreciation and amortization, increased by 9.3 percent from 2014 to 2018. With revenues increasing at a faster rate than expenses, King Insurance's operating and net income has steadily increased over the period analyzed.

The next step in the analysis is the normalization of the financial statements. 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 a result of normal operations. The balance sheet normalization adjustments appear in Table 9.

**TABLE 9  
BALANCE SHEET ADJUSTMENTS**

	<u>August 31, 2018</u>	<u>Adjustments</u>	<u>Adjusted August 31, 2018</u>
Current Assets			
Cash	\$ 211,998	\$ -	\$ 211,998
Accounts Receivable	20,431	-	20,431
Broker Premiums	56,915	-	56,915
Total Current Assets	<u>\$ 289,344</u>	<u>\$ -</u>	<u>\$ 289,344</u>
Gross Fixed Assets	\$ 92,717	\$ -	\$ 92,717
Accumulated Depreciation	77,472	(18,190)	59,282
Net Fixed Assets <sup>1</sup>	<u>\$ 15,245</u>	<u>\$ 18,190</u>	<u>\$ 33,435</u>
Total Other Assets <sup>2</sup>	<u>\$ 659,848</u>	<u>\$ (659,848)</u>	<u>\$ -</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 964,437</u></b>	<b><u>\$ (641,658)</u></b>	<b><u>\$ 322,779</u></b>
Current Liabilities			
Accounts Payable	\$ 284,298	\$ -	\$ 284,298
Accrued Expenses	1,415	-	1,415
Deferred Expenses	1,940	-	1,940
Total Current Liabilities	<u>\$ 287,653</u>	<u>\$ -</u>	<u>\$ 287,653</u>
Long-Term Liabilities			
Notes Payable <sup>3</sup>	\$ 642,019	\$ (642,019)	\$ -
Loans from Stockholders <sup>3</sup>	196,550	(196,550)	-
Total Long-Term Liabilities	<u>\$ 838,569</u>	<u>\$ (838,569)</u>	<u>\$ -</u>
Total Liabilities	\$ 1,126,222	\$ (838,569)	\$ 287,653
Total Stockholders' Equity	<u>(161,785)</u>	<u>196,911</u>	<u>35,126</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$ 964,437</u></b>	<b><u>\$ (641,658)</u></b>	<b><u>\$ 322,779</u></b>

1. 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 redepicted using straight line depreciation to reflect their values on a more economic basis. In addition, leasehold improvements were written off of the balance sheet as these assets would not be assumed by a buyer in the event of a sale. Furthermore, the value of the improvements for the portion of the property owned by Chad will be captured in the value of the real estate. Considering that this valuation is being performed as part of a matrimonial litigation, including the value of the leasehold improvements in both the value of the business and as part of the real estate, would be double-counting.

2. Goodwill (also known as “books of business”) was written off of the balance sheet as all intangible value associated with King Insurance will be captured through the use of an income or market approach to valuation.
3. Acquisition-related debt was written off of the balance sheet and reclassified as a nonoperating liability. The outstanding balance of the debt will be offset against the value of King Insurance’s operations in the final reconciliation of values.

Based on the adjustments to the balance sheet, the adjusted book value of the tangible net assets of The Company was \$35,126.

The next step in the analysis is to determine the economic income of The Company that a willing buyer would expect to see on a prospective basis. The income statement normalization adjustments appear in Table 10.

**TABLE 10  
NORMALIZATION OF INCOME**

	December 31,				Annualized 2018
	2014	2015	2016	2017	
Historic Net Income (Schedule 2)	\$ 4,965	\$ 212,075	\$ 301,703	\$ 623,883	\$ 701,715
Adjustments					
Interest Expense <sup>1</sup>	999	16,962	17,786	16,655	-
Depreciation/Amortization Expense <sup>2</sup>	11,065	13,915	42,523	45,153	(8,160)
Officers' Compensation - Addback <sup>3</sup>	96,250	117,000	120,000	60,208	60,000
Officers' Compensation - Reasonable <sup>4</sup>	(226,333)	(262,036)	(313,250)	(338,194)	(452,060)
Rent Addback <sup>5</sup>	33,438	42,296	32,152	32,652	32,652
Fair Rental Value <sup>6</sup>	(42,609)	(43,887)	(45,204)	(46,560)	(47,957)
Other Expenses <sup>7</sup>	218,244	-	-	-	-
Adjusted Pretax Net Income	\$ 96,018	\$ 96,325	\$ 155,710	\$ 393,796	\$ 286,190
Income Taxes <sup>8</sup>	24,336	24,414	39,465	99,808	72,535
<b>ADJUSTED HISTORIC NET INCOME</b>	<b>\$ 71,683</b>	<b>\$ 71,911</b>	<b>\$ 116,245</b>	<b>\$ 293,989</b>	<b>\$ 213,655</b>

Note: Figures may not add due to rounding.

1. Interest expense related to the acquisition debt was added back, as this expense relates to a nonoperating liability. The 2018 interim financial statements did not include interest expense as the end of year adjustments had not yet been made by The Company’s accountant.

2. Depreciation expense was adjusted to reflect a more economic write-off of The Company's operating fixed assets. Depreciation for leasehold improvements was removed and amortization expense related to goodwill was added back. Both of these adjustments were based on the treatment of the assets on the balance sheet.
3. Historic cash compensation for Chad was added back as an allowance for reasonable compensation was deducted in number 4 below.
4. In order to determine reasonable compensation for Chad, we considered his roles and responsibilities with The Company. Chad serves as the president of King Insurance and is also The Company's largest producer, accounting for over 55 percent of King Insurance's commission revenue in 2018 on an annualized basis. Therefore, reasonable compensation was calculated as 1) the producer commissions that would be earned on the revenues generated by Chad and 2) a salary to compensate him for his management responsibilities.

In order to determine the producer commissions, we analyzed the amounts that King Insurance had historically paid to The Company's second-largest producer, Mr. Turgeon. The average commission percentage paid to Mr. Turgeon was then used to calculate the amount of commissions that would be paid to a producer that generated Chad's volume. This calculation is presented in Table 11.

**TABLE 11  
PRODUCER COMMISSIONS**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018A</u>
Producer Commissions					
Paid to Mr. Turgeon	\$ 148,547	\$ 164,381	\$ 183,084	\$ 185,497	\$ 208,307
Agency Commissions					
Generated by Mr. Turgeon	÷ 429,001	÷ 474,628	÷ 530,927	÷ 533,584	÷ 600,408
Commission Percentage	35%	35%	34%	35%	35%
Agency Commissions					
Generated by Chad	\$ x 528,486	\$ x 627,703	\$ x 775,064	\$ x 836,596	\$ x 1,162,388
<b>Producer Commissions</b>					
<b>Based on Turgeon %</b>	<b>\$ 182,994</b>	<b>\$ 217,397</b>	<b>\$ 267,272</b>	<b>\$ 290,837</b>	<b>\$ 403,282</b>

Note: Figures may not add due to rounding.

Based on our analysis, a producer commission rate of approximately 35 percent is appropriate. This is consistent with the commission rates specified in Mr. Turgeon’s employment agreement, the commission rates paid to King Insurance’s other producers and industry average commission rates specified in the *Insurance Journal’s 2018 Agency Salary Survey* (“Salary Survey”). The Salary Survey included data for 1,300 respondents nationwide.

We also used the Salary Survey to determine an appropriate level of compensation for Chad’s management duties. According to the Salary Survey, the average salary for a president/CEO of an insurance agency was \$204,094. Since this is a national average, we applied a cost of living adjustment factor of 0.956, which represents the cost of living index for Gainesville, Florida<sup>22</sup> resulting in a salary of \$195,114. We added 25 percent of this total as an additional amount needed to compensate Chad for managing The Company in addition to selling. This resulted in a salary amount of \$48,778 in 2018. Therefore, reasonable compensation was calculated as shown in Table 12.

**TABLE 12  
REASONABLE COMPENSATION**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018A</u>
<b>Determination of Reasonable Compensation:</b>					
Producer Commissions					
Based on Turgeon % <sup>1</sup>	\$ 182,994	\$ 217,397	\$ 267,272	\$ 290,837	\$ 403,282
Plus 25% of CEO Salary <sup>2</sup>	<u>43,339</u>	<u>44,639</u>	<u>45,978</u>	<u>47,358</u>	<u>48,778</u>
<b>TOTAL COMPENSATION</b>	<b><u><u>\$ 226,333</u></u></b>	<b><u><u>\$ 262,036</u></u></b>	<b><u><u>\$ 313,250</u></u></b>	<b><u><u>\$ 338,194</u></u></b>	<b><u><u>\$ 452,060</u></u></b>

<sup>1</sup> Producer commissions per Table 11.

<sup>2</sup> Deflated by 3 percent in prior years.

Note: Figures may not add due to rounding.

5. Since rent is paid to related parties, historic rent expense was added back as an allowance for fair rental value was deducted in number 6 below.

---

<sup>22</sup> <Bestplaces.net/cost\_of\_living/city/florida/gainesville> (accessed March 29, 2019).

6. According to Dan Drotos of Colliers, Northeast Florida, the fair rental value for the property was \$15.50 per square foot. According to the property tax records, the total square footage of the building is 3,094 square feet. This results in a fair rental value of \$47,957 ( $\$15.50 \times 3,094$ ). This amount was deflated by a 3 percent inflationary factor in prior years.
7. The Company's 2014 tax return included a misclassified expense of \$218,244 for "Purchases." This expense was added back.
8. Pretax income was tax-effected using a 25.35 percent C corporation equivalent tax rate, which considers The Company's passthrough status. This was calculated considering The Company's historic distribution trends and the tax law change under the 2017 *Tax Cuts and Jobs Act*.

A financial tool used to analyze a company's financial picture is common size financial statements. A common size income statement depicts each item on the income statement as a percentage of total revenues. Common size financial statements are used to look at trends in a company's financial position, as well as to compare The Company's financial performance with industry data.

In order to compare The Company with industry data, we first need to determine the appropriate industry classification codes for The Company. The applicable industry classification codes for King Insurance are Standard Industrial Classification ("SIC") code 6411 and North American Industrial Classification System Code 524210, both of which includes insurance agencies and brokerages.

We located industry benchmark data for insurance agencies from several sources including the following:

*MicroBilt's Integra Financial Benchmarking Database* ("Integra") - Integra compiles its database from 32 proprietary and publicly-available sources. The database consists of information for more than 4.5 million companies in more than 900 industries. Integra contained composite data for 4,843 companies in SIC Code 6411 with sales between \$1 million and \$2.49 million, the applicable sales range for King Insurance.



*The Risk Management Association's 2018-2019 Annual Statement Studies*® (“RMA”) - RMA features data for more than 796 industries derived directly from more than 260,000 statements of financial institutions’ borrowers and prospects. RMA contained benchmark data for 151 companies with revenues between \$1 million and \$3 million.

*IIABA's 2018 Best Practices - Best Practices* analyzes data from 237 qualifying agencies sorted across six size categories. The size category most relevant to King Insurance was agencies with revenues between \$1.25 million and \$2.5 million. *Best Practices* is used by insurance agencies to allow agents to better evaluate their performance, make agents aware of the performance of the best practices in the industry, identify the factors most critical to the success and viability of agents and provide the necessary training, tools and resources to allow agents to evaluate their performance.

King Insurance’s adjusted common size income statement in comparison to the industry benchmark data appears in Table 13.

**TABLE 13  
ADJUSTED COMMON SIZE INCOME STATEMENT**

	December 31,				Annualized 2018	Industry		
	2014	2015	2016	2017		Integra	RMA	Best Practices
Total Revenues	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Total Operating Expenses	93.84%	92.75%	90.49%	80.34%	85.87%	91.23%	86.40%	73.00%
<b>OPERATING INCOME</b>	<b>6.16%</b>	<b>7.25%</b>	<b>9.51%</b>	<b>19.66%</b>	<b>14.13%</b>	<b>8.77%</b>	<b>13.60%</b>	<b>27.00%</b>

King Insurance’s operating margins increased from 6.16 percent in 2014 to 19.66 percent in 2017 before declining to 14.13 percent in 2018 on an annualized basis. The Company’s operating margins have been favorable in comparison to the composite data from Integra and RMA in each of the past two years. However, The Company has underperformed the benchmarking data from *Best Practices*.

We further analyzed King Insurance’s historic common size income statements by comparing The Company’s detailed common size income statements to the *Best Practices* composite data. This analysis is presented in Table 14.

**TABLE 14  
DETAILED COMMON SIZE ANALYSIS**

	<b>King Insurance</b>				<b>Best Practices Study</b>	
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>
Total Compensation <sup>1</sup>	73.2%	72.0%	63.8%	67.6%	50.8%	50.0%
<b>Selling</b>						
Travel and Ent./Conventions	0.7%	0.9%	0.4%	0.1%	1.4%	1.2%
Automobile Expense	0.0%	0.0%	0.2%	0.6%	0.8%	0.8%
Advertising/Promotions	1.8%	1.5%	1.7%	1.1%	1.7%	1.8%
<b>Total Selling</b>	<b>2.5%</b>	<b>2.3%</b>	<b>2.3%</b>	<b>1.8%</b>	<b>3.9%</b>	<b>3.8%</b>
<b>Operating</b>						
Occupancy Expenses	3.9%	3.2%	2.9%	3.0%	5.1%	5.1%
Office Equipment Expenses	0.5%	0.9%	0.9%	0.2%	0.5%	0.4%
IT Expenses	4.5%	5.0%	4.5%	4.9%	2.7%	2.7%
Telephone	0.8%	0.6%	0.5%	0.5%	0.9%	0.7%
Postage	0.4%	0.2%	0.2%	0.1%	0.3%	0.3%
Supplies/Printing	0.3%	0.3%	0.1%	0.1%	0.8%	0.8%
Dues/Subscriptions/Contributions	0.9%	0.8%	0.6%	0.8%	0.9%	0.9%
Taxes/Licenses	0.0%	0.0%	0.1%	0.3%	0.4%	0.6%
Insurance	3.4%	3.6%	3.3%	5.2%	4.5%	4.2%
Professional Fees	0.2%	0.3%	0.2%	0.3%	0.9%	0.9%
Bad Debts	0.1%	-0.2%	0.0%	0.0%	0.1%	0.2%
Outside Services	0.0%	0.0%	0.0%	0.0%	0.4%	0.3%
Education/Training	0.0%	0.1%	0.0%	0.2%	0.4%	0.4%
Miscellaneous	1.4%	0.8%	0.6%	0.4%	0.6%	1.0%
<b>Total Operating</b>	<b>16.5%</b>	<b>15.6%</b>	<b>13.9%</b>	<b>16.1%</b>	<b>18.5%</b>	<b>18.5%</b>
<b>TOTAL CASH EXPENSES</b>	<b>92.2%</b>	<b>90.0%</b>	<b>80.0%</b>	<b>85.5%</b>	<b>73.2%</b>	<b>72.3%</b>
<b>EBITDA Margin</b>	<b>7.8%</b>	<b>10.0%</b>	<b>20.0%</b>	<b>14.5%</b>	<b>26.8%</b>	<b>27.7%</b>

<sup>1</sup> Health insurance was grouped in the insurance category to be consistent with the manner in which King Insurance reports its expenses in The Company's tax returns.

Note: Figures may not add due to rounding.

King Insurance's earnings before interest, taxes, depreciation and amortization ("EBITDA") margin has consistently lagged the industry. In comparison to the industry, King Insurance was more labor intensive than its peers, as total compensation as a percentage of sales exceeded the industry averages.

The Company's selling expenses have consistently lagged industry averages. This indicates that King Insurance performs less advertising and marketing activities than its

industry peers. The Company's other operating expenses have been relatively in line with the industry.

We further analyzed King Insurance's historic financial performance by comparing various performance indicators of The Company versus those referenced in *Best Practices*. The first metric that was analyzed was the Rule of 20 score. *Best Practices* defines this metric as follows:

Agencies must continually manage the trade-off between growth investments, which reduce profits in the short run, and maintaining high profit margins. Therein lies a dilemma - which metric is more important to generating shareholder returns: growth or profitability?

Without growth investments, an agency will find it much easier to achieve high profit margins. On the other hand, if organic growth is the name of the game with no regard for profitability, it will be relatively easy to buy the growth desired, in the form of new producer hires, severely impacting profitability.

How then to best to [sic] balance growth and profitability? To address this question, the *Best Practices Study* relies on the Rule of 20 metric, which provides a quick means of assessing an agency's unique combination of growth and profitability and whether or not that combination is leading to strong shareholder returns. As it turns out, from a value creation standpoint, organic growth is roughly twice as important as agency profitability in generating high shareholder returns. **This is reflected in the math behind the Rule of 20, which is calculated by adding half of an agency's pro forma EBITDA margin to its organic revenue growth rate.**

**An outcome of 20 or higher means an agency is generating a very high shareholder return (15% - 17%). A Rule of 20 outcome of 15 - 20, typical for *Best Practices* agencies in the current marketplace, is an indication of a very healthy balance of growth and profitability and shareholder returns in the low-to-mid teens.**

While a careful eye must be kept on both organic growth and profitability individually, the Rule of 20 metric can be an invaluable aid in ensuring that an effective balance of these two critical value creation metrics is maintained<sup>23</sup> (emphasis added).

A comparison of King Insurance's Rule of 20 score in comparison to the industry composite data is presented in Table 15.

---

<sup>23</sup>

2018 *Best Practices Update*: 23-24.

**TABLE 15  
RULE OF 20 SCORE**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Revenue From Internally Generated Sources	\$ 1,237,792	\$ 1,416,213	\$ 1,786,315	\$ 1,831,481
% Growth		14.4%	26.1%	2.5%
EBITDA Margin		10.0%	20.0%	14.5%
Rule of 20 Score		19%	36%	10%
Average per Survey	19.2%			
Top Quartile per Survey	34.2%			

King Insurance's Rule of 20 score exceeded the industry average in 2017 but was below average in 2018. In 2018, growth decelerated and profitability declined and as a result, The Company generated less favorable returns for shareholders in comparison to its peers.

Next, we analyzed King Insurance's spread per employee in comparison to industry benchmark data. The spread per employee metric is calculated as revenue per employee less compensation per employee. The revenue per employee is a measure of productivity, while the spread per employee measures the dollars per employee that an agency has available to pay all other agency expenses to generate a profit for the agency. A comparison of King Insurance's spread per employee metric in comparison to industry benchmark data appears in Table 16.

**TABLE 16  
SPREAD PER EMPLOYEE**

	<u>King Insurance</u>	<u>Industry</u>
Revenue	\$ 2,026,033	\$ 2,177,177
Number of Employees	÷ 16	÷ 13.70
Revenue per Employee	\$ 126,627	\$ 158,918
Compensation per Employee	85,559	75,837
<b>SPREAD PER EMPLOYEE</b>	<b>\$ 41,068</b>	<b>\$ 83,081</b>

King Insurance's spread per employee lags the industry average. This indicates that King Insurance's overall workforce is less productive than its peers. This makes sense as The Company's commissions are primarily generated by two producers: Chad and Mr. Turgeon.

We also analyzed King Insurance’s customer concentration in comparison to the industry benchmark data. An agency with a high level of customer concentration would be considered to be more risky than an agency with a more diversified customer base, if everything else is considered to be equal. *Best Practices* measures two forms of customer concentration: largest single account as a percentage of total revenues and largest 10 accounts as a percentage of total revenues. A comparison of King Insurance’s customer concentration in comparison to the industry average appears in Table 17.

**TABLE 17  
CUSTOMER CONCENTRATION ANALYSIS**

	<u>2016</u>	<u>2017</u>	<u>Jan-Aug 2018</u>
Largest Single Account as a % of Revenues	1.2%	1.3%	2.0%
Benchmark Average	3.1%		
	<u>2016</u>	<u>2017</u>	<u>Jan-Aug 2018</u>
Top 10 Accounts as a % of Revenues	8.0%	9.3%	11.3%
Benchmark Average	25.7%		

King Insurance has a much more diversified customer base, which indicates that The Company is less risky than its industry peers.

Overall, King Insurance underperformed the companies included in *Best Practices*, but The Company’s profitability was in line with the data from Integra and RMA. The most noticeable risks that need to be considered on a prospective basis are The Company’s decelerating revenue growth rates and its dependence on two producers.

## **VALUATION CALCULATIONS**

As previously stated, the three approaches to valuation are as follows:

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**

#### **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. We analyzed trends in King Insurance's net income and net cash flow to determine the appropriate benefit stream to capitalize. A

comparison of The Company's historic adjusted net income and net cash flow is presented in Table 18.

**TABLE 18  
ADJUSTED NET INCOME VS.  
NET CASH FLOW**

<u>Year</u>	<u>Net Income</u>	<u>Net Cash Flow</u>
2014	\$ 71,863	\$ 333,890
2015	71,911	(165,533)
2016	116,245	153,755
2017	293,989	222,685
2018A	213,655	242,261

King Insurance's net cash flow has been erratic due to fluctuations in The Company's historic changes in working capital. Net income displayed a steady upward-trend from 2014 to 2017, before declining in 2018. The decline in 2018 was primarily due to decelerating revenue growth and a higher level of commissions that should have been paid to Chad. From 2017 to 2018, Chad's commission revenue increased from \$836,596 to \$1,162,388, an increase of 38.9 percent. However, agency-wide revenues only increased by 1.2 percent over this same time period. As a result, the commission expense related to Chad's revenues, increased faster than the overall revenue growth of The Company. Nevertheless, based on our analysis, we determined that net income was the more appropriate benefit stream to capitalize, as earnings have been less volatile and are not impacted by the erratic changes in working capital. Furthermore, King Insurance's capital expenditures have been minimal.

Based on our analysis, we capitalized The Company's 2018 annualized adjusted net income, as this incorporated the most relevant trends in The Company's growth and expense structure.

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 14.70 percent is appropriate. Therefore, the value under this methodology is calculated as shown in Table 19.

**TABLE 19  
CAPITALIZATION OF EARNINGS**

Net Income		\$	213,655
One Plus the Long-Term Rate of Growth	x	<u>1.025</u>	
Net Income for Capitalization		\$	218,996
Capitalization Rate	÷	<u>14.70%</u>	
<b>INDICATION OF VALUE</b>		<b>\$</b>	<b><u>1,489,769</u></b>

Note: Figures may not add due to rounding.

## **THE MARKET APPROACH**

### **GUIDELINE PUBLIC COMPANY METHOD**

In an attempt to apply the market approach, we looked for companies that could be considered as guideline companies. Comparability is generally difficult to achieve in business valuations, as privately-owned businesses tend to adapt to the management of a company. Smaller companies often take on the personality of the individual owner and it is not until a company is considerably larger and becomes managed by a team of professional managers who are responsible to multiple owners, rather than just one or two, that it becomes apparent.

In order to locate potential guideline companies, we searched the PitchBook and TagniFi databases using the following search criteria:

SIC Code: 6411

Stock Price: At least \$1

Revenues: Less than \$20 million (approximately 10x that of King Insurance)

Location: United States



Based on this criteria, two potential guideline companies were located. However, both of these companies had thinly traded stocks that were traded on the Pink Sheets. Therefore, this methodology could not be utilized.

## TRANSACTION METHOD

In addition to attempting to review the market price of stocks traded on an exchange, we also reviewed merger and acquisition activity. In order to accomplish this, we searched the DealStats database for acquisitions of insurance agencies located in the United States from January 1, 2012 through September 24, 2018. The initial search returned 122 transactions. In order to make the sample more relevant to King Insurance, we narrowed the search to only include acquisitions of Florida-based insurance agencies. As a result, 85 transactions remained.

Of these 85 transactions, 84 were asset acquisitions and only one was a stock transaction. Therefore, we focused our analysis on the asset acquisitions, as there were not enough stock transactions to perform an analysis with any statistical confidence. We eliminated seven asset acquisitions that had business descriptions that were dissimilar to King Insurance. As a result, 77 transactions remained and the details of these transactions appear in Table 20.

**TABLE 20  
DEALSTATS TRANSACTION DATA**

<b>Business Description</b>	<b>Sale Date</b>	<b>Market Value of Invested Capital</b>	<b>Revenues</b>	<b>EBITDA</b>	<b>EBIT</b>	<b>MVIC to Revenues</b>	<b>MVIC to EBITDA</b>	<b>MVIC to EBIT</b>
General Insurance Company	07/31/2018	\$ 52,500	\$ 35,000	\$ 33,500	\$ 33,500	1.50	1.57	1.57
General Insurance Company	07/31/2018	602,000	300,000	100,000	100,000	2.01	6.02	6.02
General Insurance Company	07/26/2018	300,000	224,209	11,388	11,388	1.34	26.34	26.34
Insurance Agency	06/01/2018	350,000	161,737	(16,368)	(19,912)	2.16	(21.38)	(17.58)
Insurance Agency	05/01/2018	450,000	227,430	130,109	130,109	2.04	3.57	3.57
Insurance Agency	04/06/2018	3,500,000	1,654,111	901,219	901,219	2.15	3.94	3.94
Insurance Agency	04/06/2018	178,000	153,722	6,900	6,900	1.85	41.29	41.29
Insurance Agency	04/04/2018	2,400,000	961,996	44,211	44,211	2.49	54.29	54.29
Insurance Agency	01/17/2018	150,000	280,438	187,563	187,563	0.63	0.93	0.93
Insurance Agency	01/17/2018	150,000	280,438	187,563	187,563	0.53	0.80	0.80
Insurance Agency	12/13/2017	2,000,000	667,000	417,000	417,000	3.09	4.95	4.95
Insurance Agency	12/01/2017	400,000	172,379	61,670	61,670	2.32	6.49	6.49
Insurance Agency	12/01/2017	400,000	172,379	61,670	61,670	2.32	6.49	6.49

**TABLE 20  
DEALSTATS TRANSACTION DATA**

<b>Business Description</b>	<b>Sale Date</b>	<b>Market Value of Invested Capital</b>	<b>Revenues</b>	<b>EBITDA</b>	<b>EBIT</b>	<b>MVIC to Revenues</b>	<b>MVIC to EBITDA</b>	<b>MVIC to EBIT</b>
Insurance Agency	11/30/2017	300,000	118,230	8,825	8,825	2.54	33.99	33.99
Insurance Agency	11/07/2017	410,000	229,130	5,982	5,439	1.83	70.13	77.13
Insurance Agency	10/30/2017	725,000	442,051	101,303	101,303	1.64	7.16	7.16
Insurance Agency	10/19/2017	800,000	400,000	200,000	200,000	2.00	4.00	4.00
Insurance Agency	09/11/2017	480,000	245,000	70,000	70,000	1.96	6.86	6.86
Insurance Agency	08/31/2017	132,500	64,800	9,404	9,404	2.04	14.09	14.09
Insurance Agency	08/16/2017	2,400,000	775,000			3.20		
Insurance Agency	08/02/2017	120,000	108,371	332	332	1.11	361.45	361.45
Insurance Agency	06/26/2017	800,000	424,097	77,255	77,255	1.95	10.69	10.69
Insurance Agency	06/10/2017	660,000	460,000			1.43		
Insurance Agency	03/30/2017	1,220,000	375,365	27,507	27,084	3.28	44.77	45.47
Automotive Insurance Agency	02/28/2017	585,000	302,000	197,000	197,000	1.94	2.97	2.97
General Insurance Agency	02/22/2017	780,000	424,442	267,668	267,668	1.84	2.91	2.91
General Insurance Agency	12/29/2016	100,000	289,823	85,483	85,483	0.35	1.17	1.17
Insurance Agency	12/01/2016	450,000	226,149	172,843	172,843	2.10	2.75	2.75
Commercial Insurance Agency	11/30/2016	1,200,000	796,883	128,571	99,504	1.51	9.33	12.06
Insurance Agency	10/31/2016	125,000	381,523	41,480	41,480	0.33	3.04	3.04
Auto Insurance Company	10/31/2016	125,000	213,901	20,046	20,046	0.59	6.28	6.28
Property and								
Casualty Insurance Agency	09/01/2016	378,000	262,782	262,782	262,782	1.45	1.45	1.45
Insurance Agency	07/26/2016	400,000	218,348	43,219	43,091	1.83	9.26	9.28
Commercial Insurance Agency	06/30/2016	400,000	583,710	14,536	14,536	0.70	28.01	28.01
Property and								
Casualty Insurance Agency	06/13/2016	380,000	557,876	13,246	9,817	0.68	28.69	38.71
Insurance Agency	01/15/2016	2,000,000	729,980	432,428	432,428	2.74	4.63	4.63
Property and								
Casualty Insurance Agency	01/08/2016	380,000	365,202	3,931	3,931	1.04	96.67	96.67
Insurance Agency	11/13/2015	110,000	50,253	5,132	5,132	2.19	21.43	21.43
Insurance Agency	10/01/2015	755,000	357,018	205,018	205,018	2.17	3.78	3.78
General Insurance	07/31/2015	205,000	153,012	44,062	31,540	1.34	4.65	6.50
Auto and Home Insurance	07/28/2015	110,000	95,873	(4,554)	(5,239)	1.20	(25.28)	(21.97)
Auto Insurance	07/01/2015	185,000	341,951	1,482	1,482	0.55	128.05	128.05
General Insurance	05/29/2015	6,300,000	1,795,143	795,223	785,085	3.51	7.92	8.02
General Insurance	05/04/2015	285,000	125,121	125,121	125,121	2.28	2.28	2.28
General Insurance	04/30/2015	180,000	91,913	9,572	9,429	1.96	18.80	19.09
General Insurance Agency	04/21/2015	275,000	105,000	59,796	59,796	2.62	4.60	4.60
Independent Insurance Agency	03/02/2015	275,000	195,867	64,877	64,877	1.40	4.24	4.24
Insurance Agency	02/06/2015	475,000	412,659	173,731	173,731	1.15	2.73	2.73
Insurance General	10/31/2014	635,000	339,309	113,325	60,192	1.87	5.60	10.55
Insurance General	08/07/2014	100,000	103,400	103,200	103,200	0.97	0.97	0.97
General Insurance Agency	03/05/2014	22,000	11,252	11,252	11,252	1.96	1.96	1.96
General Insurance Agency	01/10/2014	97,000	76,053	25,409	25,409	1.28	3.82	3.82
Insurance Agency	12/02/2013	450,000	177,526	26,874	26,838	2.53	16.74	16.77
Insurance Agency	11/27/2013	200,000	175,000	83,500	83,500	1.14	2.40	2.40
Insurance Agency	11/01/2013	700,000	329,317	108,149	108,149	2.13	6.47	6.47
Property &								
Casualty Insurance Agency	09/30/2013	1,050,000	556,528	115,450	115,450	1.89	9.09	9.09
Insurance Agency	09/09/2013	182,295	114,495	93,368	93,368	1.59	1.95	1.95
Insurance Agency	08/30/2013	113,824	78,343			1.45		
Insurance Agency Multilines								
Property and Casualty	07/31/2013	1,075,000	1,071,000	153,494	153,494	1.00	7.00	7.00
Auto Insurance	07/09/2013	64,000	51,200	(9,565)	(9,565)	1.25	(6.69)	(6.69)
Insurance Agency	06/14/2013	300,000	189,317	87,293	87,293	1.58	3.44	3.44
Insurance Agency	04/08/2013	150,000	161,759	96,558	96,558	0.93	1.55	1.55
Insurance Agency	04/04/2013	6,000,000	2,900,000	2,000,000	2,000,000	2.07	3.00	3.00
Health Insurance Agency	12/31/2012	340,000	205,000	205,000	205,000	1.66	1.66	1.66

**TABLE 20  
DEALSTATS TRANSACTION DATA**

<b>Business Description</b>	<b>Sale Date</b>	<b>Market Value of Invested Capital</b>	<b>Revenues</b>	<b>EBITDA</b>	<b>EBIT</b>	<b>MVIC to Revenues</b>	<b>MVIC to EBITDA</b>	<b>MVIC to EBIT</b>
Insurance Agency	12/31/2012	6,900,000	3,748,892	1,111,172	1,021,161	1.84	6.21	6.76
General Insurance Agency	12/20/2012	42,000	32,000	5,999	5,999	1.31	7.00	7.00
General Insurance Agency	11/30/2012	52,500	46,518	37,854	37,854	1.13	1.39	1.39
General Insurance Agency	11/06/2012	83,000	73,216	28,252	28,252	1.13	2.94	2.94
General Insurance Agency	10/31/2012	375,000	364,490	36,752	22,609	1.03	10.20	16.59
General Insurance Agency	09/19/2012	300,000	275,000	123,771	123,771	1.27	2.83	2.83
Auto Insurance Agency	07/31/2012	100,000	801,430	6,183	6,183	0.12	16.17	16.17
General Insurance Agency	06/18/2012	68,750	63,000	49,659	49,659	1.09	1.38	1.38
Insurance Agency	05/04/2012	140,000	135,197	(94,745)	(95,547)	1.04	(1.48)	(1.47)
Insurance Agency	05/02/2012	200,000	137,950	80,426	80,426	1.45	2.49	2.49
Insurance Agency	05/01/2012	525,000	428,000	303,975	303,975	1.23	1.73	1.73
Insurance Agency	02/13/2012	270,000	163,935	(44,177)	(44,177)	1.65	(6.11)	(6.11)
Insurance Agency	01/12/2012	90,000	75,390	43,410	43,410	1.19	2.07	2.07
Average						1.63	15.74	16.30
Standard deviation						0.70	46.40	46.47
Coefficient of Variation						0.43	2.95	2.85
Median						1.59	4.65	4.95

The DealStats data calculates multiples on a market value of invested capital (“MVIC”) basis (debt plus equity). We performed a statistical analysis to determine the appropriate multiple to use. In this instance, the earnings based multiples had significant variation as measured by the coefficient of variation statistic. The MVIC to earnings before interest and taxes and EBITDA multiples had coefficient of variations that exceeded two, which indicates that the standard deviation of the multiples was more than two times that of the average. The coefficient of variation of the MVIC to revenue multiple was 0.43, which indicates considerably less variation in the multiples. Based on this analysis, we focused our analysis on the MVIC to revenue multiple, as this multiple provided us with the highest level of statistical confidence. This is also the most meaningful multiple that is used in actual acquisition of these types of businesses.

In order to determine the appropriate multiple to apply to King Insurance, we performed a comparative financial analysis between King Insurance and the acquired companies. This analysis is summarized in Table 21.

**TABLE 21  
PROFITABILITY RATIOS**

	<u>Net Profit Margin</u>	<u>Operating Profit Margin</u>
Count	71	74
Mean	34.58%	34.97%
Standard Deviation	35.64%	34.19%
Coefficient of Variation	103.07%	97.77%
90 <sup>th</sup> Percentile	81.37%	80.61%
75 <sup>th</sup> Percentile	59.47%	59.00%
Median	33.33%	32.98%
25 <sup>th</sup> Percentile	7.34%	9.58%
10 <sup>th</sup> Percentile	0.31%	0.86%
<b>KING INSURANCE</b>	<b>10.55%</b>	<b>14.13%</b>

King Insurance's profit margins fell in between the 25<sup>th</sup> percentile and the median of the acquired companies. This indicates that The Company was slightly less profitable, on average. However, King Insurance was also considerably larger than many of the companies included in this sample. Based on The Company's larger size, no downward adjustment was made to the median multiple, despite The Company's unfavorable level of profitability. Therefore, the median multiple of 1.59 times revenues was selected due to its lower susceptibility to outliers in comparison to the average.

The transactions included in the DealStats database are 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.

Applying the median multiple to King Insurance's annualized 2018 revenue stream results in the estimate of value shown in Table 22.

**TABLE 22  
MARKET APPROACH COMPUTATIONS**

Selected Multiple		1.59
Subject Company Earnings Stream	x	<u>\$ 2,026,033</u>
Indication of Value Before Returned Assets	\$	3,221,392
Plus Net Retained Assets		<u>1,691</u>
<b>INDICATION OF VALUE</b>	<b>\$</b>	<b><u><u>3,223,083</u></u></b>

**THE ASSET-BASED APPROACH**

The asset-based approach does not capture the value of King Insurance as a going concern. Therefore, the asset-based approach was not performed in this valuation.

**RECONCILIATION OF VALUES**

We derived the following indications of value using the income and market approaches:

Income Approach	\$	1,489,769
Market Approach		3,223,083

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. However, 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. In addition, insurance agencies are most often sold based on a price to revenue multiple. Therefore, primary consideration was given to the market approach. However, in this instance, a median price to revenue multiple was used

to value King Insurance, which does not fully capture The Company's unfavorable profit margins in comparison to its peers. Taking this into consideration, we applied some weight to the income approach, as a willing buyer would not ignore The Company's lower profitability. For that reason, we weighted these approaches as 75 percent to the market approach and 25 percent to the income approach.

In order to derive the value of the equity, we must also account for King Insurance's nonoperating liabilities. According to The Company's loan statements, the total amount of bank debt outstanding was \$528,283. In addition, The Company had a shareholder loan outstanding in the amount of \$196,550 resulting in total debt outstanding of \$724,833 (\$528,283 + \$196,550). Therefore, the value of 100 percent of King Insurance as of the valuation date was derived as shown in Table 23.

**TABLE 23  
VALUATION CONCLUSION RECONCILIATION**

	<u>Indication of Value</u>	<u>Weight</u>	<u>Weighted Value</u>
<b>Income Approach</b>			
LTM Capitalized Net Income	\$ 1,489,769	25.00%	\$ 372,442
<b>Market Approach</b>			
MVIC to Revenues	3,223,083	<u>75.00%</u>	<u>2,417,312</u>
<b>Reconciliation</b>			
Concluded Value of the Operating Entity		<u>100.00%</u>	\$ 2,789,754
Plus: Value of Nonoperating Assets			<u>(724,833)</u>
Estimate of Value			\$ 2,064,921
Ownership Interest Being Valued		x	<u>100.00%</u>
<b>ESTIMATED VALUE OF A 100.00% INTEREST IN KING INSURANCE</b>			<b><u>\$ 2,064,921</u></b>
<b>ROUNDED</b>			<b><u>\$ 2,065,000</u></b>

## REASONABLENESS TESTS

As a reasonableness test, we analyzed price to revenue multiples that were paid by King Insurance for The Company's recent acquisitions, which appear in Table 24.

**TABLE 24  
PRICE TO REVENUE MULTIPLES**

<b>Target Name</b>	<b>Acquire Date</b>	<b>Purchase Price</b>	<b>Revenue</b>	<b>Price to Sales</b>
Bell Family Insurance	4/20/2015	\$ 44,533	\$ 121,394	0.37
Birchell Insurance	5/19/2016	4,500	4,300	1.05
Brian Wiggins Insurance Services	9/28/2015	350,000	316,062	1.11
Monarch Insurance Agency	11/13/2015	110,000	61,730	1.78
South Marion Insurance Agency	3/24/2015	175,000	134,371	1.30
The Zurmac Group, Inc.	5/23/2016	90,000	70,456	1.28
<b>Average</b>				<b>1.15</b>
<b>Median</b>				<b>1.19</b>

The average and median multiple for books of business purchased by King Insurance was 1.15 and 1.19, respectively. Based on an operating value of \$2,789,754 and annualized revenues of \$2,026,033, the implied price to revenue multiple in this valuation is 1.38, which is higher than the acquisitions. A higher multiple for the entire business makes sense as King Insurance is considerably larger than these agencies. Empirical studies indicate that larger businesses typically sell for higher multiples.

## **GOODWILL**

### **DISCUSSION ABOUT GOODWILL**

By definition, goodwill is,

The good reputation or brand identification enjoyed by a commercial entity. In bankruptcy and other areas of law, goodwill is considered an intangible asset. Goodwill is generally calculated as the difference between the purchase price of a company and the sum of its fair market value.<sup>24</sup>

Historically, whenever anything was written about goodwill in a valuation textbook, it was pretty straightforward. Goodwill was the value that was left over after all of the tangible and identifiable intangible assets were considered. However, over the past several decades, goodwill has been broken down further to distinguish between different types of goodwill; *enterprise goodwill* versus *personal goodwill*.

The amount of intangible value of a business enterprise that relates to the entity, rather than the individual, can affect the value of many entities, as well as the structure of an acquisition transaction. This will especially be the case for businesses where the contribution of a key person or group of people can be of great importance.

For an insurance agency, the “book of business” is part of its goodwill.

### **PERSONAL GOODWILL**

The Florida Supreme Court has determined that personal goodwill is not a marital asset and therefore, must be removed from the value of a business that is subject to equitable distribution. Therefore, we have considered the applicability of personal goodwill to its

---

<sup>24</sup>

*Goodwill* | *Wex Legal Dictionary / Encyclopedia* | LII / Legal Information ...  
<<https://www.law.cornell.edu/wex/goodwill>> (accessed August 11, 2017).



impact on this valuation. However, before attempting to quantify the amount of personal goodwill, if any, it is important to understand what this concept means from a business valuation point of view.

## **ENTERPRISE VERSUS PERSONAL GOODWILL**

The distinction between *enterprise goodwill* and *personal goodwill* is that personal goodwill is the goodwill that is associated primarily with the individual, versus enterprise goodwill, which is the goodwill associated primarily with the business enterprise. This can be demonstrated by assuming John Smith is an executive at Brown & Brown Insurance. If a client calls the company specifically requesting John Smith, then there may be personal goodwill associated with the individual. However, if the client wants a major insurance agency to provide a quote, contacts Brown & Brown and ends up with John Smith, there is probably enterprise goodwill. Sometimes, the two types of goodwill will overlap.

The existence of personal goodwill is based on the fact that clients come to the individual, as opposed to the company. This may be based on the individual's skills, knowledge, reputation, personality and other factors. The implied assumption is that if this individual moved to another company, the clients would go with him or her. Personal goodwill is more difficult to transfer to a new owner, but not impossible. Generally the current owner will assist in a smooth transition to a new owner in order to obtain the maximum price for the company.

Goodwill can also relate to the owner's ability to attract and keep employees and vendors working for the enterprise. In financial accounting, for example, a trained workforce is an element of goodwill. A company benefits from having competent people working for it. This would be an element of enterprise goodwill. However, in the real world, nonsolicitation agreements are frequently needed to keep a seller from luring away a trained workforce. This is an example of how enterprise goodwill becomes personal goodwill. The ability to have others follow their leader indicates personal goodwill of the leader.

## OVERVIEW OF FLORIDA CASE LAW REGARDING PERSONAL GOODWILL

We cannot possibly cover every case on this subject and since we are not attorneys, nor is this business valuation a legal brief, we can only provide a valuation analyst's view on the subject. A brief summary of the leading cases in Florida involving this issue is contained below. These cases become an important component in determining how much of King Insurance's goodwill is personal and should not be subject to equitable distribution.

Florida's standard arises from *Thompson v. Thompson*, 576 So. 2d 267 (Fla. 1991). Following in the footsteps of *Thompson* are:

*Young v. Young*, 600 So. 2d 1140 (Fla. 5th DCA 1992)

*Weinstock v. Weinstock*, 634 So. 2d 775 (Fla. 5th DCA 1994)

*Walton v. Walton*, 657 So. 2d, 1214 (Fla. 4th DCA 1995)

*Williams v. Williams*, 667 So. 2d 915 (Fla. 2<sup>nd</sup> DCA 1996)

*Christians v. Christians*, 732 So. 2d 47 (Fla. 4th DCA 1999)

*Held v. Held*, 2005 Fla. App. LEXIS 14138 (Fla. 4th DCA 2005)

### ***THOMPSON v. THOMPSON***

The issue in this appeal from the 4<sup>th</sup> DCA was "In marriage dissolution proceedings to which an owner of a professional association is a party, may the value of the professional association's goodwill be factored in determining the professional association's value?"

Mr. Thompson was a plaintiff's attorney specializing in personal injury and medical malpractice and was the sole owner of a professional association. Since this was the first time that the Florida Supreme Court had dealt with this issue, it relied on case law from other states that had already addressed this topic. Relying on the Missouri case of

*Hanson*,<sup>25</sup> The Court stated, “Irrespective of the setting in which it is found, the meaning of goodwill does not change. It is property which attaches to and is dependant upon an existing business entity; the reputation and skill of an individual entrepreneur – be he a professional or a traditional businessman – is not a component of the intangible asset we identify generally as goodwill.”

The Court went on to discuss that if goodwill exists, it would be inequitable to ignore the contribution of the attorney’s spouse to the development of that goodwill during the marriage. However,

It should be emphasized that such goodwill, to be a marital asset, must exist separate and apart from the reputation or continued presence of the marital litigant. I[f] goodwill depends on the continued presence of a particular individual, such goodwill, by definition, is not a marketable asset distinct from the individual. Any value which attaches to the entity solely as a result of personal goodwill represents nothing more than probable future earning capacity, which, although relevant in determining alimony, is not a proper consideration in dividing marital property in a dissolution proceeding.

The Court concluded as follows:

If a law practice has monetary value over and above its tangible assets and cases in progress which is separate and distinct from the presence and reputation of the individual attorney, then a court should consider the goodwill accumulated during the marriage as a marital asset. The determination of the existence and value of goodwill is a question of fact and should be made on a **case-by-case basis with the assistance of expert testimony** (emphasis added).

It then went on to say,

Numerous methods for valuing goodwill have been advanced in cases and the literature on this subject. The clearest method would be the fair market value approach, which is best described as what would a willing buyer pay, and what would a willing seller accept, neither acting under duress for a sale of the business. The excess over assets would represent goodwill. We prefer this method and direct that it be the exclusive method of measuring the goodwill of a professional association. Actual comparable sales are not required, so long as a reliable and reasonable basis exists for an expert to form an opinion.

---

<sup>25</sup> *Hanson v. Hanson*, 738 S.W.2d 429, 434 (Mo. 1987).

## **YOUNG v. YOUNG**

Dr. Young owned a sole practitioner obstetrics and gynecology practice. The trial court determined that Dr. Young's practice had a marital value of \$250,000 and awarded half of that value to Mrs. Young. The trial judge stated that she was bound by *Thompson* to make an equitable distribution of the husband's medical practice.

Two expert witnesses presented valuation testimony at the trial. Dr. Young's expert valued the tangible assets at \$88,547. Using the excess earnings method, he calculated the value of goodwill at \$204,599. The expert testified, "that using the accounting approach required by the supreme court in *Thompson* left him no way to determine what amount of the excess earnings should be allocated to the husband for his personality, presence and reputation. If Dr. Young were taken away from the practice, he testified, then "there is no data to support any amount as [goodwill] in this \$204,000."

Mrs. Young's expert used a rule of thumb that he created to calculate goodwill and added this to the tangible assets. He set the value of the goodwill at no less than \$400,000. The trial judge did not agree with either expert and set the value of goodwill at \$250,000.

On appeal, the appellate court ruled that the trial judge had misconstrued the *Thompson* ruling. It stated, "That decision does not require a finding of goodwill; it merely provides that goodwill may be an asset subject to equitable distribution if there is evidence to support its existence apart from the reputation and presence of the practicing party and the tangible assets. Proof of the existence of goodwill is the first step."

The Court went on to state:

Proof of the existence of goodwill is particularly troublesome in a professional context. This difficulty is a product of the fact that the reputation of the individual practitioner and the goodwill of his enterprise are often inextricably interwoven. Because of the difficulties inherent in separating the reputation of the professional from that of his enterprise, evidence that other professionals are willing to pay for goodwill when acquiring a practice is, in our view, the only acceptable evidence of the existence of goodwill. Thus, as a matter of proof, the existence of goodwill is shown only when there is evidence of a recent actual sale of a similarly situated professional practice,

an offer to purchase such a practice, or expert testimony and testimony of members of the subject profession as to the existence of goodwill in a similar practice in the relevant geographic and professional market. Absent such evidence, one can only speculate as to the existence of goodwill. Divisions of marital property may not be based on speculation as to the very existence of the property being divided.

The Court reversed the trial court's goodwill award and stated, "even assuming the existence of goodwill had been demonstrated, neither expert gave competent, credible testimony as to the value of that goodwill."

In a concurring opinion, the judge suggests that the fair market value approach adopted in *Thompson* required the court to determine the amount of money that a willing buyer would pay a willing seller. "It is obvious that a willing buyer would not pay for that which he is not getting. A willing seller of the assets of a professional association, once he sells, is no longer part of the business, and therefore the seller's reputation cannot be part of the goodwill a willing buyer is purchasing. Thus, the fair market value method has, by definition, separated professional reputation from the remaining elements of goodwill, such as established patients, referrals, location, associations and office organizations which may attach to the buyer.

Therefore, the *Young* court established a two-prong test. There must be proof of the existence of goodwill, separate and apart from reputation. If that proof exists, then there must be proof of its value.

### ***WEINSTOCK v. WEINSTOCK***

Dr. Weinstock owned and operated a dental practice. Dr. Weinstock used the same valuation analyst as Dr. Young had. The valuation analyst used the same methodology to determine the value of Dr. Weinstock's practice and came to the same conclusion (there was no way to separate the value of Dr. Weinstock's personal goodwill from the goodwill of the practice).

Mrs. Weinstock's expert was a dentist who had become a consultant to dentists who needed a valuation for sales, purchases, loans and dissolution proceedings. This expert valued the practice at \$405,000; of that amount, \$300,000 was goodwill. This expert utilized sales of 11 Florida dental practices that had sold in 1991 and 1992.

In his testimony, Mrs. Weinstock's expert indicated that in the sales data that he utilized, the selling dentist remained with the practice for a year or two after the sale. The selling dentist's presence was not discontinued immediately after any of the sales.

The appellate court concluded,

The comparables used cannot serve as competent evidence of value in view of the language of *Thompson* that 'such goodwill, to be a marital asset, must exist separate and apart from the reputation or continued presence of the marital litigant.' The wife's expert opinion also would not be competent evidence under Judge Goshorn's reasoning in *Young* since there was no attempt to deal with the problem of the continued presence of the dentists after the comparable sales took place.

We believe that husband's counsel asked appropriate questions upon cross-examination of the witness that may have ferreted out the proper method for determining the value of goodwill. She asked whether any of the comparables were for a dentist who 'just quit.' **The purest form of comparable in the sale in any business would be a sale in which, on the day of closing, the seller picks up the sales proceeds and retires or moves out of the area, thus eliminating any further personal influence the seller could have on the business.**

The inclusion of goodwill as a marital asset was improper because the evidence failed to establish a value for this goodwill apart from the husband's continued presence (emphasis added).

Judge Sharp issued a dissenting opinion indicating that the evidence at trial was sufficient to support the trial court's opinion. She stated, "the findings that goodwill existed in this professional practice was based on expert testimony consistent with *Thompson v. Thompson*. Indeed, if the finding was erroneous in this case, I question whether such a finding can be sustained in any case involving a sole professional practice." She went on to state,

In my view, I do not consider the necessity for a non-compete and non-solicitation agreement in order to produce a willing purchaser of a dental practice as fatal to the trial judge's conclusion that this dental practice had a

goodwill value. Nor do I think Griggs' comparable sales data should be thrown out as insufficient because in most of the sales, the selling dentist remained with the practice for a short period of time. **Based on his testimony, the only essentials were a non-compete and non-solicitation agreement, to prevent a seller from being able to destroy a dental practice, after having sold it** (emphasis added).

## ***WALTON v. WALTON***

Mr. Walton operated a sole proprietorship certified public accountant ("CPA") firm that employed two other CPAs and two support staff. However, most contact with the clients was by Mr. Walton and Mr. Walton brought in most of the new clients.

The husband's expert used a liquidation value method, which values the tangible assets of the business. He did not find any professional goodwill attributable to the practice other than the personal reputation and efforts of the husband. However, several years earlier, the husband had submitted a loan application that included a value of \$300,000 for the practice, substantially greater than the tangible assets.

The wife's expert used an excess earnings method and what he called a market approach (although he did not use comparable sales). He calculated total goodwill and then determined that 15 percent of this goodwill was institutional goodwill. He did not explain how he derived the 15 percent.

Neither expert used comparable sales of similar businesses and the wife's expert testified, "Most of the time if one is going to sell his practice there is going to be a non-compete agreement. Nobody is going to buy a practice and let that accountant go across the street and practice basically."

At the trial court level, the court found the wife's expert's value to be correct, finding that the husband's own valuations gave evidence that the practice had value in excess of the tangible assets. However, the appellate court found that the trial court "did not make the key distinction that only that part of the value independent of the husband's continued presence in the business amounted to a marital asset."

The appellate court went on to say the following:

First, there was no proof of the existence of goodwill separate from the husband's reputation. The husband's name was the only one 'on the door,' and the other C.P.A. employees were there to assist in the work, not in garnering clients. The most telling evidence of a lack of any institutional goodwill was the wife's expert's testimony that **no one would buy the practice without a noncompete clause**. If the business only has value over and above its assets if the husband refrains from competing within the area that he has traditionally worked, then it is clear that the value is attributable to the personal reputation of the husband. Secondly, the valuation testimony of the expert was not supported by competent substantial evidence.

In short, as in *Young and Weinstock*, we find no competent evidence from which the trial court could have determined the existence of goodwill separate from the reputation of the husband. Any testimony in that regard is sheer speculation. On remand, we direct the court to exclude any value of goodwill attributable to the business (emphasis added).

### ***WILLIAMS v. WILLIAMS***

The *Williams* case was similar to *Walton*. Mr. Williams owned a professional practice in which he was the only accountant. At the trial level, the court found that \$43,200 of goodwill was subject to equitable distribution.

Citing, *Thompson, Young and Walton*, the appellate court found that the evidence failed to show the existence of goodwill separate and apart from the reputation and continued presence of Mr. Williams.

### ***CHRISTIANS v. CHRISTIANS***

This was the first case that considered personal goodwill in a nonprofessional practice setting. Mr. Christians' business, called Flying Trapeze, constructed and serviced trapeze equipment for lease or sale exclusively to Club Med. The trial court, based on expert testimony, determined that the fair market value of Flying Trapeze included only its tangible



assets and inventory and that the business had no goodwill value for the purposes of marital distribution. The wife appealed the decision.

Although there was an error in the calculation of the tangible assets of the business, which the court corrected, it determined that the trial court's failure to assign goodwill value was not in error. Citing *Williams* and *Young*, the court ruled that "the record contains competent evidence to support the trial court's conclusion that any goodwill of Flying Trapeze 'rests solely on the Husband's well-known reputation and abilities and the continued existence and involvement [in the business].'"

### ***HELD v. HELD***

This was another case of a nonprofessional practice. Mr. Held owned an insurance agency that specialized in selling high-risk hazard insurance to beachfront condominium associations in Florida. At the time of the original hearing, the company maintained 60 customer accounts, which generated large commissions.

The trial court determined that the entire value of the company was a marital asset. Central to this determination was the court's assumption that

... in any sale of the business, the husband would sign a non-solicitation/non-piracy agreement preventing him from doing business with the Company's existing customers. The trial judge reasoned that the non-solicitation agreement had nothing to do with personal goodwill of the business, but was part of enterprise goodwill. The court wrote that

[A]s part of the sale of enterprise goodwill, ... a nonsolicitation/non-piracy agreement would need to be signed by the Husband but not a covenant not to compete. *Contrary to the Husband's assertions, such a requirement is not indicative of personal goodwill, as a non-compete clause might be. The non-solicitation/non-piracy clause prevents the seller from soliciting only those clients which he has just sold, but enables him to continue in the same trade or business, even if across the street.* Specifically, a non-solicitation/non-piracy clause is a clause that prevents the Husband from stealing back the book of business to be sold as part of the ... (\$10,500,000) to the theoretical buyer.

The trial court based its valuation of enterprise goodwill on expert testimony. The expert utilized sales of insurance companies that it obtained from a transaction database. However, the expert could not state whether the comparables used were predicated on the principal's continued involvement in the business or, alternatively, upon the principal's agreement to refrain from participating in a like business, by way of a nonsolicitation, noncompetition or nonpiracy agreement.

The trial judge made the ruling by attempting to distinguish between a nonsolicitation/nonpiracy agreement and a covenant not-to-compete. However, **the appellate court ruled, "For the purpose of distinguishing enterprise goodwill from personal goodwill in the valuation of a business, there is no distinction between 'a non-solicitation/non-piracy agreement' and a covenant not to compete"** (emphasis added).

The court continued as follows:

Both limit a putative seller's ability to do business with existing clients of the business. In this case, the husband's personal relationship with his clients allows him to obtain their repeat business. The trial court's valuation method inserted into enterprise goodwill an aspect of personal goodwill, the value of the husband's personal relationship with the 60 clients. This method of valuation contravened *Thompson*, which emphasized that to be a marital asset, goodwill 'must exist separate and apart from the reputation or continued presence of the marital litigant.'

The court ruled that there was no evidence to support a value above the agreed upon adjusted book value.

## **SO WHERE ARE WE TODAY?**

Florida case law has certainly evolved over the last 27 years. We have witnessed the following:

1991	<b>Thompson</b>	Established principal of personal goodwill as nondivisible in equitable distribution
1992	<b>Young</b>	Established two-step process to identify and value personal and enterprise goodwill.
1994	<b>Weinstock</b>	Established use/misuse of comparable transactions as basis of value
1995	<b>Walton</b>	Established concept that personal goodwill may be represented by existence of a noncompetition agreement
1999	<b>Christians</b>	Broadens concept into nonprofessional service businesses
2005	<b>Held</b>	Endorsed concept of noncompetition agreement as indication of personal goodwill and rejected distinction between nonsolicitation/nonpiracy agreements with noncompete agreements

As a result of these cases, the legal and valuation community must now use this framework to define the marital assets, quantify those assets and divide the marital estate.

## SO, WHAT DOES ALL OF THIS MEAN?

The court decisions that have been issued require the business valuation analyst to allocate goodwill value between the business enterprise and the individual (personal). This is no easy task since there are no definitive guidelines for the valuation analyst to follow to accomplish this. Each situation will depend on the facts and circumstances surrounding the valuation.

The *Thompson* court wants the valuation analyst to use the “fair market approach” to value the business, but it respectfully did not consider whether a covenant not to compete was implied in fair market value. A business will not sell in the marketplace if the buyer can open up next door and steal what was just sold. It is rare to see a transaction take place without a covenant not to compete and/or a nonsolicitation provision in the contract. In fact, the data from DealStats that was used in the valuation under the market approach in this valuation supports this notion. Of the total 122 acquisitions in our initial search, 102 (or 83.6 percent) of the transactions included noncompete agreements. The remaining 20

transactions either did not include a noncompete or the presence of a noncompete was not reported to the database by the business broker. With respect to the Florida-based transactions, 80 of the 84 transactions (95.2 percent) reported the presence of a noncompete agreement. Furthermore, all of the significant acquisitions made by King Insurance included a noncompete and some also included a nonsolicitation agreement. The transaction data clearly shows that few acquisitions of insurance agencies take place without a noncompete agreement.

However, the Florida case law assumes that the willing seller can walk away from the business without any obligation of future employment or noncompetition. This means that the Florida hypothetical willing seller could open up a competing business with the buyer and even go as far as to solicit customers, employees and vendors away from the buyer.

The *Held* court took covenants not to compete one step further by considering nonsolicitation agreements to be the same as noncompete agreements. Once again, the willing buyer will almost always require the seller to either not solicit customers or employees as part of the deal. Although the court has indicated that the facts need to be addressed on a case by case basis, the lack of a covenant and a nonsolicitation agreement would render every business worth not much more than the value of the tangibles and the separately identifiable intangible assets other than goodwill.

Many businesses have intangible assets other than goodwill that need to be included in the valuation process. In this instance, these additional intangible assets include various books of business, as well as noncompete agreements with certain producers.

## **ALLOCATION OF PURCHASE PRICE**

Addressing the allocation of goodwill and other intangible assets is something that has to be dealt with within the accounting field on a regular basis. In financial reporting, the allocation of intangible value falls under the accounting rules.

The purchase price is allocated in the following order:

1. Net Working Capital Assets
2. Fixed and Tangible Assets
3. Other Tangible Assets
4. Identifiable Intangible Assets
5. Goodwill

Assets that are of an intangible nature must meet the separability criterion. They generally have to arise from a contract or if noncontractual, they must be capable of being separated or divided. Separability is based upon specific facts and circumstances.

Identifiable intangible assets are categorized as follows:

- Marketing Related
- Customer Related
- Artistic Related
- Contract Based
- Technology Based

King Insurance's noncompete agreements with employees would fall under the category of a marketing intangible asset. The Company's books of business will fall under the category of customer related intangible assets.

## **NONCOMPETITION AGREEMENTS UNDER FLORIDA LAW**

There have been many cases in Florida that address how to handle the value of covenants not to compete and personal goodwill. "...In *Held*, as in *Walton*, no attempt was made to subtract a fair value for the covenant from other evidence of value.....It might still be possible, however, for another expert in a future case to begin with the mixture, subtract the value of the covenant and testify that the difference is enterprise goodwill."

There seems to be uniform agreement that the value attributable to a covenant not to compete is attributable to personal goodwill.

To avoid these abuses, courts in states which treat individual goodwill as separate property must begin to adopt more realistic principles for determining the effect of a covenant not to compete upon the valuation of enterprise goodwill. When a sale price includes a covenant, or another valuation method assumes a covenant, the burden should certainly be upon the spouse who relies upon the sale or offer to prove and exclude a fair value for the covenant. **But, the mere presence of a covenant does not justify a finding that no enterprise goodwill is present**<sup>26</sup> (emphasis added).

## **PERSONAL GOODWILL AND NONCOMPETITION AGREEMENTS ARE NOT JUST AN EQUITABLE DISTRIBUTION CONCEPT**

The issue of personal goodwill has been addressed in nonmatrimonial circumstances as well. The Internal Revenue Service has caused this area to be addressed in the income tax arena. According to Revenue Ruling 64-235, C.B. 1964-2, 18:

It is well established that personal skill is not a salable capital asset. See *Providence Mill Supply Co. v. Commissioner*, 2 B.T.A. 791 (1925). However, a number of court decisions indicate that in appropriate factual circumstances a professional practice or other business may possess salable goodwill even though its success is solely attributable to the skill, integrity and other characteristics of the owner. See, for example, *Merle P. Brooks, et ux. v. Commissioner*, 36 T.C. 1128 (1961), acquiescence, C.B. 1962-2, 4; *Rodney B. Horton, et ux. v. Commissioner*, 13 T.C. 143 (1949), acquiescence in result only, C.B. 1959-2, 5; and *James M. Herndon, et ux. v. Commissioner*, T.C. Memo. 1962-184. In light of these decisions, the Service will no longer take the position that, as a matter of law, a one-man professional practice or any other one-man business cannot have salable goodwill. In disposing of cases involving the sale of an entire professional practice, the extent to which the proceeds of sale can be allocated to goodwill will be determined on the facts rather than by whether the business is, or is not, dependent solely upon the professional skill or other personal characteristics of the owner.

This revenue ruling was modified by Revenue Ruling 70-45, regarding partial sales, however, this guidance remains the valid and enforceable position of the Internal Revenue Service.

In *Martin Ice Cream Co. v. Commissioner*, 110 T.C. 189 (1998), the issue was over the split-off of a subsidiary, Strassberg Ice Cream Distributors, Inc. ("Strassberg Ice").

---

<sup>26</sup> Brett R. Turner, "Covenants Not to Compete and Valuation of Marital Businesses," *Divorce Litigation* 18, no. 2 (September 2006): 158.

Strassberg developed personal relationships with customers over the prior 25 years and was instrumental in the design of new ice cream packaging and marketing techniques. He was responsible for the introduction of Haagen-Dazs products into high volume retail stores in New Jersey.

There was an oral agreement with Haagen-Dazs for Strassberg to distribute products in New Jersey. Strassberg sold the assets of Strassberg Ice to Haagen-Dazs in 1988. The Tax Court ruled that the oral contract and personal relationships were never assets of Martin Ice Cream, but owned solely by Strassberg. Upon sale of those assets to Haagen-Dazs, Strassberg received capital gains treatment.

There is a substantial body of statutory authority, judicial precedent and administrative rulings regarding the valuation and amortization of noncompete agreements. The Internal Revenue Service has a four-part test for recognition of a noncompete agreement (see *Forward Communications v. US*, 78-2 USTC Para. 9542), which asks the following questions:

1. Is compensation paid for the covenant severable from the price for goodwill?
2. Was the party to the covenant attempting to repudiate an amount fixed by both the buyer and the seller for the covenant?
3. Did both parties actually intend, when they signed the sale agreement, that some portion of the price be allocated to the covenant?
4. Is the covenant economically real and meaningful?

*Revenue Ruling 77-403* addressed the issue of whether a cash payment for a covenant not to compete was a separate asset or part of the real property sold. The facts are as follows:

- P bought real property from S for \$12x
- P also paid S \$3x for covenant not to compete
- S was obligated for a defined period of time not to participate directly or indirectly in the construction, purchase or management of competing properties within a specified distance from property sold to P
- S had constructed and sold many buildings but did not have personnel capable of managing rental property, had never managed real property, and

irrespective of the existence of non-compete, did not intend to construct, purchase or manage rental property

The test is that in order for a payment for a covenant not to compete to be separate from the cost of property, the noncompete has to have a demonstrable value. The tests for determining a demonstrable value include:

- whether, in the absence of the covenant, the covenantor would desire to compete with covenantee;
- the ability of the covenantor to compete effectively with the covenantee in the activity in question and
- the feasibility, in view of the activity and market in question, of effective competition by the covenantor within the time and area in the covenant.

The Internal Revenue issued an ISP Coordinated Issue Paper for All Industries on May 7, 1992. This paper addressed the issue that consideration paid for a bona fide covenant not to compete represents ordinary income to the seller and an amortizable deduction to the buyer for the duration of the covenant. If the amount paid under a covenant is intended to compensate for lost earnings, it constitutes ordinary income to the seller and is amortizable to the buyer. Facts surrounding the allocation to covenants must be scrutinized to ascertain if the covenant is separable from goodwill and that value represents economic reality. The most important fact is whether the covenant is the product of a bona fide bargaining arrangement rather than a sham. Economic reality theory is primarily concerned with business realities, which would cause reasonable persons, genuinely concerned with the economic future, to bargain for the covenant not to compete.

This ISP was revised by the Internal Revenue Service in 1996 due to a change in the tax law (Omnibus Budget Reconciliation Act of 1993, specifically IRC §197). The concern was that the new tax law might result in the undervaluation of covenants not to compete. Factors to be considered in the recognition and valuation of the covenant include:

- Did the seller have the ability to compete?
- Was the payment intended as compensation to the seller in lieu of his employment in a competing venture?
- Are there any other factors that reflect the economic reality of the covenant?



IRC §197 (d)(1) specifically includes covenants not to compete, but provides for a 15-year amortization period, which is probably different from the duration of covenant.

There are several recognized methods to quantify the value of a covenant. These include:

- Total Business Approach - value of business with and without the covenant
- Lost Sales Approach - value of the lost earnings from sales lost
- Lost Margins Approach - value of lost earnings from costs absorbed

Each of these methods is a form of the Income Approach. The calculation is intended to derive the present value of the lost earnings attributable to the lack of a covenant.

Factors to be considered to establish the value of noncompetition for the covenantor generally include:

- Age, health and educational background
- Financial ability to compete against buyer after deal
- Technical expertise and know-how to engage in competition
- Need for specialized equipment, tools or other devices
- Business contacts and control of the client/customer base
- Intention to actually compete after the deal
- Legal capacity to compete after the deal
- Business reputation in the community

Identification of the specific impact that each covenantor would have on the business if no covenant were in place is an important consideration. It usually varies with each person.

The issue of a covenant not to compete is not just applicable to service-oriented businesses (e.g. accounting, medicine, investment, advertising, etc.). The central issue regarding the earnings source (i.e. client/customer) is, who owns that source? Is it owned by the business or controlled by the covenantor? The less institutionalized the environment, the greater the value of the covenant. The business may not be marketable in the absence of a covenant. The test, however, is not always an "All or Nothing" proposition.

## PERSONAL GOODWILL IN KING INSURANCE

Now that we have discussed the theory and case law of this issue, we now turn to the facts and circumstances of this valuation. The issue that must be addressed is how much of the intangible value of King Insurance consists of enterprise goodwill versus personal goodwill.

The challenge in quantifying personal goodwill is that there is little empirical evidence that allows a valuation analyst to perform calculations within a legal standard of “reasonable economic certainty.” There are methods that have been attempted by valuation analysts that require so much subjectivity that one must wonder if they have any value, other than considering some of the factors that these methods consider. One such method is known as the Multiattribute Utility Model (“MUM”). As written by Jay Fishman FASA, CBA:

In 2003 David Wood, CPA/ABV took a method that was developed to aid in the restoration in highly contaminated aquatic ecosystems in some countries of the former Soviet Union and applied it to separating personal from enterprise goodwill. MUM or the Multiattribute Utility Theory, is a form of decision analysis concerned with multiple conflicting objectives for complex, real world decision-making problems. In this method ‘professional judgments are used to quantify the likelihoods of a range of consequences while utility theory is used to quantify preferences.’<sup>22</sup> (Footnote: 21. Jimenez, Antonio, Rios-Insua, Sueto Mateos, Alfonso, ‘A Decision Support System for Multiattribute Utility Evaluation based on Imprecise Assignments,’ Decision Support Systems July 3,2002, pgs.66-67).<sup>27</sup>

While this method has gained some popularity, its decision-making process is extremely arbitrary and subjective. While the thought process between the attributes of personal and enterprise goodwill is solid, there is little more to this method than a “factor-rating” method that is essentially the subjective opinion of the valuation analyst. For this reason, we do not believe that it allows for an objective analysis to be performed. In fact, manipulation of the results can be a major flaw, since there are so many unsupported weights involved in its process.

---

<sup>27</sup>

Jay E. Fishman, FASA, “Personal Goodwill v. Enterprise Goodwill,” Working Paper Presented at the 2008 AICPA/ASA National Business Valuation Conference, 13-22.

In this instance, instead of relying on an arbitrary method such as MUM, we analyzed the revenues by producer in order to determine the amount of business that Chad could take with him in the event a transaction took place without a covenant not to compete. As The Company's sole shareholder, Chad does not have a covenant not to compete with King Insurance. However, all other producers have covenants not to compete. A breakdown of revenues by producer is presented in Table 25.

**TABLE 25  
COMMISSIONS BY PRODUCER**

<b>Producer</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Annualized 2018</b>
Chad King - Organic	\$ 528,486	\$ 536,588	\$ 554,155	\$ 620,480	\$ 967,838
Chad King - Acquired	-	91,115	220,909	216,116	194,550
Danny Whiddon	44,049	7,937	3,076	725	678
David Turgeon	429,001	474,628	530,927	533,584	600,408
Nicole Harley	-	-	30,631	126,645	20,351
Other	142,205	218,639	297,424	504,881	242,209
<b>TOTAL COMMISSION REVENUE</b>	<b>\$ 1,143,741</b>	<b>\$ 1,328,907</b>	<b>\$ 1,637,122</b>	<b>\$ 2,002,431</b>	<b>\$ 2,026,033</b>

Note: Figures may not add due to rounding.

Since 2014, Chad has been the primary revenue generator for King Insurance. From 2014 to 2017, Chad's book of business grew from \$528,486 to \$620,480, a compound annual growth rate of 5.5 percent. However, during this time period, Chad's commissions declined as a percentage of The Company's overall revenue. This was primarily due to the hiring of additional producers and the acquisitions of books of business.

In 2018, Chad's commission revenue increased substantially as the result of several factors. First, The Company's third largest producer, Nicole Harley, was terminated. As a result, accounts that were booked under her name were transferred to Chad. In addition, The Company recoded certain no commission paying house accounts and acquired books of business to Chad's revenues. As a result, during 2018, Chad's organic book of business accounted for approximately 48 percent of The Company's revenues on an annualized basis.

In addition to his book of business that was generated organically, Chad's book of business also consists of books that were acquired. From 2015 to 2017, revenues from acquired books of business increased from \$91,115 to \$216,116. In 2018, revenues from acquired books of business declined to \$194,550.

Despite the various changes that have taken place within The Company and the manner in which it tracks commissions, the overall objective in this analysis is to determine what Chad could take with him in the event King Insurance was sold without a noncompete agreement. First, he can take his own book of business away as there is no noncompete agreement in place that prevents him from opening a new company across the street and contacting his existing customers. Furthermore, although the sellers of the acquired books of business are subject to noncompete agreements, there is nothing preventing Chad from contacting these customers as well. When considering both Chad's organic revenues and the acquired books of business, his total book of business accounted for \$1,162,388 of The Company's revenues on an annualized basis.

In addition to his own book of business, there is nothing that prevents Chad from soliciting his key employees and producers. We had asked Mary McDaniel, The Company's Chief Operating Officer and Mr. Turgeon, The Company's second largest producer, whether they would follow Chad in the event that King Insurance was sold and he opened up a new agency across the street. Both individuals replied "yes." This indicates that it is possible that Chad would be able to solicit all of his current producers and key employees.

However, all of King Insurance's producers are subject to a three-year covenant not to compete. These noncompete agreements are assets of the business enterprise as they protect King Insurance from competition from these individuals. Therefore, although Chad could solicit these employees to a new company, these individuals would not be able to contact their customers and bring their books of business with them, as they are subject to the terms of their noncompete agreements.

Based on the facts and circumstances we determined that the personal goodwill associated with Chad is equal to his "walk away value", which is equal to the value of his book of business. Based on our final conclusion of value, the implied price to revenue multiple was 1.38. Applying this multiple to Chad's 2018 annualized revenues of \$1,162,388 results in a value of \$1,600,554 for his book of business. This was determined to be the value of the

gross personal goodwill associated with Chad We also considered the liabilities that would be impacted by Chad leaving The Company. In the event he were to walk away, the stockholder loan balance of \$196,550 that The Company owes to him would likely not be repaid. Therefore, his personal goodwill was offset by this loan balance. Therefore, the amount subject to equitable distribution was calculated as shown in Table 26.

**TABLE 26  
AMOUNT SUBJECT TO EQUITABLE DISTRIBUTION**

	<u>Fair Market Value as of August 31, 2018</u>	<u>Personal Goodwill</u>	<u>Amount Subject to Equitable Distribution</u>
Current Assets			
Cash	\$ 211,998	\$ -	\$ 211,998
Accounts Receivable	20,431	-	20,431
Broker Premiums	<u>56,915</u>	<u>-</u>	<u>56,915</u>
Total Current Assets	\$ 289,344	\$ -	\$ 289,344
Net Fixed Assets	33,435	-	33,435
Goodwill	<u>2,754,628</u>	<u>(1,600,554)</u>	<u>1,154,074</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 3,077,407</u></b>	<b><u>\$ (1,600,554)</u></b>	<b><u>\$ 1,476,853</u></b>
Current Liabilities			
Accounts Payable	\$ 284,298	\$ -	\$ 284,298
Accrued Expenses	1,415	-	1,415
Deferred Expenses	<u>1,940</u>	<u>-</u>	<u>1,940</u>
Total Current Liabilities	\$ 287,653	\$ -	\$ 287,653
Long-Term Liabilities			
Long-Term Debt	\$ 528,283	\$ -	\$ 528,283
Loans from Stockholders	<u>196,550</u>	<u>(196,550)</u>	<u>-</u>
Total Long-Term Liabilities	\$ 724,833	\$ (196,550)	\$ 528,283
Total Liabilities	\$ 1,012,486	\$ (196,550)	\$ 815,936
Total Stockholders' Equity	<u>2,064,921</u>	<u>(1,404,004)</u>	<u>660,917</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$ 3,077,407</u></b>	<b><u>\$ (1,600,554)</u></b>	<b><u>\$ 1,476,853</u></b>

Based on our analysis, we determined that the portion of the value of King Insurance that is subject to equitable distribution is \$660,917, or \$661,000 on a rounded basis.

## 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		3.15%
Equity Risk Premium	+	6.04%
Size Premium	+	5.37%
Industry Risk Premium	-	<u>0.79%</u>
Size Adjusted Industry Rate of Return		13.77%
Risk Factors Specific to King Insurance	x	<u>1.25</u>
<b>DISCOUNT RATE FOR NET INCOME</b>		<b><u><u>17.21%</u></u></b>
Discount Rate for Net Income (Rounded)		17.20%
Growth Rate		<u>2.50%</u>
<b>CAPITALIZATION RATE FOR NET INCOME</b>		<b><u><u>14.70%</u></u></b>

***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 3.15 percent as of September 24, 2018.

**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 6.04 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 5.37 percent based on the size risk premium for the 10<sup>th</sup> 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 King Insurance’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 0.79 percent, which indicates that the insurance industry was less risky than the overall market.

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

- King Insurance is still considerably smaller than the publicly-traded micro-cap companies that were included in the 10<sup>th</sup> decile. Furthermore, The Company lacks management depth and geographic diversification. Therefore, an additional risk premium for size risk is warranted.
- King Insurance is largely dependent on two producers, which accounted for more than 80 percent of The Company's annualized 2018 revenues.

Based on these factors, the size-adjusted industry rate of return of 13.77 percent was increased by a factor of 1.25 to account for risk factors specific to King Insurance.

As a reasonableness test, we analyzed rate of return data for insurance agencies contained in D&P's *Industry Cost of Capital* for the period ended June 30, 2018. According to this publication, the SIC Composite cost of equity using the Capital Asset Pricing Model was 7.7 percent. This represents the cost of equity for nine publicly-traded insurance agencies that were included in the composite. This composite includes some of the largest insurance agencies such as Marsh & McLennan and Arthur J. Gallagher. Therefore, this rate of return needs to be adjusted for the size risk and company specific risk factors attributable to King Insurance. Applying the 10<sup>th</sup> decile size risk premium of 5.37 percent results in a size-adjusted industry rate of return of 13.07 percent. A discount rate of 17.20 percent is about 30 percent higher than the size-adjusted industry rate of return using the *Industry Cost of Capital* data. This makes sense given the aforementioned company specific risk factors attributable to King Insurance.

We also analyzed price to earnings multiples for the industry. The reciprocal of a price to earnings multiple is an earnings capitalization rate. The implied discount rate can be calculated by adding the industry growth rate to the capitalization rate. According to *Industry Cost of Capital*, the median five-year average price to earnings ratio for SIC 6411 was 23.50 which results in an implied capitalization rate of 4.3 percent (the mathematical reciprocal of 23.50). Adding the industry growth rate of 12 percent to the implied capitalization rate results in an implied discount rate of 16.3 percent. The discount rate of 17.20 percent exceeds the implied discount rate based on the industry price to earnings multiple. This makes sense given King Insurance's smaller size and company specific risk factors.



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.

**BLACK INSURANCE AGENCY, INC.**  
**BALANCE SHEET**  
**AS OF**

	December 31,					August 31,
	2013	2014	2015	2016	2017	2018
Current Assets						
Cash	\$ 1,172	\$ 1,752	\$ 46,012	\$ 29,223	\$ 71,958	\$ 211,998
Accounts Receivable	47,148	-	37,271	(51,661)	(78,770)	20,431
Commissions Receivable	-	8,410	-	-	-	-
Broker Premiums	-	-	-	-	56,915	56,915
Total Current Assets	<u>\$ 48,320</u>	<u>\$ 10,162</u>	<u>\$ 83,283</u>	<u>\$ (22,438)</u>	<u>\$ 50,103</u>	<u>\$ 289,344</u>
Gross Fixed Assets	\$ 99,839	\$ 78,602	\$ 79,997	\$ 79,997	\$ 79,997	\$ 92,717
Accumulated Depreciation	<u>93,353</u>	<u>75,816</u>	<u>77,298</u>	<u>77,385</u>	<u>77,472</u>	<u>77,472</u>
Net Fixed Assets	<u>\$ 6,486</u>	<u>\$ 2,786</u>	<u>\$ 2,699</u>	<u>\$ 2,612</u>	<u>\$ 2,525</u>	<u>\$ 15,245</u>
Total Other Assets	<u>\$ 59,850</u>	<u>\$ 55,746</u>	<u>\$ 670,836</u>	<u>\$ 712,389</u>	<u>\$ 659,848</u>	<u>\$ 659,848</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 114,656</u></b>	<b><u>\$ 68,694</u></b>	<b><u>\$ 756,818</u></b>	<b><u>\$ 692,563</u></b>	<b><u>\$ 712,476</u></b>	<b><u>\$ 964,437</u></b>
Current Liabilities						
Accounts Payable	\$ 71,489	\$ 260,472	\$ 78,830	\$ 17,702	\$ 12,701	\$ 284,298
Accrued Expenses	-	-	1,341	1,415	1,415	1,415
Deferred Expenses	-	7,187	17,084	2,366	1,130	1,940
Total Current Liabilities	<u>\$ 71,489</u>	<u>\$ 267,659</u>	<u>\$ 97,255</u>	<u>\$ 21,483</u>	<u>\$ 15,246</u>	<u>\$ 287,653</u>
Long-Term Liabilities						
Notes Payable	\$ 122,021	\$ 45,625	\$ 826,423	\$ 680,041	\$ 650,516	\$ 642,019
Loans from Stockholder	-	-	-	196,550	196,550	196,550
Total Long-Term Liabilities	<u>\$ 122,021</u>	<u>\$ 45,625</u>	<u>\$ 826,423</u>	<u>\$ 876,591</u>	<u>\$ 847,066</u>	<u>\$ 838,569</u>
Total Liabilities	<u>\$ 193,510</u>	<u>\$ 313,284</u>	<u>\$ 923,678</u>	<u>\$ 898,074</u>	<u>\$ 862,312</u>	<u>\$ 1,126,222</u>
Stockholder's Equity						
Preferred Stock	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500
Paid - In Capital	5,623	5,623	5,623	5,623	5,623	5,623
Retained Earnings	<u>(84,977)</u>	<u>(250,713)</u>	<u>(172,983)</u>	<u>(211,634)</u>	<u>(155,959)</u>	<u>(167,908)</u>
Total Stockholder's Equity	<u>\$ (78,854)</u>	<u>\$ (244,590)</u>	<u>\$ (166,860)</u>	<u>\$ (205,511)</u>	<u>\$ (149,836)</u>	<u>\$ (161,785)</u>
<b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>	<b><u>\$ 114,656</u></b>	<b><u>\$ 68,694</u></b>	<b><u>\$ 756,818</u></b>	<b><u>\$ 692,563</u></b>	<b><u>\$ 712,476</u></b>	<b><u>\$ 964,437</u></b>

To be used only in conjunction with valuation report as of September 24, 2018.

**BLACK INSURANCE AGENCY, INC.**  
**INCOME STATEMENT**  
**FOR THE**

	Years Ended December 31,				Eight Months Ended August 31,
	2014	2015	2016	2017	2018
Revenues	\$ 1,143,741	\$ 1,328,907	\$ 1,637,122	\$ 2,002,431	\$ 1,350,688
Operating Expenses					
Advertising	\$ 52,515	\$ 23,560	\$ 24,174	\$ 33,611	\$ 15,073
Amortization	4,104	19,909	49,997	52,540	-
Auto Expense	6,081	-	-	4,000	8,383
Charitable Contributions	720	1,315	1,150	2,255	1,350
Data Processing	45,758	59,186	82,591	89,468	66,663
Depreciation	13,604	1,482	87	87	-
Employee Benefit Programs	5,086	5,761	14,292	21,548	10,760
Officers' Compensation	96,250	117,000	120,000	60,208	40,000
Insurance - General	44,628	45,841	59,525	66,157	70,799
Insurance - Life	1,044	-	-	-	-
Licenses & Fees	-	-	-	1,873	744
Miscellaneous	14,966	18,216	12,993	11,320	6,027
Office Expenses	10,999	6,989	14,095	17,650	2,306
Postage & Delivery	5,781	5,702	3,772	3,837	1,666
Professional Fees	3,150	2,800	5,019	3,338	4,003
Rents	33,438	42,296	32,152	32,652	21,768
Repairs and Maintenance	16,263	2,322	1,933	4,928	5,614
Salaries & Wages	502,761	632,179	787,342	855,071	557,661
Taxes - Other	-	-	-	1,075	2,730
Taxes - Payroll	46,465	73,161	64,583	63,157	42,833
Telephone	17,935	10,146	9,451	10,344	6,850
Travel and Entertainment	2,152	9,748	14,074	7,714	1,238
Utilities	3,601	5,422	5,804	5,901	3,096
Motor Vehicle Record Reports	263	2,688	5,046	4,339	5,009
Printing	2,560	4,585	5,255	2,345	1,154
Training	710	278	946	632	2,592
Write Offs	2,480	1,437	(2,969)	-	403
Dues and Subscriptions	11,803	7,847	6,328	5,865	4,156
Total Operating Expenses	<u>\$ 945,117</u>	<u>\$ 1,099,870</u>	<u>\$ 1,317,640</u>	<u>\$ 1,361,915</u>	<u>\$ 882,878</u>
Operating Income	<u>\$ 198,624</u>	<u>\$ 229,037</u>	<u>\$ 319,482</u>	<u>\$ 640,516</u>	<u>\$ 467,810</u>
Other Income					
Interest Income	\$ -	\$ -	\$ 7	\$ 22	\$ -
Gain on Sale of Assets	<u>25,584</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Income	<u>\$ 25,584</u>	<u>\$ -</u>	<u>\$ 7</u>	<u>\$ 22</u>	<u>\$ -</u>

To be used only in conjunction with valuation report as of September 24, 2018.

**BLACK INSURANCE AGENCY, INC.**  
**INCOME STATEMENT**  
**FOR THE**

	<u>Years Ended December 31,</u>				<u>Eight Months</u>
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Ended</u>
					<u>August 31,</u>
					<u>2018</u>
Other Expenses					
Interest Expense	\$ 999	\$ 16,962	\$ 17,786	\$ 16,655	\$ -
Other Expenses	<u>218,244</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Expenses	<u>\$ 219,243</u>	<u>\$ 16,962</u>	<u>\$ 17,786</u>	<u>\$ 16,655</u>	<u>\$ -</u>
Total Other Income (Expenses)	<u>\$ (193,659)</u>	<u>\$ (16,962)</u>	<u>\$ (17,779)</u>	<u>\$ (16,633)</u>	<u>\$ -</u>
<b>NET INCOME</b>	<b><u>\$ 4,965</u></b>	<b><u>\$ 212,075</u></b>	<b><u>\$ 301,703</u></b>	<b><u>\$ 623,883</u></b>	<b><u>\$ 467,810</u></b>

To be used only in conjunction with valuation report as of September 24, 2018.

## **SOURCES OF INFORMATION UTILIZED**

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

1. Articles of Incorporation of Black Insurance Agency, Inc. dated January 8, 1974.
2. Stock Purchase Agreement between John Jay Black and Jennifer Black and John J. Black, Jr. dated December 31, 2013.
3. Form 1120S, U.S. Income Tax Return for an S Corporation for Black Insurance Agency, Inc. for 2014.
4. Form 1120S, U.S. Income Tax Return for an S Corporation for Black Insurance Agency, Inc. for 2015.
5. Form 1120S, U.S. Income Tax Return for an S Corporation for Black Insurance Agency, Inc. for 2016.
6. Form 1120S, U.S. Income Tax Return for an S Corporation for Black Insurance Agency, Inc. for 2017.
7. Internally prepared income statement for Black Insurance Agency, Inc. for the eight months ended August 31, 2017.
8. Internally prepared income statement for Black Insurance Agency, Inc. for the eight months ended August 31, 2018.
9. Internally prepared balance sheet for Black Insurance Agency, Inc. as of August 31, 2018.
10. Breakdown of miscellaneous expenses for Black Insurance Agency, Inc. for 2014 through 2017.
11. Breakdown of repairs and maintenance expenses from 2014 through 2017 and from January 1, 2018 through August 31, 2018.
12. Closing documents for acquisition of Family Insurance.
13. Closing documents for acquisition of Brown Insurance.
14. Closing documents for acquisition of John Smith Insurance.

## **SOURCES OF INFORMATION UTILIZED**

15. Closing documents for acquisition of Crown Insurance Agency.
16. Closing documents for acquisition of South River Insurance.
17. Closing documents for acquisitions of Johnstown Insurance.
18. Total commissions paid to Nancy Roberts of Family Insurance.
19. Producer commissions from acquired businesses from 2010 through 2017 and from January 1, 2018 through August 31, 2018.
20. Producer commissions from internal sources from 2010 through 2017 and from January 1, 2018 through August 31, 2018.
21. Employment Agreement between Black Insurance Agency, Inc. and Donald M. Wiggins dated November 12, 2007.
22. Resume for Jane Austin.
23. Employment acceptance letter for Jane Austin dated May 16, 2014.
24. Employment Agreement between Black Insurance Agency, Inc. and Jane Austin dated June 16, 2014.
25. Summary of outstanding notes payable for Black Insurance Agency, Inc.
26. Loan commitment from ABC Bank dated September 25, 2015.
27. ABC Bank loan payoff amount as of October 3, 2018.
28. Largest clients from 2015 through 2017 and from January 1, 2018 through August 31, 2018.
29. Payroll summary for John J. Black, Jr. from 2014 through 2017 and from January 1, 2018 through August 31, 2018.
30. Loan statement from ABC Bank for Account Number 100493254 as of August 10, 2018.
31. Loan statement from ABC Bank for Account Number 123456787 as of September 12, 2018.

## **SOURCES OF INFORMATION UTILIZED**

32. Loan statement from ABC Bank for Account Number 4567838 as of August 16, 2018.
33. Loan statement from ABC Bank for Account Number 9393932782984 as of September 14, 2018.
34. IRA contributions for Black Insurance Agency, Inc. for 2018.
35. Black Insurance Agency, Inc. company goals.
36. Narrative history for Black Insurance Agency, Inc. prepared by management.
37. Organization chart for Black Insurance Agency, Inc.
38. Black Insurance Agency, Inc. list of carriers.
39. Email from Dan Appraiser, Senior Director at Colliers International to John Black dated March 20, 2019 containing the fair rental value for the Black Insurance office building.
40. Other items referenced throughout this report.

In addition to the written documentation provided, a physical inspection of the business premises was conducted and a management interview took place. Information gathered at this interview 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 100 percent of the equity of Black Insurance Agency, 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 Association of International Certified Professional 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 Association of International Certified Professional 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-inactive).
- **ABV:** Accredited in Business Valuation designated by The American Institute of Certified Public Accountants (1998). Reaccredited in 2013.
- **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 2015.

**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 since 1997.

**Appraisal Education**

- *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.
- *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.

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

**Appraisal Education**

- *Valuation, Forensic Accounting and Litigation Services Conference*, FL Institute of Certified Public Accountants, Ft. Lauderdale, FL, 2011.
- *AICPA National Business Valuation Conference*, 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<sup>2</sup>*, 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.
- *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.

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

**Appraisal Education**

- *New Jersey Law and Ethics Course*, Parsippany, NJ, New Jersey Society of Certified Public Accountants, 2004.
- *22<sup>nd</sup> 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.
- *19<sup>th</sup> 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**

- *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.
- *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.



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

**Lecturer**

- *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.
- *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.

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

**Lecturer**

- *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.
- *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.

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

**Lecturer**

- *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.
- *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.

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

**Lecturer**

- *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<sup>2</sup>, American Institute of Certified Public Accountants and American Society of Appraisers, 2005.
- *Being an Effective Witness*, Las Vegas, NV, Valuation<sup>2</sup>, 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.
- *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.

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

**Lecturer**

- *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.
- *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.

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

**Instructor**

- *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.
- *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.

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

**Instructor**

- *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.
- New Jersey Society 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.
- 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.

**Current Committee Service**

- Chair - ASA Constitution and By-Laws Committee.

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

**Past Committee Service**

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



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

**Author**

- *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).
- *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.

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

**Author**

- *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, 5<sup>th</sup> 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, 4<sup>th</sup> Edition* (McGraw Hill: New York, 2000).
- Shannon P. Pratt, Robert F. Reilly and Robert P. Schweihs, *Valuing Small Businesses & Professional Practices, 3<sup>rd</sup> Edition* (McGraw Hill: New York, 1998).
- James R. Hitchner, *Financial Valuation: Applications and Models, 1<sup>st</sup> 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; 2<sup>nd</sup> edition, 2013.

## **WILLIAM HARRIS, ASA, CFA PROFESSIONAL QUALIFICATIONS**

### **Experience**

Valuation Analyst at Trugman Valuation Associates, Inc. specializing in business valuation. Experience includes a variety of assignments including closely-held businesses, professional practices and thinly traded public companies. Industries include health care, retail, manufacturing, distributors and service.

Business valuation services have been rendered for a variety of purposes including, but not limited to, business damages, estate and gift tax matters and family law matters.

### **Professional Designations**

- ASA: Accredited Senior Appraiser designated by the American Society of Appraisers (2013). Reaccredited in 2016.
- 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**

- *Advanced Business Valuation Conference*, Live Webcast, American Society of Appraisers, 2018.
- *Advanced Business Valuation Conference*, Houston, TX, American Society of Appraisers, 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.

**WILLIAM HARRIS, ASA, CFA  
PROFESSIONAL QUALIFICATIONS**

**Appraisal Education**

- *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.
- *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).

**WILLIAM HARRIS, ASA, CFA  
PROFESSIONAL QUALIFICATIONS**

**Organizations**

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