

Business Valuation



Trugman Valuation
ASSOCIATES, INC.

The certified leader in business valuation expertise.™

STEVENS & NEUMAN, INC.

VALUATION REPORT

JULY 31, 2006



October 12, 2006

Mr. William B. Stevens
456 Main Place
City, State 00001

Re: Valuation of Stevens & Neuman, Inc.

Dear Mr. Stevens:

We have performed a valuation engagement, as that term is defined in the Statement on Standards for Valuation Services (SSVS) of the American Institute of Certified Public Accountants, of the common stock of Stevens & Neuman, Inc. as of July 31, 2006. This valuation was performed solely to assist you in corporate planning; the resulting estimate 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, the American Society of Appraisers, and The Institute of Business Appraisers, Inc.. 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 summary valuation report, which must be signed in blue ink by the valuation analyst to be authentic, the estimate of value as of July 31, 2006 of one share of the common stock of Stevens & Neuman, Inc. on a minority, non-marketable basis is:

SIXTY-SIX DOLLARS AND FIVE CENTS (\$66.05)

and one share of the non-voting common stock on a minority, non-marketable basis is:

SIXTY-TWO DOLLARS AND SEVENTY-FIVE CENTS (\$62.75)

This report is considered to be a Restricted Use Report according to the *Uniform Standards of Professional Appraisal Practice*, and as such, may not be distributed to any others. 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.

Linda B. Trugman
CPA*/ABV, MCBA, ASA, MBA

LBT/kag
Attachment
*Regulated by the State of Florida

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INTRODUCTION

DESCRIPTION OF THE ASSIGNMENT

Trugman Valuation Associates, Inc. was retained by Stevens & Neuman, Inc. to appraise the common stock of Stevens & Neuman, Inc. on a minority, non-marketable basis and a minority, non-marketable, non-voting basis as of July 31, 2006.

The purpose of this appraisal is to determine the fair market value of this common stock interest as the basis for corporate planning.

The Scope of Work for this assignment was that of a Valuation Engagement as defined in the *SSVS No. 1*. The report is in summary format pursuant to the request of the client. As such, this report is restricted to the use of the client only and may not be distributed to any other person.

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.

This definition of fair market value is the most widely used in valuation practice. Also implied in this definition is that the value is to be stated in cash or cash equivalents and that the property would have been exposed on the open market for a long enough period of time to allow market forces to interact to establish the value.

VALUATION METHODOLOGIES

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

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

The value of a company is deemed to be the higher of the two values determined under a going concern or a liquidation premise. This approach is consistent with the appraisal concept of highest and best use, which requires an appraiser to consider the optimal use of the assets being appraised 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.

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 appraiser are:

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 appraiser. Appraisal standards suggest that an appraiser test as many methods as may be applicable to the facts and circumstances of the property being appraised. It is then up to the appraiser'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 appraiser attempts to find guideline companies traded on a public stock exchange, in a same or similar industry as the appraisal subject that provides the appraiser 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 appraisal 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 provides the appraiser with the ability to determine the multiples that resulted from the transaction. These multiples can then be applied to the appraisal 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 appraiser estimates value, using this approach, by estimating the cost of duplicating or replacing the individual elements of the business property being appraised, 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 generally accomplished by either capitalizing a single period income stream or by discounting a series of income streams based on a multi-period forecast.

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

LIQUIDATION VALUATION

Liquidation value assumes that a business has greater value if its individual assets are sold to the highest bidder and the company ceases to be a going concern.

Shannon Pratt, a well known authority in business appraisal states

[I]iquidation value is, in essence, the antithesis of going-concern value. Liquidation value means the net amount the owner can realize if the business is terminated and the assets sold off in piecemeal.¹

He adds,

¹ Shannon Pratt, *Valuing a Business: The Analysis and Appraisal of Closely Held Companies*, 2nd edition (Illinois: Dow Jones-Irwin, 1989): 29.

...it is essential to recognize all costs associated with the enterprise's liquidation. These costs normally include commissions, the administrative cost of keeping the company alive until the liquidation is completed, taxes and legal and accounting costs. Also, in computing the present value of a business on a liquidation basis, it is necessary to discount the estimated net proceeds at a rate reflecting the risk involved, from the time the net proceeds are expected to be received, back to the valuation date.²

Pratt concludes by stating:

For these reasons, the liquidation value of the business as a whole normally is less than the sum of the liquidation proceeds of the underlying assets.³

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

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

1. The nature of the business and the history of the enterprise from its inception.
2. The economic outlook in general and the condition and outlook of the specific industry in particular.
3. The book value of the stock and financial condition of the business.

² Ibid.

³ Ibid.

4. The earning capacity of the company.
5. The dividend paying capacity of the company.
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 each individual case. There is no set formula to the approach to be used that will be applicable to the different valuation issues that arise. Often, an appraiser 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 appraiser must look to all relevant factors in order to establish the true business fair market value as of a given date. In order to establish a uniform

system for valuing businesses, the Internal Revenue Service issued Revenue Ruling 59-60 listing the factors to consider.

DOCUMENTS REVIEWED IN THIS ASSIGNMENT

Our valuation has been based on the following information:

1. Compiled financial statements of Stevens & Neuman, Inc. for the years ended October 31, 2001 through 2005 prepared by Walters & Walters, P.A., the company's outside accountants.
2. Compiled financial statement of Stevens & Neuman, Inc. for the nine months ended July 31, 2006 prepared by Walters & Walters, P.A.
3. Form 1120, U.S. Corporation Income Tax Return for the years ended October 31, 2001 through 2005.
4. Transaction databases compiled by BizComps, The Institute of Business Appraisers, and Pratt's Stats.
5. Global Researcher database compiled by Disclosure, Inc.
6. *Business Profiler* compiled by Integra Information.
7. Telephone conversations with Alex Walters, the company's outside accountant.
8. A personal interview with Eric Stevens at the place of business.

9. Other items referenced throughout this report.

BRIEF SUMMARY ABOUT THE COMPANY

Stevens & Neuman, Inc. (S&N) is a distinctive workroom for decorators and architects. Its primary line of business is to create and manufacture (sew) custom draperies and window treatments and install them. As an accommodation to its clients, the company will also custom-make a piece of upholstered furniture, or re-upholster a piece of furniture. S&N's clients are interior decorators and architects; S&N does not sell to a retail trade. The company's primary method of marketing is word of mouth, although the company does occasional mailings.

The company was started approximately 27 years ago, and currently is owned 100 percent by William Stevens who is 66 years old. He is assisted by his son, Eric, who runs the operations side of the business. In addition, the company employs three upholsterers, three installers, five to six sewers, and one office/clerical person. The company operates out of a 7,500 square foot building in City, State that is owned by William Stevens. S&N generally operates during normal business hours, and is closed during the first two weeks of August. Business is generally consistent throughout the year, although December is often a busier month.

Due to the specialized nature of S&N's business, classification by Standard Industrial Classification (SIC) Code is difficult. The three codes we determined to be the most relevant were:

SIC Code 2391: Establishments primarily engaged in manufacturing curtains and draperies from purchased materials.

SIC Code 7641: Establishments engaged in furniture re-upholstery and repair.

SIC Code 5023: Establishments primarily engaged in the wholesale distribution of home furnishings and housewares, and earthenware; lamps (including electric); curtains and draperies; linens and towels, and carpets, linoleum, and all other types of hard and soft surface floor coverings.

In general, the home furnishings industry tends to ebb and flow with the general economy, in particular, residential construction. At the valuation date, the economy was strong, but the real estate market had softened, which in turn could trickle down to the home furnishings industry. This is a risk factor for S&N.

FINANCIAL ANALYSIS

A review of the company's balance sheet indicates that the company is extremely liquid: at the valuation date it had in excess of \$197,000 in cash, with only \$163,614 of liabilities. Of those liabilities, over half of them are customer deposits.

Comparative information was located in *Business Profiler*. This composite data included financial statement data for 122 companies in SIC code 2391. According to this data, S&N has always had a more liquid balance sheet than the comparative data, and its net worth has been consistent with the industry. The company maintains very little debt; its primary debt is notes payable for equipment.

One item that is not located on the balance sheet is a liability for a deferred compensation plan.

Signed on July 28, 2005 between S&N and William Stevens, this agreement states the following:

The Corporation agrees to pay Employee, monthly upon the Employee's termination of employment with the Corporation for any reason, including but not limited to, Employee's death, resignation or permanent disability, deferred compensation in the amount of Five Thousand Five Hundred Dollars (\$5,500.00), subject to required withholding under Federal, State and Local laws. Such deferred compensation shall be payable by the Corporation to the Employee. . . .until the earlier occurrence of:

1. the death of the survivor of Employee and his spouse, Carol Stevens; or,
- (b) the completion of ONE HUNDRED FORTY-FOUR (144) successive monthly payments of such deferred compensation. . . .

The agreement is a binding contract, and a willing buyer would purchase the business subject to this liability.

Mr. Stevens is currently 66 years old, and his wife is one year younger. It is anticipated that Mr. Stevens will retire on December 1, 2007, and therefore payments will begin on January 1, 2008. In order to properly value this company, the value of this note must be determined. The value is the present value of this obligation at the valuation date. This will be discussed later in this report.

Analyzing the income statements reveals a company that has been fairly consistent over the last five years. Revenues from 2001 through 2005 increased from \$776,742 to \$1,057,180, an annual increase of approximately 8 percent per year. Much of this growth occurred from 2001 through 2004; 2005 revenues were flat from the prior year.

We were also provided with financial statements for the nine months ended July 31, 2005 and 2006. From this information, we were able to create an income statement reflecting the latest 12 months ended July 31, 2006. According to this information, revenues increased approximately 8.7 percent over the fiscal year ended October 31, 2005. Management has indicated that monthly revenues range from approximately \$90,000 to \$100,000 per month, or \$1,080,000 to \$1,200,000 per year. Revenues for the last 12 months were \$1,149,505. Management would like to see an increase in revenues, but does not anticipate any substantial increase in the future.

A comparison against the industry indicates that S&N is not growing as fast as the industry composite data, but the company appears to be in line with the industry figures. A review of the income statement indicates that there are several items that need to be adjusted. A willing buyer looks at the income statement in an attempt to determine what his or her normal operating expenses would be.

A minority owner cannot force management to change the operations of the business or to pay cash distributions. But, a minority owner can take the controlling owner to court to force the controlling owner to pay a market salary. A review of the financial statements indicates that William Stevens is taking a salary in excess of the market. Therefore, Mr. Stevens's salary and commissions will be added back, and a reasonable market salary will be deducted. Taxes will then be recalculated based on the adjusted income. This calculation appears in the following table:

NORMALIZATION OF INCOME

	October 31,				LTM
	2002	2003	2004	2005	July 31, 2006
Historic Net Income	\$(28,592)	\$ 39,294	\$ (4,121)	\$ (6,741)	\$ 65,815
Adjustments					
Officer's Compensation - Addback	93,600	101,255	134,300	134,650	146,785
Officer's Compensation - Reasonable	(43,712)	(53,939)	(62,190)	(62,374)	(67,821)
Commissions - Addback	1,105	49,909	69,250	85,955	85,900
Historic Income Taxes	4,317	4,246	528	700	910
Adjusted Pretax Net Income	\$ 26,718	\$140,765	\$137,767	\$152,191	\$231,589
Income Taxes	6,052	45,876	44,542	50,960	86,284
Adjusted Historic Net Income	<u>\$ 20,666</u>	<u>\$ 94,889</u>	<u>\$ 93,224</u>	<u>\$101,231</u>	<u>\$145,305</u>

Officer's compensation was derived from two sources. The composite data in *Business Profiler* indicates that officer's compensation for companies classified in SIC code 2391 was 5.9 percent of sales.

In support of this, we located data regarding officer's compensation for companies classified in various codes in the nondurable goods category.⁴ Based on this information, median officer's salaries were as follows:

CEO/President	\$ 75,000
COO	55,000
Sales/Marketing	51,000

These salaries are for companies doing less than \$2 million in sales, but there were very few respondents in each category. Despite the few respondents, this salary range supports the level of salary of 5.9 percent of sales indicated in the *Business Profiler* data.

After adjusting the income statement, it appears that the company's net income is increasing as its sales increase, which means that it would be expected to decrease as revenues decrease. Revenues and net income have varied from a low of approximately \$21,000 in 2002 to \$145,000 in the latest 12 months. In the future, it is not unreasonable to expect revenues and income to fluctuate over this range or a greater range. The minority shareholder and/or a buyer of S&N would look for the company's ability to generate cash flow, rather than income, as this would be the money available to pay for the deferred compensation plan and cash distributions/dividends. This calculation appears in the following table:

⁴ 2006 *Officer Compensation Report*, Aspen Publishers, Inc., 2006: 4-1 to 4-6.

CALCULATION OF CASH FLOW

	October 31,				LTM July 31, 2006
	2002	2003	2004	2005	
Net Income (Loss)	\$ 20,666	\$ 94,889	\$ 93,224	\$ 101,231	\$ 145,305
Depreciation and Amortization	14,547	14,746	13,883	15,060	15,510
Gross Cash Flow	\$ 35,213	\$ 109,635	\$ 107,107	\$ 116,291	\$ 160,815
Capital Expenditures	(26,089)	(24,361)	(6,944)	(8,899)	(16,364)
Change in Working Capital	10,433	49,469	36,918	3,483	(68,413)
Change in Long-Term Debt	15,708	6,029	11,754	(21,776)	18,206
Net Cash Flow	<u>\$ 35,265</u>	<u>\$ 140,771</u>	<u>\$ 148,835</u>	<u>\$ 89,099</u>	<u>\$ 94,244</u>

Based on the company's erratic pattern of growth, and the likelihood that revenues, income and cash flow could just as easily decrease with a decline in the economy as increase, a five-year average net cash flow figure will be utilized as a proxy for future cash flow. This amounts to \$101,643.

VALUATION CALCULATIONS

There are three general approaches to valuation, and within each of these approaches, there are a number of methodologies.

In the asset based approach, each component of a business is valued separately, and summed to derive the total value of the enterprise. This approach is inappropriate for use when appraising a minority interest, as the minority shareholder cannot gain access to the assets due to his or her minority status.

The market approach utilizes either multiples derived from publicly-traded companies in the same or similar industry, or multiples derived from transactions involving companies in the same or similar industry that have been bought or sold. We researched a number of databases and we were unable to locate any data that would be applicable to this appraisal.

The final approach is the income approach. The theory behind this approach is that an investor could invest in a property with similar investment characteristics, although not necessarily the same business. For this appraisal, it was determined that the single period capitalization model would be utilized. This assumes both a stable income stream and a stable growth rate. Although we have previously discussed that revenues and earnings may vary over time, we believe that it will vary within a range represented by a five-year average.

The single period capitalization methodology requires the use of a capitalization rate. This rate is derived from a discount rate that represents the return an investor would receive from a comparable investment. The derivation of this rate was determined to be

approximately 21 percent. Subtracting long term sustainable growth of 3 percent resulted in a capitalization rate of 18 percent (rounded).

Utilizing this information, the value of S&N prior to applying any discounts or premiums and before considering the value of the deferred compensation agreement is calculated as follows:

Average Net Cash Flow	\$ 101,643
Growth Rate	<u>× 1.03</u>
Next Year's Net Cash Flow	\$ 104,692
Capitalization Rate	<u>÷ 18%</u>
Capitalized Value	<u><u>\$ 581,622</u></u>

As discussed earlier in this report, the company has an off-balance sheet liability in the form of a deferred compensation agreement. In order to derive the value of the company, the value of this note must be determined as of the valuation date. This is calculated by determining the present value of the 144 payments, and discounting this annuity value back to the valuation date, since the payments will not begin until January 1, 2008.

In order to determine the rate at which to discount this note, an analysis of market rates was undertaken. We determined that the appropriate discount rate to be used for this calculation is 14 percent. According to The Agreement, S&N will have to make annual payments totaling \$66,000 for 12 years. In highly profitable years, this should not be a problem, as there appears to be plenty of cash flow, but in the weaker years, the company will not have the cash flow available to make these payments. This makes this note riskier,

and therefore, the investor would look at returns on riskier investments as a proxy. Utilizing 14 percent, the present value of this note is calculated as \$314,218.

Combining the note with the value of the equity previously determined yields the value of S&N prior to discounts and premiums is as follows:

Value of Operating Business	\$ 581,622
Value of Note	<u>314,218</u>
Subtotal	<u><u>\$ 267,404</u></u>

DISCOUNTS AND PREMIUMS

VALUATION PREMIUMS AND DISCOUNTS IN GENERAL

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

CONTROL PREMIUM

The prorata value of a controlling interest in a closely-held company is said to be worth more than the value of a minority interest, due to the prerogatives of control that generally follow the controlling shares. An investor will generally pay more (a premium) for the rights that are considered to be part of the controlling interest. A control premium is the opposite of a minority discount. The control premium is used to determine the control value of a closely-held business when its freely traded minority value has been determined. This is generally the case when the appraiser uses information from the public stock market as the starting point of the valuation. Since we are valuing a minority interest, a control premium has not been applied.

MINORITY DISCOUNT

A minority discount is a reduction in the control value of the appraisal subject that is intended to reflect the fact that a minority stockholder cannot control the daily activities or policy decisions of an enterprise, thus reducing its value. The size of the discount will depend on the size of the interest being appraised, the amount of control, the stockholder's ability to liquidate the company, and other factors.

A minority discount is basically the opposite of a premium for control. This type of discount is used to obtain the value of a non-controlling interest in the appraisal subject, when a control value is the starting point. The starting point is determined based on the method of valuation, the normalization adjustments made, and the source of the discount or capitalization rates.

Minority discounts can be mathematically determined using control premiums that are measured in the public market. The formula to determine the minority interest is as follows:

$$1 - \left(\frac{1}{1+CP} \right)$$

Data on control premiums is generally not available for closely-held businesses, so the appraiser uses transactions from the public stock market to act as a gauge as to the amount of premium paid in transactions involving buyouts.

The minority shareholder cannot control the Board of Directors. This means that he or she can be outvoted regularly. He does not have the ability to appoint management, determine compensation, or business policy. The minority shareholder cannot liquidate assets or force the sale of the company to a third party, although no sale is expected to take place.

The minority shareholder cannot register the stock of S&N for an initial public offering or declare dividends. The minority shareholder also cannot change the articles of incorporation or the bylaws of S&N.

The bottom line is that a minority shareholder is disadvantaged due to the legal rights that correspond to his stock ownership. Other than proving that a minority shareholder is “oppressed,” which is a legal concept beyond the qualifications of an appraiser, there is little that a minority shareholder can do to control his investment. Therefore, a minority interest discount is deemed proper.

In this instance, there were very few normalization adjustments, so the cash flow stream derived has very few adjustments made that represent control. But, the minority shareholder is still disadvantaged due to the lack of prerogatives he or she is entitled to. Therefore, a minority or lack of control discount of 5 percent is deemed to be reasonable.

DISCOUNT FOR LACK OF MARKETABILITY

A discount for lack of marketability (DLOM) is used to compensate for the difficulty of selling shares of stock that are not traded on a stock exchange compared with those that can be traded publicly. If an investor owns shares in a public company, he or she can pick up the telephone, call a broker, and generally convert the investment into cash within three days. That is not the case with an investment in a closely-held business. Therefore, publicly traded stocks have an element of liquidity that closely-held shares do not have.

This is the reason that a DLOM will be applied. It is intended to reflect the market’s perceived reduction in value for not providing liquidity to the shareholder.

A DLOM may also be appropriate when the shares have either legal or contractual restrictions placed upon them. This may be the result of restricted stock, buy-sell agreements, bank loan restrictions or other types of contracts that restrict the sale of the shares. Even when a 100 percent interest is the valuation subject, a DLOM may be appropriate if the owner cannot change the restrictions on the stock.

The most commonly used sources of data for determining an appropriate level of a DLOM are studies involving restricted stock purchases or initial public offerings. Revenue Ruling 77-287 references the Institutional Investor Study,⁵ which addresses restricted stock issues. Many studies have updated this one.

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

The registration exemption on restricted stocks is granted under Section 4(2) of the 1933 Securities Act. The intent of Section 4(2) is to allow “small” corporations the ability to raise capital without incurring the costs of a public offering. Regulation D, a safe harbor regulation, which became effective in 1982, falls under section 4(2) of the code and provides uniformity in federal and state securities laws regarding private placements of securities. Securities bought under Regulation D are subject to restrictions, the most

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

important being that the securities cannot be resold without either registration under the Act, or an exemption.⁶ The exemptions for these securities are granted under Rule 144.

Rule 144 allows the limited resale of unregistered securities after a minimum holding period of two years. Resale is limited to the higher of 1 percent of outstanding stock or average weekly volume over a 4 week period prior to the sale, during any three month period. There is no quantity limitation after a four year holding period.⁷

Therefore, a holder of restricted stock must either register their securities with the SEC or qualify for a 144 exemption, in order to sell their stock on the public market. A holder of restricted stock can, however, trade the stock in a private transaction. Historically when traded privately, the restricted stock transaction was usually required to be registered with the SEC. However, in 1990, the SEC adopted Rule 144a which relaxed the SEC filing restrictions on private transactions. The rule allows qualified institutional investors to trade unregistered securities among themselves without filing registration statements.⁸ Effective April 1997, the two year holding period was reduced to one year.

The overall affect of these regulations on restricted stock, is that when issued, the corporation is not required to disclose a price and, on some occasions, even when traded, the value of restricted securities is still not a matter of public record.

In 1977, in Revenue Ruling 77-287, the Internal Revenue Service specifically recognized the relevance of the data on discounts for restricted stocks. The purpose of the ruling was “to provide information and guidance to taxpayers, Internal Revenue Service personnel and

⁶ Kasim L. Alli, Ph.D. and Donald J. Thompson, Ph.D. “The Value of the Resale Limitation on Restricted Stock: An Option Theory Approach,” American Society of Appraisers: *Valuation*, March 1991: 22-23.

⁷ Ibid.

⁸ Richard A. Brealey and Steward C. Myers, “How Corporations Issue Securities,” Chapter 14, *Principles of Corporate Finance*, 5th Edition, McGrawy-Hill, Inc. 2003: 399-401.

others concerned with the valuation, for Federal tax purposes, of securities that cannot be immediately resold because they are restricted from resale pursuant to Federal security laws.”⁹ The ruling specifically acknowledges the conclusions of the SEC Institutional Investor Study and the values of restricted securities purchased by investment companies as part of the “relevant facts and circumstances that bear upon the worth of restricted stock.”

All of the studies concerning restricted stock generally deal with minority blocks of stock in public companies. Therefore, the restricted stock studies may be a useful guide in assessing a discount for lack of marketability to a minority interest. However, a control value may also need to reflect a DLOM, although it probably would be smaller than a DLOM attributable to minority shares. Since a minority interest is more difficult to sell than a controlling interest, the DLOM is usually larger for minority interests. The average DLOM ranges between 25 and 45 percent based on the studies discussed previously. Larger discounts may be appropriate if the starting point is a marketable, minority interest value based on public guideline company methods.

Another manner in which the business appraisal community and users of its services determines discounts for lack of marketability is with the use of closely-held companies that underwent an initial public offering (IPO) of its stock. In these instances, the value of the closely-held stock is measured before and after the company went public.

Robert W. Baird & Co., a regional investment banking firm has conducted eight studies over time periods ranging from 1980 through 1997, comparing the prices in closely-held stock transactions, when no public market existed, with the prices of subsequent IPOs in the same stocks. The results were discounts that ranged 40 to 60 percent, with a median of about 44 percent.

⁹ Revenue Ruling 77-287 (1977-2 C.B. 319), Section I.

Another consideration in determining a discount for lack of marketability is the cost of flotation of a public offering. These costs are generally significant and will frequently include payments to attorneys, accountants, and investment banker fees. The costs associated with smaller offerings can be as much as 25 to 30 percent of a small company's equity.

One of the best explanations of why a DLOM varies from case to case was included in an article published by Robert E. Moroney entitled "Why 25% Discount for Non-marketability in One Valuation, 100% in Another?"¹⁰ In Moroney's article, he points out 11 different factors that should be considered in the application of a DLOM. These factors are as follows:

1. High dividend yield: Companies that pay dividends tend to be more marketable than companies that do not. This would increase the DLOM for S&N, as it does not pay dividends.
2. Bright growth prospects: Companies that have bright growth prospects are easier to sell than companies that do not. This makes them more marketable. Based on what is known about the company, the future looks stable, but there are no projections for high growth.
3. Swing value: If a block of stock has swing value, it may be more marketable than the typical small block of stock. This swing value could include a premium. This can be emphasized where a 2 percent interest exists with two 49 percent interests. The 2 percent interest can be worth quite a bit to either 49 percent interest if it will give that interest control of the company. This is not a factor in this valuation
4. Restrictions on transfer: Restrictions on transfer make the stock less marketable due to the difficulty in selling them. We are unaware of any restrictions on transfer.
5. Buy-sell agreements: Buy-sell agreements can go either way. The agreement can create a market for the stock, making it more

¹⁰ *Taxes*, May 1977.

marketable, or the agreement can restrict the sale making it less marketable.

6. Stock's quality grade: The better the quality of the stock, the more marketable it will be. This can be evidenced by comparing the subject company to others for supporting strengths and weaknesses.
7. Controlling shareholder's honesty: The integrity of the controlling shareholder can make a big difference regarding the ability to sell a partial interest in a company. If the controlling shareholder tends to deal with the other shareholders honestly, the other interests in that company tend to be more marketable.
8. Controlling shareholder's friendliness: Similar to the shareholder's honesty, the manner in which he or she deals with others can make the stock more marketable.
9. Prospects for the corporation: If a corporation has good prospects for the future, it will generally be more marketable. The prospects for S&N are stable.
10. Prospects for the industry: A company that is in an industry with good prospects will also generally be more marketable. The industry appears to be stable.
11. Mood of the investing public: When the investing public is bullish, they are more readily willing to make an investment. This can increase the marketability. As of July 31, 2006, the U.S. was in the midst of an extended bull market, although it was slowing down.

In addition to the various studies and factors previously discussed, another issue affecting the marketability of S&N is the liability for the deferred compensation agreement. Anyone purchasing this stock would be knowledgeable about this burden. Before any expenditures for possible expansion or dividends could be considered, this note would have to be paid. This would make stock in S&N that much more difficult to sell.

Based on these factors, a DLOM of 35 percent has been deemed appropriate for S&N.

NON-VOTING STOCK

An additional discount needs to be applied to non-voting shares due to its lack of voting rights. Logically, an asset with voting rights is more valuable than one without voting rights, thus providing a theoretical basis for such a discount.

A study performed by Vijay M. Joy and Allan L. Riding shows that non-voting shares in public companies tend to trade at approximately a 7 percent discount to voting shares in the same company.¹¹

According to Shannon Pratt,

Where differentials in favor of voting stock exist, they generally have been under 5 percent, and no study has indicated a differential of over 10 percent. Again, the distribution of the stock can have a bearing. If one stockholder has total control anyway and there is no cumulative voting, the question of whether the minority shares are voting or non-voting is academic unless a split of the control block is foreseeable.¹²

Based on the facts and circumstances, a discount of 5 percent is deemed applicable.

¹¹ Vijay M. Joy and Allan L. Riding, "Price Effects of Dual Class Shares," *Financial Analysts Journal*, January - February 1986: 58-67.

¹² Pratt, Shannon P., Robert F. Reilly and Robert P. Schweihs, *Valuing a Business*, 3rd Edition, Irwin Professional Publishing: Chicago, 1996: 323.

CONCLUSION

Based on these discounts, we now reconcile our value estimates as follows:

Value on a Control, Marketable Basis	\$ 267,404
Number of Shares	<u>÷ 2,500</u>
Value on a Per Share Basis	\$ 106.96
Less Discount for Lack of Control (5%)	<u>(5.35)</u>
	\$ 101.61
Less Discount for Lack of Marketability (35%)	<u>(35.56)</u>
Estimate of Value on a Minority, Non-Marketable Basis	\$ 66.05
Less Discount for Lack of Voting Rights (5%)	<u>(3.30)</u>
Estimate of Value of a Minority, Non-Marketable, Non-Voting Basis	<u>\$ 62.75</u>

STEVENS & NEUMAN, INC.
BALANCE SHEET
AS OF

	October 31,					July 31, 2006
	2001	2002	2003	2004	2005	
Current Assets						
Cash	\$ 31,253	\$ 17,259	\$ 102,436	\$ 132,645	\$ 113,772	\$ 197,041
Accounts Receivable	29,691	46,670	51,769	14,344	29,469	72,554
Inventories	20,000	20,000	10,000	25,000	25,000	25,000
Prepaid Taxes	25	25	25	-	-	-
Fed. Corp. Tax Receivable	-	-	-	6,789	6,189	6,189
Loans and Exchanges	-	-	510	612	-	-
Due From (To) Officers	6,864	(3,836)	-	-	-	-
Total Current Assets	<u>\$ 87,833</u>	<u>\$ 80,118</u>	<u>\$ 164,739</u>	<u>\$ 179,391</u>	<u>\$ 174,431</u>	<u>\$ 300,783</u>
Fixed Assets						
Machinery & Equipment	\$ 15,932	\$ 15,932	\$ 15,932	\$ 13,357	\$ 13,357	\$ 13,357
Furniture & Fixtures	20,258	20,258	20,258	22,834	31,733	31,733
Automotive Equipment	66,969	93,058	117,419	124,362	124,362	140,726
Leasehold Improvements	16,582	16,582	16,582	16,582	16,582	16,582
Gross Fixed Assets	\$ 119,741	\$ 145,830	\$ 170,191	\$ 177,135	\$ 186,034	\$ 202,398
Accumulated Depreciation	<u>83,437</u>	<u>97,984</u>	<u>112,730</u>	<u>105,333</u>	<u>120,393</u>	<u>104,192</u>
Net Fixed Assets	<u>\$ 36,304</u>	<u>\$ 47,846</u>	<u>\$ 57,461</u>	<u>\$ 71,802</u>	<u>\$ 65,641</u>	<u>\$ 98,206</u>
Other Assets						
Security Deposits	<u>\$ 590</u>	<u>\$ 590</u>	<u>\$ 590</u>	<u>\$ 590</u>	<u>\$ 590</u>	<u>\$ 590</u>
TOTAL ASSETS	<u>\$ 124,727</u>	<u>\$ 128,555</u>	<u>\$ 222,791</u>	<u>\$ 251,783</u>	<u>\$ 240,662</u>	<u>\$ 399,579</u>

To be used only in conjunction with valuation report as of July 31, 2006.

STEVENS & NEUMAN, INC.
BALANCE SHEET
AS OF

	October 31,					July 31, 2006
	2001	2002	2003	2004	2005	
Current Liabilities						
Accounts Payable	\$ -	\$ 16,295	\$ 20,854	\$ 24,489	\$ 31,125	\$ 13,743
Notes Payable	23,015	20,261	17,909	42,755	34,729	52,935
Sales Taxes Payable	435	1,414	98	275	271	867
Income Taxes Payable	-	-	7,756	-	-	-
Due to Customers	31,192	30,630	68,346	93,819	104,512	95,969
N.J.C.B.T. Payable	-	-	200	30	100	100
Total Current Liabilities	<u>\$ 54,642</u>	<u>\$ 68,600</u>	<u>\$ 115,162</u>	<u>\$ 161,367</u>	<u>\$ 170,737</u>	<u>\$ 163,614</u>
Long-Term Liabilities						
Long-Term Debt	\$ -	\$ -	\$ 11,085	\$ 6,068	\$ -	\$ -
Notes Payable	-	18,462	15,758	7,682	-	-
Total Long-Term Liabilities	<u>\$ -</u>	<u>\$ 18,462</u>	<u>\$ 26,843</u>	<u>\$ 13,750</u>	<u>\$ -</u>	<u>\$ -</u>
Total Liabilities	<u>\$ 54,642</u>	<u>\$ 87,062</u>	<u>\$ 142,004</u>	<u>\$ 175,118</u>	<u>\$ 170,737</u>	<u>\$ 163,614</u>
Stockholder's Equity						
Common Stock	\$ 3,345	\$ 3,345	\$ 3,345	\$ 3,345	\$ 3,345	\$ 3,345
Retained Earnings	66,739	38,147	77,441	73,320	66,579	232,620
Total Stockholder's Equity	<u>\$ 70,084</u>	<u>\$ 41,492</u>	<u>\$ 80,786</u>	<u>\$ 76,665</u>	<u>\$ 69,924</u>	<u>\$ 235,965</u>
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	<u>\$ 124,727</u>	<u>\$ 128,555</u>	<u>\$ 222,791</u>	<u>\$ 251,783</u>	<u>\$ 240,662</u>	<u>\$ 399,579</u>

To be used only in conjunction with valuation report as of July 31, 2006.

STEVENS & NEUMAN, INC.
INCOME STATEMENT
FOR THE

	Years Ended October 31,					Latest 12 Months Ended
	2001	2002	2003	2004	2005	July 31, 2006
Revenues						
Drapes and Curtains	\$ 415,279	\$ 494,627	\$ 598,078	\$ 654,068	\$ 655,474	\$ 687,122
Upholstery	361,463	246,261	316,136	400,007	401,707	462,383
Total Revenues	<u>\$ 776,742</u>	<u>\$ 740,888</u>	<u>\$ 914,214</u>	<u>\$1,054,075</u>	<u>\$1,057,180</u>	<u>\$1,149,505</u>
Cost of Sales						
Purchases	\$ 74,778	\$ 94,584	\$ 128,414	\$ 126,115	\$ 145,107	\$ 130,358
Cost of Labor	295,001	276,063	298,564	374,206	374,628	397,595
Freight	(461)	1,547	1,572	4,491	3,916	3,503
Depreciation	5,958	14,547	14,746	13,883	15,060	15,510
Subcontracting	-	1,928	12,324	11,522	16,248	23,923
Payroll Expense	25,597	18,357	25,325	30,878	32,763	33,236
Rent	60,390	59,406	72,270	71,134	72,571	71,004
Shop Expense	41,679	25,587	10,499	44,533	14,280	18,762
Maintenance and Repairs	800	3,673	4,823	12,798	9,298	4,683
Other Expense	11,393	11,516	8,417	11,107	11,710	13,021
Total Cost of Sales	<u>\$ 515,136</u>	<u>\$ 507,208</u>	<u>\$ 576,955</u>	<u>\$ 700,666</u>	<u>\$ 695,581</u>	<u>\$ 711,595</u>
Gross Profit	<u>\$ 261,606</u>	<u>\$ 233,680</u>	<u>\$ 337,259</u>	<u>\$ 353,409</u>	<u>\$ 361,600</u>	<u>\$ 437,910</u>

To be used only in conjunction with valuation report as of July 31, 2006.

STEVENS & NEUMAN, INC.
INCOME STATEMENT
FOR THE

	Years Ended October 31,					Latest 12 Months Ended
	2001	2002	2003	2004	2005	July 31, 2006
Operating Expenses						
Advertising	\$ 2,780	\$ 1,640	\$ 6,074	\$ 3,676	\$ 2,633	\$ 2,633
Auto Expense	6,957	10,020	16,623	13,735	5,430	6,663
Commissions	9,655	1,105	49,909	69,250	85,955	85,900
Employee Benefit Programs	29,307	32,504	28,749	34,230	27,095	24,582
Officer's Compensation	91,800	93,600	101,255	134,300	134,650	146,785
Insurance - General	28,391	35,888	28,755	28,111	33,200	20,670
Miscellaneous	429	705	481	1,782	1,249	1,216
Office Expenses	8,493	8,817	10,196	12,500	10,042	15,305
Professional Fees	9,083	13,014	10,740	9,470	13,534	21,075
Repairs and Maintenance	-	-	-	344	-	-
Salaries & Wages	37,545	31,458	14,820	14,535	14,820	10,260
Taxes - Other	12,795	-	-	-	-	-
Taxes - Payroll	1,492	11,777	11,008	13,958	13,450	13,236
Telephone	7,834	8,486	7,363	7,805	8,091	8,448
Travel	-	-	-	5,937	7,126	7,308
Dues and Subscriptions	330	418	598	1,383	892	622
X-mas Expense	3,500	3,825	4,000	-	5,000	6,000
Business Meals & Promotion	6,408	2,949	-	4,752	3,969	3,511
N.J. Domestic Annual Report	20	50	-	40	190	40
Total Operating Expenses	<u>\$ 256,820</u>	<u>\$ 256,256</u>	<u>\$ 290,571</u>	<u>\$ 355,809</u>	<u>\$ 367,325</u>	<u>\$ 374,254</u>

To be used only in conjunction with valuation report as of July 31, 2006.

**STEVENS & NEUMAN, INC.
INCOME STATEMENT
FOR THE**

	Years Ended October 31,					Latest 12 Months Ended July 31, 2006
	2001	2002	2003	2004	2005	
Operating Income (Loss)	\$ 4,786	\$ (22,576)	\$ 46,688	\$ (2,400)	\$ (5,725)	\$ 63,656
Other Income						
Interest Income	\$ 43	\$ 199	\$ 344	\$ 1,876	\$ 3,380	\$ 5,809
Gain on Sale of Assets	1,800	-	-	-	-	-
Total Other Income	\$ 1,843	\$ 199	\$ 344	\$ 1,876	\$ 3,380	\$ 5,809
Other Expenses						
Interest Expense	\$ 184	\$ 1,898	\$ 3,493	\$ 3,069	\$ 3,696	\$ 2,740
Total Other Income (Expenses)	\$ 1,659	\$ (1,699)	\$ (3,148)	\$ (1,193)	\$ (315)	\$ 3,069
Income (Loss) Before Taxes	\$ 6,445	\$ (24,275)	\$ 43,540	\$ (3,593)	\$ (6,041)	\$ 66,725
Income Taxes	25	4,317	4,246	528	700	910
NET INCOME (LOSS)	\$ 6,420	\$ (28,592)	\$ 39,294	\$ (4,121)	\$ (6,741)	\$ 65,815

To be used only in conjunction with valuation report as of July 31, 2006.

CONTINGENT AND LIMITING CONDITIONS

This appraisal is subject to the following contingent and limiting conditions:

1. Information, estimates, and opinions contained in this report are obtained from sources considered reliable; however, Trugman Valuation Associates, Inc. has not independently verified such information and no liability for such sources is assumed by this appraiser.
2. All facts and data set forth in the report are true and accurate to the best of the appraiser's knowledge and belief. We have not knowingly withheld or omitted anything from our report affecting our value estimate.
3. 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 appraiser, and in any event only with proper authorization. Authorized copies of this report will be signed in blue ink by an officer of Trugman Valuation Associates, Inc. Unsigned copies, or copies not signed in blue ink, should be considered to be incomplete.
4. None of the contents of this valuation report shall be conveyed to any third party or to the public through any means without the express written consent of Trugman Valuation Associates, Inc.
5. No investigation of titles to property or any claims on ownership of the property by any individuals or company has been undertaken. Unless otherwise stated in our report, title is assumed to be clear and free of encumbrances and as provided to the appraiser.
6. 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 appraisers for professional fees and, then, only to the party(s) for whom this report was originally prepared.
7. The various estimates of value presented in this report apply to this appraisal only and may not be used out of the context presented herein. Any other use of this report may lead the user to an incorrect conclusion for which Trugman Valuation Associates, Inc. assumes no responsibility.
8. The appraisal estimate of fair market value reached in this report is necessarily based on the definition of fair market value as stated in the Introduction Section. An

CONTINGENT AND LIMITING CONDITIONS

actual transaction in the shares may be concluded at a higher value or lower value, depending on the circumstances surrounding the company, the appraised 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.

9. It should be specifically noted that the valuation assumes the business will be competently managed and maintained by financially sound owners, over the expected period of ownership. This appraisal engagement does not entail an evaluation of management's effectiveness, nor are we responsible for future marketing efforts and other management or ownership actions upon which actual results will depend.
10. No opinion is intended to be expressed for matters that require legal or other specialized expertise, investigation or knowledge beyond that customarily employed by appraisers valuing businesses.
11. It is assumed that there are no regulations of any government entity to control or restrict the use of the underlying assets, unless specifically referred to in the report and that the underlying assets will not operate in violation of any applicable government regulations, codes, ordinances or statutes.
12. Valuation reports may contain prospective financial information, estimates or opinions that represent the view of the appraiser about reasonable expectations at a particular point in time, but such information, estimates or opinions are not offered as predictions or as assurances that a particular level of income or profit will be achieved, or that specific events will occur.
13. We assume that there are no hidden or unexpected conditions of the business that would adversely affect value, other than as indicated in this report.
14. Hazardous substances, if present, can introduce an actual or potential liability that will adversely affect the marketability and value of a business. Such liability may be in the form of immediate recognition of existing hazardous conditions, or future liability that could stem from the release of currently non-hazardous contaminants. In the development of the opinion of value, no consideration was given to such liability or its impact on value. We have not taken into account any and all future environmental considerations and potential liability.

Appraisal of the common stock of Stevens & Neuman, 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 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 appraisal.
- our analyses, opinions, and conclusions were developed and this report has been prepared in conformity with the *Statement on Standards for Valuation Services No. 1*, promulgated by the American Institute of Certified Public Accountants, the *Uniform Standards of Professional Appraisal Practice*, promulgated by the Appraisal Foundation, the business valuation standards of The Institute of Business Appraisers Inc. and the American Society of Appraisers.
- The American Institute of Certified Public Accountants, The American Society of Appraisers, and The Institute of Business Appraisers, Inc. 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 organization's programs.
- no one provided significant business and/or intangible asset appraisal assistance to the person signing this certification. the statements of fact contained in this report are true and correct to the best of our knowledge and belief, subject to the assumptions and conditions stated.

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

Experience

Vice President of Trugman Valuation Associates, Inc., a firm specializing in business valuation 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 security, automotive, funeral homes, health care, securities brokerage and financial institutions, retail, manufacturing, service, and professional business establishments.

Business valuation 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, and breach of contract. Representation in litigation includes plaintiff, defendant, mutual, and court-appointed neutral.

Court Testimony. Has been qualified as an expert witness in State Courts of New Jersey and Florida.

Court Appearances. Has appeared in the following court: *New Jersey • Passaic; Essex.*

Professional Designations

- ***CPA:** Licensed in Florida (2003) and New Jersey (1987).
- **ABV:** Accredited in Business Valuation designated by The American Institute of Certified Public Accountants (1998).
- **MCBA:** Master Certified Business Appraiser designated by The Institute of Business Appraisers, Inc. (2005). Original certification (CBA) in 1995.
- **ASA:** Accredited Senior Appraiser designated by the American Society of Appraisers (1997). Reaccredited in 2007.

Education

- Masters in Business Administration - Fairleigh Dickinson University (1986).
- Bachelor of Science - University of North Carolina (1978).

Faculty

- *National Judicial College*, Reno, Nevada since 2001.

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

Appraisal Education

- *Impact of the Pension Protection Act of 2006*. American Institute of CPAs, 2007.
- *Quantification of Company Specific Risk: Theory and Applications*. Business Valuation Resources, 2007.
- *BV Standards: AICPA, IRS and Beyond - Where Are We Headed?* Business Valuation Resources, 2007.
- *AICPA National Business Valuation Conference*. Austin, American Institute of Certified Public Accountants, 2006.
- *FCG Conference*. Austin, TX, Financial Consulting Group, 2006.
- *CICBV/ASA Sixth Joint Business Valuation Conference*. Toronto, American Society of Appraisers, 2006.
- *Ask the IRS*. Business Valuation Resources, 2006.
- *Tax Affecting*. Business Valuation Resources, 2006.
- *FICPA Valuation, Accounting and Litigation Services Conference*. Ft. Lauderdale, FL, Florida Institute of Certified Public Accountants, 2006.
- *Valuation²*. 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.
- *New Jersey Law and Ethics Course*. Parsippany, NJ, New Jersey Society of Certified Public Accountants, 2004.
- *2004 FICPA Business Valuation & Litigation Conference*. Fort Lauderdale, FL, Florida Institute of CPAs, 2004.
- *22nd Annual Advanced Business Valuation Conference*. Chicago, IL, American Society of Appraisers, 2003.
- *AICPA National Business Valuation Conference*. New Orleans, LA, American Institute of Certified Public Accountants, 2002.
- *Annual Member Firm Conference*. Denver, CO, Financial Consulting Group, LC, 2002.

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

Appraisal Education

- *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.
- *20th Annual Advanced Business Valuation Conference.* Seattle, WA, American Society of Appraisers, 2001.
- *2001 Share the Wealth Conference.* Orlando, FL, The Institute of Business Appraisers, 2001.
- *2000 National Conference on Business Valuation.* Miami, FL, American Institute of Certified Public Accountants, 2000.
- *19th Annual Advanced Business Valuation Conference.* Philadelphia, PA, American Society of Appraisers, 2000.
- *Hot Issues in Estate and Gift Tax Returns: What do the Auditors Look For?* New Brunswick, NJ, New Jersey Institute for Continuing Legal Education, 2000.
- *Pulling Ahead of the Pack - The Institute of Business Appraisers' 2000 National Conference.* Phoenix, AZ, The Institute of Business Appraisers, 2000.
- *Business Valuation Conference.* Las Vegas, NV, American Institute of Certified Public Accountants, 1999.
- *1999 International Appraisal Conference.* Boston, MA, American Society of Appraisers, 1999.
- *1999 Annual Conference.* Boston, MA, American Society of Appraisers, 1999.
- *Chartered Financial Analyst Level II Self Study Program,* 1999.
- *1999 Annual Conference: The Future of Business Valuation.* Orlando, FL, The Institute of Business Appraisers, Inc., 1999.
- *1998 Joint Business Valuation Conference.* Montreal, Canada, American Society of Appraisers and Canadian Institute of Chartered Business Valuators, 1998.
- *Chartered Financial Analyst Level I Self Study Program,* 1998.
- *The Future of Business Valuation Annual Conference.* San Antonio, TX, The Institute of Business Appraisers, Inc., 1998.
- *Business Valuation Conference.* San Diego, CA, American Institute of Certified Public Accountants, 1997.

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

Appraisal Education

- *16th Annual Advanced Business Valuation Conference.* San Francisco, CA, American Society of Appraisers, 1997.
- *Quantifying Marketability Discounts.* San Francisco, CA, Mercer Capital, 1997.
- *Advanced Research Analysis.* Roseland, NJ, NJ Society of Certified Public Accountants, 1997.
- *1997 Business Valuation Conference.* New Brunswick, NJ, NJ Society of Certified Public Accountants, 1997.
- *National Conference on Appraising Closely-Held Businesses.* San Diego, CA, The Institute of Business Appraisers, Inc., 1997.
- *National Business Conference.* Phoenix, AZ, American Institute of Certified Public Accountants, 1996.
- *15th Annual Business Valuation Conference.* Memphis, TN, American Society of Appraisers, 1996.
- *1996 Business Valuation Conference.* Holmdel, NJ, NJ Society of Certified Public Accountants, 1996.
- *National Conference on Appraising Closely-Held Businesses.* Orlando, FL, The Institute of Business Appraisers, Inc., 1996.
- *The 1995 National Business Valuation Conference.* New Orleans, LA, American Institute of Certified Public Accountants, 1995.
- *1995 Advanced Business Valuation Conference.* Boston, MA, American Society of Appraisers, 1995.
- *ASA International Appraisal Conference.* Denver, CO, American Society of Appraisers, 1995.
- *National Conference on Business Valuation.* San Diego, CA, American Institute of Certified Public Accountants and The Institute of Business Appraisers, Inc., 1995.
- *First Annual Business Valuation Conference.* Holmdel, NJ, NJ Society of Certified Public Accountants, 1995.
- *National Conference.* Las Vegas, NV, The Institute of Business Appraisers, Inc., 1995.
- *Business Valuation in a Changing International Environment.* San Diego, CA, American Society of Appraisers, 1994.
- *1994 International Conference.* Chicago, IL, American Society of Appraisers, 1994.

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

Appraisal Education

- *Principles of Valuation-Business Valuation: Selected Advanced Topics.* Los Angeles, CA, American Society of Appraisers, 1994.
- *Principles of Valuation-Business Valuation: Appraisal of Small Businesses and Professional Practices.* Atlanta, GA, American Society of Appraisers, 1994.
- *National Conference of Appraising Closely-Held Businesses.* Orlando, FL, The Institute of Business Appraisers, Inc., 1994.
- *Principles of Valuation-Business Valuation Case Study.* Washington, DC, American Society of Appraisers, 1993.
- *1993 International Conference.* Seattle, WA, American Society of Appraisers, 1993.
- *Uniform Standards of Professional Appraisal Practice and Professional Appraisal Ethics.* Seattle, WA, American Society of Appraisers, 1993.
- *Principles of Valuation-Business Valuation Methodology.* Washington, DC, American Society of Appraisers, 1993.
- *National Conference.* San Diego, CA, The Institute of Business Appraisers, Inc., 1993.
- *Developing Your Business Valuation Skills: An Engagement Approach.* Iselin, NJ, NJ Society of Certified Public Accountants, 1992.
- *Advanced Business Valuation Seminar.* San Francisco, CA, The Institute of Business Appraisers, Inc., 1992.
- *Principles of Valuation-Introduction to Business Valuation.* Washington, DC, American Society of Appraisers, 1992.
- *Business Valuation for Accountants.* Newark, NJ, The Institute of Business Appraisers Inc., 1992.
- Has performed extensive reading and research on business valuations and business valuation related topics.

Lecturer

- *Business Valuation for the Non-Valuation Professional,* Atlanta, GA, AICPA's Small Practitioner's Tax Conference, 2007.
- *Specific Company Risk: Qualitative or Quantitative? A New Look at an Old Topic,* Washington, DC, NACVA's Fourteenth Annual Consultants' Conference, 2007.
- *Personal Goodwill: Does the Non-Propertied Spouse Really Lose the Battle?* Ft. Lauderdale, FL, Florida Bar Family Law Section, 2007.

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PROFESSIONAL QUALIFICATIONS**

Lecturer

- *Business Valuation Reports: How to Evaluate Them & The Appraiser*, St. Louis, MO, St. Louis Estate Planning Council, 2007.
- *Business Valuation*, Ft. Lauderdale, FL, Nova Southeastern University Law School, 2006, 2007.
- *Case Study for Estate and Gift Tax Purposes*. Ft. Lauderdale, FL, FICPA Valuation, Accounting and Litigation Services Conference, 2006.
- *Report Writing*. Las Vegas, NV, Valuation², American Institute of Certified Public Accountants and American Society of Appraisers, 2006.
- *ESOPs for Auditors*. Las Vegas, NV, American Institute of Certified Public Accountants' Employee Benefit Conference, 2005.
- *Discount for Lack of Marketability*. Orlando, FL, The Institute of Business Appraisers' National Business Valuation Conference, 2005.
- *The Market Approach to Business Valuation*. Ft. Lauderdale, FL, Florida Institute of Certified Public Accountants' Valuation & Litigation Services Conference, 2005.
- *Meet the Thought Leaders*. Orlando, FL, American Institute of Certified Public Accountants National Business Valuation Conference, 2004.
- *Court Case Decisions: Okerlund and Blount*. Telephone Conference, CPAmerica, Inc., 2004.
- *The Income Approach*. Phoenix, AZ, American Institute of Certified Public Accountants National Business Valuation Conference, 2003.
- *What's Happening in the Courts?* St. Paul, MN, Minnesota Society of CPAs, 2003.
- *The Transaction Method - How Do You Really Use It?* Overland Park, KS, Kansas Society of CPAs, 2003.
- *Professional Practice Valuations*. Miami, FL, The Florida Bar - Family Law Section, 2003.
- *Valuing Family Limited Partnerships*. Las Vegas, NV, CPAmerica International, 2003.
- *Business Valuation: There's a "Right" Way and a "Wrong" Way to Do It!* Orlando, FL, Florida Accounting & Business Expo, 2003.
- *Business Valuation Basics*. Miami, FL, Florida International University, 2003.
- *Valuing Family Limited Partnerships*. Fort Lauderdale, FL, Fort Lauderdale Tax Planning Council, 2003.

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PROFESSIONAL QUALIFICATIONS**

Lecturer

- *To Tax or Not to Tax? Issues Relating to S Corps and Built-In Gains Taxes.* Washington, DC, Internal Revenue Service, 2003.
- *Fundamentals of Valuing a Family Limited Partnership.* Ft. Lauderdale, FL, Florida Institute of Certified Public Accountants, 2003.
- *Valuation of FLPs and LLCs.* Neptune, NJ, Estate and Financial Planning Council of Central Jersey, 2002.
- *Fundamentals of FLPs and FLLCs.* Las Vegas, NV, American Institute of Certified Public Accountants, 2001.
- *Market Data Method.* Las Vegas, NV, American Institute of Certified Public Accountants, 2001.
- *The FLP Written Report.* Orlando, FL, The Institute of Business Appraisers, 2001.
- *What's Happening in the Courts?* Ft. Lauderdale, FL, Florida Institute of Certified Public Accountants, 2001.

Instructor

- *Principles of Valuation: Business Valuation Case Study.* American Society of Appraisers, Chicago, IL 2007.
- *Principles of Valuation: The Market Approach.* American Society of Appraisers, Herndon, VA, 2006, 2007.
- *Business Valuation Essentials: Reports, Standards and Tax Valuations.* American Institute of Certified Public Accountants, Tennessee, 2006.
- *Business Valuation Essentials: Valuation of Specialized Areas.* American Institute of Certified Public Accountants, Rhode Island, 2006; Tennessee, 2006.
- *Business Valuation Essentials Case Study.* American Institute of Certified Public Accountants, Rhode Island, 2006; Tennessee, 2006.
- *Business Valuation Essentials: Income Approach and Cost of Capital.* American Institute of Certified Public Accountants, Georgia, 2005, 2006.
- *Business Valuation Essentials: Introduction.* American Institute of Certified Public Accountants, Georgia, 2005, 2006; North Carolina, 2006.
- *Small Business Valuation: A Real Life Case Study.* American Institute of Certified Public Accountants, Iowa, 2005; Indiana, 2005; Florida, 2006.

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PROFESSIONAL QUALIFICATIONS**

Instructor

- *Business Valuation Essentials: Market Approach and Discounts and Premiums.* American Institute of Certified Public Accountants, Florida, 2005; Tennessee, 2006.
- *Valuation of Specialized Areas.* Financial Consulting Group, Georgia, 2005.
- *Valuing Family Limited Partnerships.* Rhode Island Society of CPAs, Rhode Island, 2004.
- *Report Writing.* Rhode Island Society of CPAs, Rhode Island, 2004.
- *Principles of Valuation: The Income Approach.* American Society of Appraisers, Illinois, 2004.
- *Valuing Goodwill and Intangible Assets.* American Institute of Certified Public Accountants, New Jersey, 2004, Iowa, 2005.
- *Small Business Valuation Case Study: Let's Work Through the Issues!* American Institute of Certified Public Accountants, New Jersey, 2004.
- *Small Business Case Study.* The Institute of Business Appraisers, Inc., Florida, 2004.
- *Valuing Family Limited Partnerships.* The Institute of Business Appraisers, Inc., New York, 2003, Florida, 2005.
- *Principles of Valuation: Introduction to Business Valuation - Section A.* American Society of Appraisers, Illinois, 2003.
- *Business Appraisal in Divorce.* The Institute of Business Appraisers, Inc., Massachusetts, 2002; New York, 2003.
- *Splitting Up is Hard to Do: Advanced Valuation Issues in Divorce and Other Litigation Disputes.* American Institute of Certified Public Accountants. Atlanta, GA, 2002; Louisville, KY, 2002.
- *The Nuances of Appraising Interests in Family Limited Partnerships.* 2002 Annual Business Valuation Conference, Washington, DC, The Institute of Business Appraisers, 2002.
- *Financial Statements in the Courtroom (Business Valuation Component).* American Institute of Certified Public Accountants for the National Judicial College. New York, 2001; California, 2002.
- *How to Write Business Valuation Appraisal Reports.* The Institute of Business Appraisers, Inc. Missouri, 2001; Massachusetts, 2002.
- *Application of the Market Approach.* The Institute of Business Appraisers, Inc. Missouri, 2001.

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PROFESSIONAL QUALIFICATIONS**

Instructor

- *Fundamentals of Business Appraisal*. The Institute of Business Appraisers, Inc. Missouri, 2001.
- *Preparing for the Certified Business Appraiser Written Exam*. The Institute of Business Appraisers, Inc. Massachusetts, 2000; Florida, 2005.
- *Preparing for AICPA's ABV Examination Review Course*. American Institute of Certified Public Accountants. North Carolina, 2000; Illinois, 2000; Maryland, 2001; Minnesota, 2001; Indiana, 2002; New York, 2003, 2004, 2005; Georgia, 2004; Florida 2004; Rhode Island, 2005; Connecticut 2006.
- *Fundamentals of Business Valuation - Part 2*. American Institute of Certified Public Accountants. Kansas, 2000; Minnesota, 2001; North Carolina, 2002; Maryland 2004.
- *Fundamentals of Business Valuation - Part 1*. American Institute of Certified Public Accountants. Kansas, 2000; Texas, 2000; California, 2001; New York, 2001; Florida, 2004.
- *Business Valuation Approaches and Methods*. Oregon, 2000; Ohio, 2000.
- *Valuation Discount Rates & Capitalization Rates/Premiums & Discounts*. Oregon, 2000.
- *Report Writing Workshop*. The Institute of Business Appraisers, Inc. Arizona, 2000.
- *Mastering Appraisal Skills for Valuing the Closely Held Business*. The Institute of Business Appraisers, Inc., Illinois, 1999; South Carolina, 1999; New Jersey, 2000; Nevada, 2000.
- *Fundamentals of Business Appraisal*. The Institute of Business Appraisers, Inc., South Carolina, 1999; Missouri, 2001.

Author

- *If You Buy or Sell Shares of the Company, With the Agreement Withstand the Scrutiny of the IRS*, Valuations Plus, Summer 2007.
- *Should Your Appraiser Tax-Effect an S Corporation?* Valuations Plus, Winter 2007.
- *Debt vs. Equity: How Do You Know?* Valuations Plus, Fall 2006.
- *Using Subsequent Information: What Was Known or Knowable?*, Valuations Plus, Spring 2005.
- Co-author of *Financial Valuation: Applications and Models* 1st edition, Wiley Finance (2003) and 2nd edition (2006).

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PROFESSIONAL QUALIFICATIONS**

Author

- Co-author of course entitled *Splitting Up is Hard to Do: Advanced Valuation Issues in Divorce and Other Litigation Disputes*. American Institute of Certified Public Accountants (2002).
- Course entitled *Fundamentals of Business Appraisal*. The Institute of Business Appraisers, Inc.(2000).

Organizations

- The Institute of Business Appraisers, Inc.
- American Society of Appraisers
- American Institute of Certified Public Accountants
- New Jersey Society of Certified Public Accountants
- Florida Institute of Certified Public Accountants
- Collaborative Family Lawyers of South Florida, Inc.

Committee Service

- *Business Valuation Committee*. American Society of Appraisers.
- *Chair Business Valuation Education Committee*. American Society of Appraisers.
- *Secretary ASA Education Foundation*. American Society of Appraisers.
- *Business Valuation/Forensic & Litigation Services Executive Committee*. American Institute of Certified Public Accountants.
- *Business Valuation/Forensic & Litigation Services Advisory Board to the Journal of Accountancy*. American Institute of Certified Public Accountants.
- *Relations with the Florida Bar Committee*. Florida Institute of Certified Public Accountants.

Past Committee Service

- *Steering Committee of Valuation Forensic and Litigation Services Section*. Florida Institute of Certified Public Accountants.
- *Business Valuation Subcommittee*. American Institute of Certified Public Accountants.
- *Chair - 2002 AICPA Business Valuation Conference*. American Institute of Certified Public Accountants, Member of Committee for 2001 Conference.

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PROFESSIONAL QUALIFICATIONS**

Past Committee Service

- International Board of Examiners. American Society of Appraisers.
- *Qualifications Review Committee*. The Institute of Business Appraisers, Inc
- *Joint AICPA/ASA 2005 Conference Committee*. American Institute of Certified Public Accountants.

Editor

- Editor of the *AICPA ABV E-Alert*.
- Editorial Board of *Financial Valuation & Litigation Expert*, Valuation Products & Services, LC.
- Former Editorial Advisor for *BV Q&A*, Business Valuation Resources, Inc.
- Former Editor of *Business Appraisal Practice*, The Institute of Business Appraisers, Inc.

Professional Achievements

- Presented with the "Fellow Award" by The Institute of Business Appraisers, Inc. in May 2002 for contributions made to the profession.
- Instructor of the Year Award - The Institute of Business Appraisers.
- Winner of the J. H. Cohn Award for outstanding performance on the C.P.A. licensing examination.