49.85 PERCENT MEMBER INTEREST IN

GIANT SHOPPING CENTER, LLC

VALUATION REPORT

MAY 20, 2009

July 20, 2009

Smith Brown LLP
123 Main Street
Soundview, NJ 12345
Attn: John Brown, Esq.

Re: Valuation of a 49.85 percent member interest in Giant Shopping Center, LLC

Dear Mr. Brown:

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 a 49.85 percent member interest in Giant Shopping Center, LLC as of May 20, 2009. This valuation was performed for tax and business planning purposes; 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, 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 valuation report, which must be signed in blue ink by the valuation analyst to be authentic, the conclusion of value of a 49.85 percent member interest in Giant Shopping Center, LLC as of May 20, 2009 is:

THIRTY MILLION SEVEN HUNDRED AND TWO THOUSAND DOLLARS ($30,702,000)

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

Respectfully submitted,

TRUGMAN VALUATION ASSOCIATES, INC.

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

LBT/kag
Attachment

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INTRODUCTION

DESCRIPTION OF THE ASSIGNMENT

Trugman Valuation Associates, Inc. was retained by John Brown, Esq. on behalf of Smith Brown LLP to appraise a 49.85 percent interest in Giant Shopping Center, LLC, a New York limited liability company as of May 20, 2009.

The purpose of this appraisal is to determine the fair market value of this interest to be used for tax and business planning purposes. The scope of work for this appraisal 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 No. 1* promulgated by the American Institute of Certified Public Accountants, as well as the *Uniform Standards of Professional Appraisal Practice* promulgated by the Appraisal Foundation and the standards of the American Society of Appraisers and The Institute of Business Appraisers.

DEFINITION OF FAIR MARKET VALUE

Section 25.2512-1 (b) of the Federal Estate and Gift Tax Regulations defines fair market value as:

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

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

VALUATION METHODOLOGIES

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

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

The value of a company is deemed to be the higher of the two values determined under a going concern or a liquidation premise. This approach is consistent with the 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 Income Approach, and
3. The Asset-Based 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 allows a comparison to be made between the pricing multiples that the public company trades at and the multiple that is deemed appropriate for the 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 allow the appraiser to determine the multiples that resulted from the transactions. These multiples can then be applied, with or without adjustment to the appraisal subject.

THE INCOME APPROACH

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

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

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

THE ASSET-BASED APPROACH

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

The 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.

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:

> [l]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,

> ...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

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

> 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.
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.

Revenue Ruling 65-192 expanded the applicability of Revenue Ruling 59-60 by stating:

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[2] Ibid.

[3] Ibid.

> The general approach, methods and factors outlined in Revenue Ruling 59-60, C.B. 1959-1, 237, for use in valuing closely-held corporate stocks for estate and gift tax purposes are equally applicable to valuations thereof for income and other tax purposes and also in determinations of the fair market values of business interests of any type and of intangible assets for all tax purposes.

Since determining the fair market value of an interest in a limited liability company (LLC) is the question at issue, one must understand the circumstances of this particular LLC. 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 LLC or LLC member interest. In resolving such differences, one should recognize that valuation is not an exact science. Revenue Ruling 59-60 states that "a sound valuation will be based on all relevant facts, but the elements of common sense, informed judgment and reasonableness must enter into the process of weighing those facts and determining their aggregate significance."

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

There is no single formula acceptable for determining the fair market value of a closely-held business, and therefore, the appraiser must look to all relevant factors in order to establish the fair market value as of a given date.

In Section 5 of Revenue Ruling 59-60, it states:

> The valuation of closely-held corporate stock entails the consideration of all relevant factors as stated in section 4. Depending upon the circumstances in each case, certain factors may carry more weight than others because of the nature of the company's business. To illustrate:
>
> (a) Earnings may be the most important criterion of value in some cases whereas asset value will receive primary consideration in others. In general, the appraiser will accord primary consideration to earnings

when valuing stocks of companies which sell products or services to the public; conversely, in the investment or holding type of company, the appraiser may accord the greatest weight to the assets underlying the security to be valued.

(b) The value of the stock of a closely-held investment or real estate holding company, whether or not family owned, is closely related to the value of the assets underlying the stock. For companies of this type the appraiser should determine the fair market values of the assets of the company. Operating expenses of such a company and the cost of liquidating it, if any, merit consideration when appraising the relative values of the stock and the underlying assets. The market values of the underlying assets give due weight to potential earnings and dividends of the particular items of property underlying the stock, capitalized at rates deemed proper by the investing public at the date of appraisal. A current appraisal by the investing public should be superior to the retrospective opinion of an individual. For these reasons, adjusted net worth should be accorded greater weight in valuing the stock of a closely-held investment or real estate holding company, whether or not family owned, than any of the other customary yardsticks of appraisal, such as earnings and dividend paying capacity.

In this appraisal, we will consider all applicable methodologies, and then determine how much reliance to put on each.

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

FORMATION OF THE LLC

Giant Shopping Center, LLC, a New York limited liability company ("Giant" or "The LLC") was formed pursuant to the New York Limited Liability Company Law ("The Act") on April 19, 1997. The LLC was formed by the conversion of James and Karen Jackson Partners, a New York general partnership, into Giant Shopping Center, LLC. The Certificate of Conversion was filed with the Secretary of State of New York on April 19, 1997, and The LLC's Operating Agreement ("The Agreement") was executed on the same day. The Agreement was amended and restated on September 30, 1999, with additional amendments and restatements to The Agreement made on June 22, 2004, October 12, 2006, April 23, 2009, and May 19, 2009. The discussion of The Agreement herein reflects the restated agreement and all amendments.

PURPOSE OF THE LLC

Giant may engage in any lawful business of every kind and character that is permitted under The Act or any successor statute.

The LLC's principal activity is the operation of the Giant Shopping Center in Scarsdale, New York. According to the real estate appraisals of this shopping center, it is a mixed use retail and office development consisting of five, two to four story buildings situated on a 15.39 acre parcel. The buildings range in size between 29,295 and 143,122 square feet for a total combined rental area of 387,455 square feet. The buildings were built, renovated and expanded in stages mostly between 1965 and 1975 and are currently in average to above average condition. The retail component has a lifestyle marketing strategy and has been leased mostly to upscale regional and national-based tenants. The office component is divided between medical and general purpose usage which has been leased to mostly local and regional-based tenants. As of the effective valuation date, the property has an overall occupancy of just less than 83.0 percent.

In addition to the Giant Shopping Center, The LLC has a sizable municipal bond portfolio.

TERM OF THE LLC

The term of The LLC will continue indefinitely until terminated as provided in The Agreement.

VOTING

According to Section 4.5(a) of The Agreement,

> At any meeting of Members, every Member having the right to vote shall be entitled to vote either in person or by proxy executed in writing by such Member. Except as otherwise set forth herein with respect to any matter at any meeting, or otherwise with respect to any determination or consent required or permitted to be made by the Members under this Agreement, the affirmative vote of the Members holding more than 70% of all Percentage Interests held by all Members entitled to vote thereon, make such determination or consent thereto, shall be the act of the Members, provided that, in each case, the Senior Managers, or the sole Senior Manager (as defined below), shall have affirmatively so voted or consented thereto. No action shall be taken by the Members in the absence of such a vote or consent.

OWNERSHIP INTERESTS AND CAPITAL CONTRIBUTIONS

Upon formation, the ownership interests and capital contributions in The LLC were as follows:

Partner	Percentage Interest
James Jackson	94.7%
Karen Jackson	5.0%
George Jackson	0.1%
Nicholas Jackson	0.1%
William Jackson	0.1%

The ownership interests became effective upon the conversion of the members' interests as Partners in James and Karen Jackson Partners (including, without limitation, any capital account, or right to distributions or allocations) into member interests in The LLC.

As of the valuation date, the ownership was as follows:

QTIP Trust U/W of James Jackson	49.85%
Karen Jackson	49.85%
Eugene Jackson	0.1%
Nicholas Jackson	0.1%
William Jackson	0.1%

ALLOCATIONS OF PROFITS, LOSSES AND DISTRIBUTIONS

According to Section 3.1 of The Agreement, as amended on October 12, 2006:

> Allocation of Profits and Losses. All distributions and allocations of income, loss, deduction or credit or similar items shall be allocated to the members in accordance with their respective Percentage Interests, except, that the Senior Managing Member, in his sole discretion as Senior Managing Member may allocate such distributions and allocations of income, loss, deduction or credit or similar items to the Members in amounts different from their respective Percentage Interests pursuant to Treas. Reg. Section 1.704-(b).

Section 3.4 of The Agreement states:

> Distributions. The Company shall distribute its funds and other assets to Members at such times and in such amounts as the Managers determine to be appropriate, in accordance with Section 3.1.

MANAGEMENT

Section 5.1(a) and (b) of The Agreement, as amended on June 22, 2004 states:

(a) Except to the extent otherwise provided herein, the powers of the Company, including, without limitation, the right to vote or otherwise take action in respect of securities owned by the Company, shall be exercised by and under the authority of, and the business and affairs of the Company, including the lease, operation and management of the Property, shall be managed under the direction of Karen Jackson and Nicholas Jackson or his or her Affiliate (as defined in Paragraph (b) of this Section) to whom he or she may delegate his or her authority under this Paragraph; provided, however, that such delegating individual maintain executive control of such Affiliate (the "Managers") for the benefit of the Members. Subject to Sections 5.4 and 5.5, only a Senior Manager, as defined in Paragraph (b) of this Section, acting in his capacity as such, shall have the authority to act for the Company and to bind the Company by his signature to any obligation or transaction.

(b) While he is a Member or affiliate (including as a trustee, partner, member, shareholder, director or officer) (any of which is an "Affiliate") of a Member, Nicholas Jackson or his delegate Affiliate pursuant to Paragraph (a) of this Section shall be the Senior Manager

Upon his withdrawal as a Member (and if he is no longer an affiliate of a Member) for any reason, the Members may appoint a successor Senior Manager or Senior Managers. Only the Senior Managers, or the sole Senior Manager, shall have the right to vote on, approve, consent to, or otherwise make any determination as to, any action required or permitted to be taken by the Managers under this Agreement or otherwise in connection with the business.

According to Section 5.2 of The Agreement, a manager must give 60 days written notice if he intends to resign. This provision can only be waived with the agreement of 100 percent of the percentage interests.

If a Manager resigns or no longer serves as Manager, the Members may appoint a successor Manager who does not need to be a Member. A Manager may be removed only for intentional misconduct or a knowing violation of law which causes material damage to the assets of The LLC (and by which the Manager personally gained a financial profit to which he was not legally entitled).

Members are required to authorize either of the following acts or transactions by the Managers on behalf of The LLC.

i) The sale, exchange or other disposition of The LLC's property; and
ii) any assignment for the benefit of creditors of The LLC, the filing of a voluntary petition in bankruptcy, or the appointment of a receiver for The LLC.

The Managers shall be deemed to have approved, consented to or otherwise determined to take, any action required or permitted to be taken by the Managers under The Agreement if James Jackson, in his capacity as Senior Manager, shall have so voted, approved or consented, or if James Jackson is not a Senior Manager, if the Senior Managers, or the sole Senior Manager, shall have so voted, approved or consented.

Managers shall receive monthly compensation equal to a percentage of The LLC's gross revenues from the operation of the property known as Giant Shopping Center in Scarsdale, New York. Total compensation payable to the Managers cannot exceed 5 percent of monthly revenues from the property. If, for any reason, The LLC has only a single Manager, the monthly compensation of such Manager shall be 5 percent of monthly property revenues.

As of the valuation date, Nicholas Jackson was The LLC's only Manager, as well as its sole Senior Manager.

TRANSFER RESTRICTIONS

Section 6.1 of The Agreement addresses the transferability of interests in The LLC as follows:

> Except as otherwise set forth in this Agreement, a Member may not assign, encumber, pledge or otherwise transfer (any of which is referred to as a "Transfer") his Interest, any portion thereof or any rights therein, with or without consideration, to any person or entity without the prior written consent of all of the remaining Members. Unless an assignee becomes a substituted Member in accordance with the provisions of Section 6.2, an assignee shall not be entitled to exercise any of the rights or powers of a Member other than

> the rights to share in profits and losses and to receive such distributions and allocations of income, loss, deduction or credit or similar items to which its assignor would otherwise have been entitled (to the extent any such rights are assigned to the assignee in accordance with this Section). Any Transfer in violation of this Section shall be null and void and will not bind the Company or the Managers.

The admission of an assignee as a substitute member is governed by Section 6.2 which states:

> Substitution of Members. An assignee of an Interest shall become a substituted Member only upon the fulfillment of all of the following conditions:
>
> (a) the assignor shall have assigned to the assignee all of the assignor's voting and financial rights with respect to the Interest or portion thereof assigned;
>
> (b) all of the Members, other than the assignor, shall have consented to the substitution of the assignee as a Member (unless substitution occurs pursuant to Section 6.4 or 7.2(b));
>
> (c) the assignee shall have paid to the Company all costs and expenses incurred in connection with such assignee's substitution as a Member, including, without limitations, all costs and expenses incurred in connection with amending this Agreement; and
>
> (d) the assignee shall have executed a counterpart of this Agreement and such other documents as the Managers shall reasonably request to effect the substitution of the assignee as a Member, including, without limitation, an assumption of all the assignor's then outstanding obligations hereunder.

Section 6.4(a) of The Agreement addresses permitted transfers of Member interests as follows:

> The restrictions set forth in Sections 6.1 and 6.2(b) shall not apply to the issuance of an Interest directly by the Company to a new Member in accordance with Section 2.2, or to any Transfer of an Interest, any portion thereof or any interest therein, to (i) another Member, (ii) a person who was a Member immediately after giving effect to the Conversion (an "Original Member"), (iii) the issue of an Original Member, (iv) a trust for the benefit of any of an Original Member, the spouse or issue of an Original Member, or the spouse of any such issue, or (v) the successor-in-interest (but not the distributees or assignees) of a bankrupt, deceased or incompetent member.

Section 6.4(b) goes on to state:

> The Member proposing to make a Transfer to a transferee listed in any of clauses 6.4(a) (i)-(iv) shall give the other Members and the Company written notice of his intention to do so (identifying the interest to be Transferred, the proposed transferee(s) and the proposed date of Transfer) at least 30 days prior to the proposed Transfer, **unless such thirty (30) day notice shall be waived by all of the remaining Members**, and the proposed transferee shall comply with the requirements of Section 6.2(d) as of the date on which the Transfer is completed. **If the proposed transferee fails to comply timely with such requirements, the other Members and/or the Company, as the other Members may determine, shall have the right within 10 months following the proposed date of Transfer set forth in the written notice, to purchase the Interest for fair market value, less all applicable discounts (e.g. marketability or minority interest), as determined by an appraisal obtained by the Company.**

DISSOLUTION AND LIQUIDATION

The LLC can be dissolved only upon the written consent of the Members, including the Senior Manager, holding more than 70 percent of all percentage interests. The proceeds of any dissolution are distributed first to creditors, second to the establishment of any reserves, third to the Member as a return of their capital, and lastly to the Members in accordance with their percentage interests.

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

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

NATIONAL ECONOMY

Information reviewed at the April 28-29 Federal Open Market Committee (FOMC) meeting indicated that the pace of decline in some components of final demand appeared to have slowed recently. Consumer spending firmed in the first quarter after dropping markedly during the second half of 2008. Housing activity remained depressed, but seemed to have leveled off in February and March. In contrast, businesses cut production and employment substantially in recent months and fixed investment continued to contract.[4]

Labor market conditions deteriorated further in March. Private non farm payroll employment registered its fifth consecutive large monthly decrease, with losses widespread across industries. The civilian unemployment rate climbed to 8.5 percent, and the labor force participation rate edged down from its February level. The four-week moving average of initial claims for unemployment insurance remained elevated in April, and the number of individuals receiving unemployment benefits relative to the size of the labor force reached its highest level since 1982.[5]

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4 Federal Open Market Committee, Minutes of the Federal Open Market Committee April 28-29, 2009 <www.federalreserve.gov/newsevents/press/monetary/fomcminutes20090429.pdf> (accessed May 28, 2009).

5 Ibid.

Available data suggests that real consumer spending rose moderately in the first quarter after having fallen in the second half of last year. Real spending on goods and services, excluding motor vehicles, fell in March but was up, on balance, for the first quarter as a whole. Despite the upturn in consumer spending, the fundamentals for this sector remained weak; wages and salaries dropped, house prices were markedly lower than a year ago, and despite recent increases, equity prices were down substantially from their levels of 12 months earlier. In addition, consumer sentiment strengthened a bit in early April, as households expressed somewhat more optimism about long-term economic conditions. However, even with this improvement, the measure was only slightly above the historical low for the series recorded last November.[6]

Business output continued to drop sharply, and credit availability was still tight in the first quarter. In the April *Senior Loan Officer Opinion Survey on Bank Lending Practices*, the net percentages of respondents who reported that they tightened their business lending policies over the previous three months, although continuing to be very elevated, edged down for the second consecutive survey.[7]

According to the FOMC, spending on non-residential structures contracted in the first quarter.8 Commercial real estate has been adversely impacted by the general economic downturn along with the severe credit crunch. In addition, a forward-looking index shows the forecast for commercial real estate sectors will remain weak for the remainder of the year. According to Lawrence Yon, Chief economist for the National Association of Realtors (NAR):

> Significant job losses have reduced the demand for commercial space, while a lack of credit has stalled transactions and refinancing activity. It is critical for the Federal Reserve to increase liquidity by purchasing commercial mortgage-backed securities. Because commercial real estate always lags an overall economic recovery, it will take some time for the commercial real estate market to rebound.[9]

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6 Ibid.

7 Ibid.

8 Ibid.

9 National Association of Realtors, "Commercial Real Estate Hurt by Credit Crunch and Weak Economy," May 20, 2009 <www.earthtimes.org/articles/show/commercial-real-estate-hurt-by-credit-crunch-weak-economy,832304.shtml> (accessed May 27, 2009).

The retail sector of the commercial real estate market will be particularly hit hard. According to the NAR:

> With consumers reluctant to spend much in the current economy, the retail vacancy rate will probably rise to 12.1 percent this year and 15.8 percent in 2010 from 9.7 percent in 2008. Average retail rent is expected to fall 2.1 percent in 2009 and 1.5 percent next year; it declined 2.0 percent in 2008. Net absorption of retail space in 53 tracked markets will likely be a negative 38.6 million square feet this year and a negative 44.2 million in 2010.[10]

The office market has also experienced its share of struggles. According to the NAR:

> The office sector is suffering the most from job losses, which continue to reduce demand for space. Vacancy rates are projected to increase to 16.1 percent in 2009 from 13.4 percent last year, and rise to 20.4 percent in 2010.
>
> Annual rent in the office sector is forecast to fall 7.2 percent this year and 0.8 percent in 2010 after a 0.4 percent decline last year. In 57 markets tracked, net absorption of office space, which includes the leasing of new space coming on the market as well as space in existing properties is seen as a negative 81.7 million square feet in 2009 and a negative 115.0 million next year.[11]

During the meeting, the FOMC decided to maintain the target for the federal funds rate at 0 to 0.25 percent. According to the FOMC:

> In these circumstances, the Federal Reserve will employ all available tools to promote economic recovery and to preserve price stability. The Committee will maintain the target range for the federal funds rate at 0 to 1/4 percent and anticipates that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period. As previously announced, to provide support to mortgage lending and housing markets and to improve overall conditions in private credit markets, the Federal Reserve will purchase a total of up to $1.25 trillion of agency mortgage-backed securities and up to $200 billion of agency debt by the end of the year. In addition, the Federal Reserve will buy up to $300 billion of Treasury securities by autumn. The Committee will continue to evaluate the timing and overall amounts of its purchases of securities in light of the evolving economic outlook and conditions in financial markets. The Federal Reserve is facilitating the extension of credit to households and businesses

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10 Ibid.

11 Ibid.

> and supporting the functioning of financial markets through a range of liquidity programs.[12]

In the staff forecast prepared for the meeting, participants downgraded their GDP estimates to a central tendency ranging from negative 2.0 to negative 1.3 percent from its January estimates in which the central tendency ranged from negative 1.3 to negative 0.5 percent. Participants noted that the data received between the January and April FOMC meetings pointed to a larger decline in output and employment during the first quarter than they had anticipated at the time of the January meeting. However, participants also saw recent indications that the economic downturn was slowing in the second quarter and they continued to expect that sales and production would begin to recover gradually during the second half of the year.13

Similarly, Wachovia Economics Group projects an economic recovery to start later this year. However, Wachovia believes that this economic recovery will differ from economic recoveries in years past. According to the Wachovia Economics Group in its *Monthly Outlook* released on May 13, 2009:

> While this recovery has followed traditional patterns, we continue to see that the recovery will differ in both character (less diversified) and strength (weaker) relative to past recoveries. The recovery will disappoint both citizens and policymakers, which will mean more difficult decisions. A subpar recovery in output, unemployment and consumer incomes will mean consumer, housing, commercial real estate and government spending will not return to what many would perceive as normal. An ongoing economic and psychological adjustment to a new, lower equilibrium long-run growth rate for the economy will drive choices on the limits of our economic resources to meet our aspirations in a global economy.[14]

Table 1 presents forecasts of key economic indicators released by Wachovia Economics Group as part of its *Monthly Outlook*.

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12 FOMC Meeting Minutes.

13 Ibid.

14 Wachovia Economics Group, *Monthly Outlook*, May 13, 2009 <www.wachoviasec.com/wachoviasec/WS/commentary/May2009.pdf> (accessed May 27, 2009).

TABLE 1
WACHOVIA U.S. ECONOMIC FORECAST

	2009				2010			
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Real Gross Domestic Product[a]	-6.1	-2.4	-0.2	1.7	1.9	2.6	2.6	2.9
Personal Consumption	2.2	0.1	1.2	1.3	1.5	1.5	1.5	1.6
Business Fixed Investments	-37.9	-23.3	-20.9	-6.6	-6.3	1.1	3.0	4.9
Equipment and Software	-33.8	-20.6	-16.3	-0.9	9.0	3.6	4.9	6.1
Structure	-44.2	-38.0	-34.0	-24.0	-15.0	-8.0	-4.0	0.0
Residential Construction	-38.0	-24.0	-9.5	0.5	3.0	4.0	5.0	5.5
Government Purchases	-3.9	3.6	3.4	3.7	3.7	3.5	3.0	2.3
Nominal GDP	-3.5	-3.0	0.1	2.3	3.0	3.8	4.0	4.4
Real Final Sales	-3.4	-2.3	-1.4	0.0	1.0	1.8	2.1	2.6
Retail Sales[b]	-8.9	-8.9	-7.3	0.1	2.5	3.2	3.7	3.7
Inflation Indicators[b]								
"Core" PCE Deflator	1.8	1.5	0.9	0.8	0.7	0.8	1.0	1.1
Consumer Price Index	-0.2	-1.4	-2.7	-0.3	0.5	1.0	1.2	1.4
"Core" Consumer Price Index	1.7	1.4	0.8	0.8	0.7	0.8	1.0	1.2
Producer Price Index	-2.2	-5.6	-7.5	-2.2	-0.1	1.5	1.8	1.9
Employment Cost Index	2.1	2.0	1.9	2.0	2.2	2.1	2.1	2.2
Real Disposable Income[a]	6.2	8.5	4.5	-1.8	1.4	1.5	1.6	1.9
Nominal Personal Income[b]	0.9	1.5	5.2	3.5	4.4	3.0	0.3	3.5
Nominal Production(a)	-20.0	-16.2	-4.8	0.1	0.7	2.6	3.0	8.5
Corporate Profits Before Taxes[b]	-30.0	-28.0	-26.0	-10.0	0.5	4.5	8.0	8.0
Corporate Profits After Taxes	-23.0	-21.0	-18.0	-10.0	3.5	8.0	10.5	11.0
Nonfarm Payroll Change[f]	-707	-493	-363	-233	-80	61	140	170
Unemployment Rate	8.1	9.2	9.8	10.3	10.6	10.6	10.5	10.4
Housing Starts[g]	0.52	0.48	0.51	0.55	0.63	0.69	0.77	0.86
Quarter End Interest Rates								
Federal Funds Target Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50
3 Month LIBOR	1.19	0.80	0.70	0.60	0.60	0.60	0.70	0.80
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.50
Conventional Mortgage Rate	5.13	5.00	5.10	5.10	5.10	5.20	5.30	5.30
3 Month Bill	0.21	0.30	0.40	0.40	0.40	0.50	0.70	0.90
2 Year Note	0.81	1.00	1.20	1.20	1.40	1.50	1.60	1.70
5 Year Note	1.67	2.10	2.30	2.40	2.40	2.50	2.80	3.00
10 Year Note	2.71	3.20	3.40	3.40	3.40	3.60	3.70	3.70
30 Year Bond	3.56	4.20	4.30	4.30	4.40	4.50	4.60	4.60

Data as of May 13, 2009
Notes:
[a] Compound Annual Growth Rate Quarter-over-Quarter.
[b] Year-over-Year Percentage Change.
[f] Average monthly Charge
[g] Millions of Units.

Source: Wachovia Economics Group.

As indicated in the data in Table 1, Wachovia projects that GDP growth will begin to regain speed late in 2009 before advancing at a moderate pace in 2010. This increase will be driven by increases in personal consumption, a recovering residential housing market and increases in government purchases. However, the unemployment rate is expected to exceed 10 percent heading into 2010 and is not expected to improve much over the forecast period. In addition, spending on non-residential structures is expected to continue to decline throughout 2010 which is consistent with the statements from the FOMC and the NAR discussed earlier.

Financial markets have begun to show signs of recovery after being battered by the economic recession. Since March 9, the stock market has risen 30 percent. According to Value Line, the market's potent recovery since March suggests that investors are focusing on the possible end of the recession after this year rather than on the tenuous current economic outlook. That could be a risky approach if the timetable for an upturn in business activity is seriously delayed.[15]

On May 20, 2009, the Dow Jones Industrial Average closed at 8474.85. The Dow has risen more than 29 percent since its bear market low in March, although it remains down 3.4 percent for 2009. The S&P 500 closed at 908.13, leaving it up 0.5 percent so far this year and the Nasdaq Composite index closed at 1734.54, up 10 percent in 2009. On a positive note, the Chicago Board Option Exchange's Volatility Index, known as the VIX, closed below 30 for the first time since Lehman Brothers collapsed in September 2008.16 This suggests that investor confidence could potentially be taking a turn for the better.

Overall, The LLC will face a challenging economic environment looking forward. Although the U.S. economy is beginning to recover, the outlook for commercial real estate remains dim. High unemployment rates and tight credit conditions are expected to take their toll on commercial real estate.

MUNICIPAL BOND MARKET

A portion of Giant's assets consist of municipal bonds. This bond portfolio is susceptible to the risks and trends of the municipal bond markets, as well as the general financial markets.

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15 *Value Line Investment Survey, Economic and Stock Market Commentary, Part 2 Selection & Opinion*, May 15, 2009, Vol. 64, No. 38: 3533.

16 Peter A. McKay and Mat Phillips, "Dow Slips as a Gauge of Volatility Finally Dips," *Wall Street Journal*, May 20, 2009, p.C1.

Municipal bonds are debts issued by states, cities, counties and other governmental entities to raise money for public projects. These bonds pay interest which is exempt from federal taxes, and often state and local taxes. As a result of these tax breaks, municipal bonds can offer lower yields equivalent to taxable bonds. However, any profit from the sale of the bond is not exempt from tax. Municipal bonds are often considered to be safe investments, however, they are not risk free. There are two main sources of risk for municipal bonds: default and interest rate (credit) risk.

Default risk is defined as the issuer's ability to pay the interest and principal of the bond. Municipal bonds are generally considered to have low default risk since the governments that issue the bonds are usually not considered to be in danger of going bankrupt. However, there are plenty of examples that show otherwise. Therefore, the credit rating of the issuer is examined by ratings agencies that assess the issuer's ability to repay the bond. Higher rated bonds are considered to be less risky, and therefore investors require a lower interest rate on the bond.[17]

To help reduce default risk, many municipal bonds are insured by "monoline" insurers. These insurers guarantee the interest and principal payment of the bonds. These insurers typically have the highest credit ratings (AAA). Therefore, bonds insured by these monoline insurers are able to boost the bonds' credit rating to the same rate as the insurer, and therefore reduce the interest payment required by investors.[18]

Interest rate risk pertains to changes in market interest rates. Interest on municipal bonds is generally fixed. As a result, if market interest rates decrease, the value of the bond increases, while if rates increase, the bond's value decreases. Their reasons for these changes are:

- When interest rates fall, new issues come to market with lower yields than older securities, making the older securities worth more; hence the increase in price.

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17 Yahoo!Finance, 'Municipal Bonds: A Primer" <http://finance.yahoo.com/education/bond/article/10188/Municipal_Bonds_A.Primer> (accessed May 27, 2009).

18 Securities Industry and Financial Markets Association, "An Investor's Guide to Triple A Rated Insured Municipal Bonds," <archives_1.sifma.org/assets/files/An_Investors_Guide-to_Insured_Munis.pdf> (accessed May 27, 2009).

- When interest rates rise, new issues come to market with higher yields than older securities, making the older ones worth less; hence the decline in price.[19]

According to *The Bond Buyer*, municipal bond issuance exceeded $35 billion in April. The 12 month total fell to $373 billion, the lowest since December 2006. A year ago, the 12 month total was greater than $425 billion.[20]

In April, Moody's Investors Service assigned a negative outlook to the creditworthiness of all local governments in the United States. This is the first time that Moody's has ever issued such a blanket report on municipalities. The Moody's report signaled how severely the economic downturn is affecting towns, counties and school districts around the nation. While Moody's regularly reports on the financial strength of private industry, its analysts have in the past considered America's tens of thousands of towns and local authorities too diverse for generalizations.[21]

The Moody's report suggests that the ratings of many governments could be downgraded in the coming months, something that would make it more expensive for them to borrow money to finance their operations. Moody's did not report on individual cities or towns, but its overview offered a general note of caution for investors who have bought municipal bonds seeking a safe stream of income in difficult financial markets. Moody's cited that revenues are falling everywhere as a result of the economic downturn. But, the agency also discussed the problems that some municipalities had created for themselves by using complex financial products that seemed to be saving money at first, only to send costs soaring during the credit crisis.[22]

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19 The Bond Market Association, "Understanding Market Risk" <http://www.investinginbonds.com/learnmore.asp?catid=8&subcatid=53&id=236> (accessed May 27, 2009).

20 Municipal Market Advisors, "MMA Muni Outlook," April 2009 <www.investingindinbonds.com/assets/files/MuniOutlook%20April%202009.pdf> (accessed May 27, 2009).

21 Mary Williams Walsh, "Muni Bonds May Face Downgrade," *The New York Times*, April 8, 2009 <www.nytimes.com/2009/04/08/business/economy/08/muni.html> (accessed May 27, 2009).

22 Ibid.

In former boom states like California and Florida, the sharp decline in housing prices is translating into falling property tax revenue, while in towns like Michigan, Indiana and Ohio, revenues are off because of the collapse of the auto industry. Many local governments in New York, New Jersey and Connecticut will lose significant revenue because they rely on the banking and financial services sectors for their tax bases. Moody's said any municipality relying heavily on tourism, gambling or manufacturing was probably at risk of feeling a pinch.[23]

In the past, municipal debt has been a staple of many investors' portfolios. Financial professionals and their clients have been lured by munis' tax free status, a history of few defaults and nearly three decades of low single digit annual returns. In the past two years, however, munis' predictability has been replaced by volatility. The bonds of state and local governments were among the worst performing sectors of the debt market in 2007, before falling off a cliff last year. The average muni bond fund lost 9.4 percent in 2008, and there were 10 funds that lost more than 15 percent.[24]

Unemployment, which hit the rate of 8.5 percent last month, is higher than it has been in 25 years, and sales taxes are plummeting. Worse, local governments on average get nearly three-quarters of their tax revenue from real estate assessments. Falling property values and rising foreclosures mean that source of revenue is drying up as well. Many local governments have built up reserves anticipating the downturn in the housing market, but Moody's says that might not be enough. "The sharpness of the housing downturn and speed of the general economic contraction will likely test the sufficiency of those reserve cushions," Moody's analysts wrote.[25]

While the revenues of state and local governments are falling, their obligations are not. On average, states have funded only 83 percent of what they owe or will owe to their retired workers. Many states have done much worse: West Virginia, Rhode Island, Connecticut and Oklahoma all have less than 60 percent of their retiree benefits paid for. "The number of state funding ratios at the low end is startling," says Peter Hayes, who heads

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23 Ibid.

24 Stephen Gandel, "Rising Risks in Muni Bonds Worry Investors," *Time*, April 13, 2009 <www.time.com/time/printout/U,8816,189088/,00.htm> (accessed May 28, 2009).

25 Ibid.

BlackRock's municipal bond management committee. "The prospect for even greater liabilities is a reasonable scenario if the country becomes trapped in a prolonged recession."[26]

Last week, New York City said that it would have to cut thousands of municipal workers to keep the city from going bust. "We cannot continue," New York City Mayor Michael Bloomberg told reporters. "Our pension costs and health care costs for our employees are going to bankrupt this city," he said.[27]

Because of these issues, muni bonds do not seem particularly cheap even though munis now yield more than Treasuries. Indeed, Gary Strumeyer, head of capital markets at Bank of New York Mellon, says munis are no longer in the same rock-solid category as Treasuries, so it is not even a fair comparison. "Every investor needs to understand the many risks associated with purchasing muni bonds these days," he says.[28]

Instead, Strumeyer believes investors should compare muni yields to those of high-quality corporate bonds. Recently, Vanguard's Term Tax Exempt Fund, a huge muni fund with $21 billion in assets, had an implied yield of about 3 percent, according to Regent Atlantic's Cordaro. A similar corporate bond fund, BlackRock Intermediate Bond II, had yield of 8.5 percent. Even assuming a 35 percent tax bracket, the corporate bond fund is yielding nearly double the muni fund.[29]

An analysis of the conditions of the municipal bond sector provide for a negative outlook for The LLC's bond portfolio. Falling home prices, declining tax revenues and high unemployment have all had negative impacts on the credit worthiness of state and local governments. With yields rising due to the increased risk associated with these investments, prices will fall, thus adversely impacting the value of The LLC's municipal bond portfolio.

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26 Ibid.

27 Ibid.

28 Ibid.

29 Ibid.

REGIONAL ECONOMY

The Giant Shopping Center is located in Westchester County, New York. It is important to understand the economic strength of Westchester County and its surrounding areas in order to assess the future growth prospects and income potential for The LLC.

New York is part of the Federal Reserve's Second District. According to the Federal Reserve Board's *Beige Book* dated April 15, 2009, the Second District's economy continued to contract although at a more subdued pace. Contacts in a number of industry sectors now report less widespread declines in business activity and express considerably more optimism about the near-term outlook, but continue to report ongoing weakening in employment. Retailers indicate that sales were weak but on or close to plan in both February and March, while inventories are generally said to be at satisfactory levels.[30]

Consumer confidence, though, remained at or near record lows in March, and tourism activity in New York City has been increasingly sluggish; both hotels and Broadway theaters reported fairly steep drops in revenues over the past year. Commercial real estate markets have continued to deteriorate since the last report, while housing markets have been mixed but generally weak. Finally, bankers report widespread increases in demand for home mortgages, including refinancing, but steady to somewhat weaker demand in other loan categories; they also report further tightening in credit standards and continued, though not dramatic, increases in delinquency rates across all segments.[31]

Retail sales were reported to be down from a year earlier in February and March, but generally on or close to plan. One large retail chain reports that same-store sales fell more than 10 percent from a year earlier, but another major chain, as well as two large shopping malls in upstate New York, reported more modest declines. To some extent, March sales comparisons (and plans) are adversely affected by the later Easter this year. Upstate, a drop-off is reported in the number of Canadian shoppers, which had been an important

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30 Federal Reserve Board, Federal Reserve Districts, Second District-New York, *Beige Book*, April 15, 2009 <www.federalreserve.gov/FOMC/BeigeBook/2009/20090415/2.htm> (accessed May 28, 2009).

31 Ibid.

segment of the market during much of 2008. Despite the ongoing weakness in sales, retail contacts mostly report that inventories are at satisfactory levels.[32]

Consumer surveys show confidence indexes to be at or near record lows. The Conference Board reports that consumer confidence among residents of the Middle Atlantic states (New York, New Jersey, Pennsylvania) slipped two points to another record low in March. However, Siena College's monthly survey of New York State residents showed confidence edging up a point in March, though it is still only moderately above its record low set last October 3.

Commercial real estate markets in the District were mixed in the first quarter. New York City's office market continued to deteriorate, with vacancy rates climbing to a four-year high at the end of March and asking rents on Class A space falling 14 percent from a year earlier. A major commercial broker cites a huge increase in available sub-lease space, mostly from financial service firms. In contrast, office markets in outlying areas were steady to slightly stronger in the first quarter. Vacancy rates and asking rents were little changed in northern New Jersey, Westchester and southwestern Connecticut; in Long Island, vacancy rates improved to a three year low, while rents edged higher.

The rental market for industrial space was steady to softer in the first quarter, as was the market for retail space. Manhattan's retail market softened more than others; while vacancy rates were steady at low levels, asking rents declined sharply for the second straight quarter, and a relatively large volume of new retail space is due to be completed in the fourth quarter of 2009, much of it still unleased.[33]

District banks report the most widespread rise in demand for residential mortgages in more than seven years, with 63 percent of bankers reporting increases; a majority of those surveyed also report increases in refinancing. However, demand for consumer loans continued to decrease, while demand was little changed, on balance, for commercial loans and mortgages. Respondents indicate continued widespread tightening in credit standards, particularly in the commercial mortgage category. Respondents report an increase in the

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[32] Ibid.

[33] Ibid.

spreads of loan rates over the cost of funds for all loan categories except in the residential mortgage category, where there was no reported change. Respondents note widespread decreases in the average deposit rate. Finally, bankers again report rising delinquency rates, on net, across all loan categories, though it should be noted that a large majority report no change.[34]

Westchester County is located at the southeastern tip of New York State. The county covers an area of 450 square miles and has a diverse population residing in 45 municipalities. It has retained much of its rural character, while adopting the urban and suburban lifestyles as a result of its proximity to New York City.[35]

According to the U.S. Census Bureau's 2006 American Community Survey, the population in Westchester County was 949,335. Since the 2000 census, Westchester's population has increased by 25,896 people or 2.8 percent, and the county's population has increased by 8.5 percent (74,489 people) in the 16 years since the 1990 census.[36] Looking forward, Westchester County's population is expected to continue to grow at a moderate pace through 2030. Table 2 presents population projections for Westchester County.

TABLE 2
POPULATION PROJECTIONS
WESTCHESTER COUNTY

Year	Population	% Change
2000	923,459	
2010	945,174	2.35%
2015	957,216	1.27%
2020	964,583	0.77%
2025	973,455	0.92%
2030	982,666	0.95%

Source: Westchester County Department of Planning.

Westchester County has a diverse range of housing options including urbanized traditional residential developments with smaller lots in the southern part of the county and more suburban and rural types of development, including large lots and estates in the northern

34 Ibid.

35 Westchester County Department of Planning, "Databook, 2008" <www.westchestergov.com/pdfs/Planning_Databook2008.pdf> (accessed May 28, 2009).

36 Ibid.

part.[37] The county's residential construction market has taken a turn for the worse as a result of the turbulence that is present nationwide. Table 3 presents historical residential building permit data for Westchester County.

TABLE 3
RESIDENTIAL BUILDING PERMITS ISSUED
WESTCHESTER COUNTY, NEW YORK

Year	Permits	% Change
2000	2,126	
2001	1,977	-7.00%
2002	2,313	17.00%
2003	1,698	-26.59%
2004	1,687	-0.65%
2005	1,226	-27.33%
2006	837	-31.73%
2007	626	-25.21%
2008	501	-19.97%

Source: Westchester County Department of Planning, U.S. Census Bureau.

According to the Westchester County Board of Realtors, plunging equity markets, rising unemployment, weak corporate earnings reports and pre and post election jitters about economic policy and the unknown effects of the various stimulus and bailout plans, all combined to discourage prospective home buyers from entering the real estate market.[38] Table 4 presents quarterly sales data for residential properties in Westchester County.

TABLE 4
SEASONALLY ADJUSTED QUARTERLY SALES

	2007				2008				2009	2008/4-2009/1
Property Type	1st	2nd	3rd	4th	1st	2nd	3rd	4th	1st	% Change
					Westchester County					
Single Family	5,890	5,630	5,000	4,480	3,920	3,910	4,000	3,440	2,260	-34.3%
Condominiums	1,710	1,470	1,370	1,340	1,060	1,200	1,030	780	650	-16.7%
Cooperatives	2,010	2,070	2,000	1,790	1,600	1,550	1,520	1,570	1,060	-32.5%
2-4 Family	640	460	380	340	260	310	240	350	260	-25.7
Total	10,250	9,630	8,750	7,960	6,840	6,970	6,790	6,140	4,230	-31.1%

Source: Westchester County Board of Realtors.

37 Ibid.

38 Westchester County Board of Retailers Inc., 2009, "First Quarter Residential Real Estate Report," April 27, 2009 <www.wcbr.net> (accessed May 29, 2009).

Similarly, prices for homes in Westchester County decreased. The first quarter 2009 median sale price of a single-family house in Westchester was $532,000, a decrease of 15 percent from last year.[39] Table 5 presents quarterly median sale price data for Westchester County.

TABLE 5
MEDIAN HOME SALE PRICE

Property Type	Median Sale Price 1st 06	1st 07	1st 08	1st 09	Change 08-09 Amount	Percent
	Westchester County					
Single Family	650,000	635,000	622,500	532,000	-90,500	-14.5%
Condominiums	360,000	392,000	380,000	352,000	-28,000	-7.4%
Cooperatives	172,500	185,000	176,000	179,500	3,500	2.0%
2-4 Family Houses	577,000	535,000	515,000	411,250	-103,750	-20.1%

Source: Westchester County Board of Realtors.

The turmoil in the national economy has also battered Westchester County's labor market. Table 6 presents historical unemployment data for Westchester County.

TABLE 6
UNEMPLOYMENT RATE

Month	Unemployment Rate
March 2008	4.40
April 20008	3.90
May 2008	4.50
June 2008	4.70
July 2008	5.00
August 2008	5.00
September 2008	5.20
October 2008	5.00
November 2008	5.30
December 2008	5.70
January 2009	6.80
February 2009	7.50
March 2009	7.20

Source: U.S. Department of Labor, Local Area Unemployment Statistics.

The current economic environment has had an adverse effect on Westchester County's retail commercial real estate market. Jonathan H. Gordon, president of Admiral Real Estate Services Corp. in Bronxville predicated a "lot more vacancy coming on" in

39 Ibid.

Westchester's retail market. According to Gordon, "It's going to be a long tough haul." In addition, Gordon stated "It's going to come down to showing retailers mathematically why they've got to be there," regarding commercial real estate brokers negotiating leases. The key for many retail owners has been to lower asking rents to fill space to counter the recessionary environment.[40]

Stephen Oder, CEO of NAI Friedland Realty, Inc. in Yonkers, believes that vacancy rates in Westchester have been heavily skewed by big-box retailers, such as Circuit City and Home Depot, leaving the market and inflating the county's inventory. Oder states that 95 percent of national retailers are "sitting the sidelines." He does not expect them to return to the market until 2011.[41]

However, the absence of these large retailers gives strong local retailers a chance to fill space not previously available to them and get credit from landlords who before would not accept them. According to Oder, "We are seeing in the past two weeks alone some significant drops in both rents and sales of retail buildings. It's a time now where landlords have to say, do you want to be full or do you want to be empty? You do what you have to do."[42]

Gordon believes that Westchester's retail sector is overbuilt. This is another factor contributing to the county's struggling retail market. After the September 11 terrorist attacks, consumers spent exuberantly. The slowdown of consumer spending since then has had an adverse effect on the local retail market resulting in the current problem of excess retail space. Despite this, Oder believes that Westchester can handle another 3 million square feet of retail space and expects 1.5 million to 2 million square feet to be developed within 10 years once the market comes back.[43]

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40 John Gorden, "Brokers See Opportunity Amid Retails Adversity," *Westchester County Business Journal*, March 2, 2009, Vol. 48, 155:9: 12.

41 Ibid.

42 Ibid.

43 Ibid.

The office market in Westchester County has also experienced its share of struggles. New office leasing in Westchester County slowed markedly in the first quarter and tenants signed for smaller space at decreased rents offered by competing landlords. According to Cushman & Wakefield, leasing activity for Class-A office space in the county totaled approximately 88,645 square feet for the quarter, a 72 percent drop from first-quarter leasing in 2008 and a 27 percent decline from last year's fourth quarter.[44]

Overall, vacancy rates in Westchester continued to rise throughout the county. The first quarter vacancy rate for Class-A space was 19.4 percent, compared with 18.3 percent in the last quarter and 17.6 percent a year ago.[45]

According to CB Richard Ellis, 50 office leasing transactions totaling 182,977 square feet took place during the first quarter in Westchester County. Total leasing volume was a 68 percent decline from the five-year quarterly average of 569,387 square feet. This decline was due to smaller size deals as many tenants downsized their operations.[46]

The local economy will create numerous challenges for The LLC. Higher vacancy rates and declining rents both have adverse effects on commercial real estate values. In addition, Westchester County has experienced a large increase in its unemployment rate which will reduce the demand for office space. On a positive note, the end of the economic downturn is in sight and the property owned by The LLC could potentially benefit from its proximity to New York City. These conditions should eventually lead to increases in property values over a long-term time frame.

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44 John Golden, "Vacant Offices on Rise," *Westchester County Business Journal*, May 4, 2009, Vol. 48, Issue 18: 3.

45 Ibid.

46 Ibid.

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

The historic balance sheet of The LLC is summarized at the end of this report in Schedule 1.

After fluctuating somewhat from 2003 to 2006, The LLC's assets have increased in the three most recent periods, totaling $36,301,190 at March 31, 2009. The LLC's largest asset has always been its fixed assets, which are made up almost entirely of the Giant Shopping Center. Beginning in 2006, marketable securities, which consist entirely of municipal bonds at the valuation date, became The LLC's other main asset class. The increase in marketable securities coincides with the reduction in loans receivable. The loans to related parties which appear in the most recent period are due in full on January 27, 2010 and earn interest at the applicable federal rate at the date of issue.

The LLC carries no interest bearing liabilities and the few liabilities it carries are related to customer deposits and accounts payable. As a result, The LLC is financed almost entirely with equity, and the growth in stockholders' equity has closely followed the growth in assets. As of March 31, 2009, The LLC's balance sheet indicates a book value of $35,361,856.

However, certain items on the balance sheet require normalization to reflect these items at their fair market values as of May 20, 2009. These adjustments are reflected in Table 7.

TABLE 7
BALANCE SHEET ADJUSTMENTS

	March 31, 2009	Adjustments	Adjusted May 20, 2009
Current Assets			
Cash[1]	$ 3,975,179	$ (1,343,620)	$ 2,631,559
Marketable Securities[2]	12,709,326	(1,208,822)	11,500,504
Accounts Receivable[3]	255,153	(50,000)	205,153
Prepaid Expenses	306,444	-	306,444
Loans to Related Parties[4]	3,234,689	1,343,620	4,578,309
Total Current Assets	$ 20,480,791	$ (1,258,822)	$ 19,221,969
Fixed Assets			
Vehicles and Equipment	$ 137,388	$ -	$ 137,388
Real Estate[5]	13,992,225	66,407,775	80,400,000
Gross Fixed Assets[5]	$ 14,129,613	$ 66,407,775	$ 80,537,388
Other Net Assets			
Prepaid Expenses	$ 1,203,199	$ -	$ 1,203,199
Cash Tenant Deposits	487,587	-	487,587
Total Other Assets	$ 1,690,786	$ -	$ 1,690,786
TOTAL ASSETS	**$ 36,301,190**	**$ 65,148,953**	**$ 101,450,143**
Current Liabilities			
Accounts Payable	$ 448,658	$ -	$ 448,658
Sales Taxes Payable	714	-	714
Transmitter Deposits	2,375	-	2,375
Total Current Liabilities	$ 451,747	$ -	$ 451,747
Total Long-Term Liabilities	487,587	-	487,587
Total Liabilities	$ 939,334	$ -	$ 939,334
Total Members' Equity[6]	35,361,856	65,148,953	100,510,809
TOTAL LIABILITIES AND MEMBERS' EQUITY	**$ 36,301,190**	**$ 65,148,953**	**$ 101,450,143**

1. The cash balance was adjusted to reflect the funding of a loan to a related party on April 23, 2009.

2. Marketable securities were adjusted to their fair market value as of May 20, 2009 according to a brokerage statement by Citi Smith Barney.

3. According to management, $50,000 of the accounts receivable balance on March 31, 2009 was deemed to be uncollectible as of the valuation date. Therefore, this amount has been removed from the balance sheet.

4. The $1,343,620 loan discussed in item number 1 was entered into on April 20, 2009 and funded on April 23, 2009. This loan is due in full on April 20, 2012, with interest payable annually.

5. Real estate appraisals were performed on the five buildings that make up the Giant Shopping Center. The appraisals were performed by Land Value Resources - New York as of May 20, 2009. The five properties were appraised at a combined value of $80,400,000. Therefore, The LLC's balance sheet was adjusted to reflect this amount.

6. Retained earnings were adjusted to reflect the changes to the balance sheet.

Adjusting the balance sheet for these items results in an adjusted book value of $100,510,809.

THE EARNING CAPACITY OF THE COMPANY

A summary of The LLC's income statements are presented in Schedule 2 at the end of this report. Schedule 2 shows that rental revenue increased from 2004 to 2007, before decreasing approximately 3 percent in 2008. Operating expenses decreased from 2004 through 2007, before increasing slightly in 2008. Expenses in 2004 and 2005 were higher in part due to bad debt expenses in these years. As discussed, The LLC is writing off $50,000 as of the valuation date, indicating that occasional bad debts are a fairly regular part of The LLC's operating expenses. However, the writeoff in 2004 was especially large.

The increasing revenues and decreasing expenses from 2004 to 2007 resulted in considerable increases in operating profits over the time period, from $4.5 million to $6.9 million. However, in the most recent period, operating income declined by more than $650,000.

Looking at other income and expenses, interest income steadily increased over the period, corresponding to the increase in marketable securities on The LLC's balance sheet. Net income moved closely with operating profits growing from 2004 to 2007 before decreasing by more than 9 percent in the most recent period.

In determining The LLC's future earnings capacity, the economic and industry conditions as of the valuation date loomed large. The economic environment increases the likelihood of lower rental renewal rates, increased rental vacancies, and higher bad debt expense. In fact, The LLC's management indicated that as of the valuation date, The LLC was experiencing rental renewal rates roughly 15 to 20 percent lower.

Based on the economic forecasts and our conversations with management, we feel that reduced earnings in the short to medium term appear likely. Therefore, an average of the last four years' earnings is considered to be the best approximation of The LLC's future earnings capacity. These earnings are calculated as follows:

Four Year Average Earnings

2005	$	5,210,898
2006		6,566,362
2007		7,613,558
2008		6,988,759
Total	$	26,379,577
Divided by 4		4
Four Year Average	**$**	**6,594,894**

The LLC's four year average earnings of $6,594,894 takes into account the significant chance for lower earnings related to the economic environment, but exclude the especially low earnings in 2004 that resulted from the large bad debt expense in that year.

THE DIVIDEND[47] PAYING CAPACITY OF THE COMPANY

There is no requirement in The Agreement that distributions be made to the members. A publicly traded company often distributes dividends as a means to entice investors to invest in a company, but in this instance, distributions are not required, and are solely at the discretion of the Senior Manager(s).

The LLC has made considerable distributions over the last five years. Table 8 presents The LLC's net income, distributions, and distributions as a percentage of net income for this period.

TABLE 8
NET INCOME AND DISTRIBUTIONS

Year	Net Income	Distributions	% of Net Income
2004	$ 4,811,204	$ 5,276,446	110%
2005	5,210,898	3,140,741	60%
2006	6,566,362	7,224,410	110%
2007	7,613,558	6,021,339	79%
2008	6,988,759	5,718,979	82%
Five Year Average		**$ 5,476,383**	**88%**

As seen above, on average The LLC has distributed 88 percent of its net income over the last five years. However, while The LLC has historically distributed most of its income, The Agreement does not require distributions. Therefore, while The LLC has dividend paying capacity, these dividends are not guaranteed. This factor will be considered in the analysis.

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47 The words dividends and distributions will be used interchangeably.

WHETHER OR NOT THE ENTERPRISE HAS GOODWILL OR OTHER INTANGIBLE VALUE

Goodwill is a term applied to an intangible asset and may be defined as "those elements of a business that cause customers to return, and that usually enable the business to generate profit in excess of a reasonable return on all other assets of a business." It may also include work force in place value, information base, non-compete agreement, know-how and licenses.

Tangible assets such as real estate and municipal bonds do not create goodwill or intangible value. Therefore, we do not believe that there is any intangible value associated with The LLC.

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

Revenue Ruling 59-60 suggests that the valuation analyst consider whether there have been any previous sales of interests in The LLC, and the size of the block to be valued. There had been no sales of interests in The LLC.

The assignment is to value a 49.85 percent member interest in The LLC. This is a minority interest, because a member interest in Giant has limited rights with respect to its ability to participate in the day to day decision making. Virtually all control of The LLC is vested in the Senior Manager. A 49.85 percent member interest is also relatively illiquid, and lacks the marketability of shares of stock in the public stock market. These factors will be taken into consideration in the quantification of value.

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

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

We searched the *Morningstar Principia Pro For Closed-End Funds* database as of April 30, 2009 for closed end funds (CEFs) that owned similar assets to The LLC. We also gathered data on CEFs from *Barron's* as of May 15, 2009. Closed-end mutual funds were selected because the investments they make are similar to those made by The LLC. Closed-end funds are more comparable to The LLC because, like The LLC, they have a limited number of shares available. Although we were able to locate 18 funds that specialize in real estate, further analysis of these CEFs revealed that almost all of them have multiple managers, and that the total assets managed by these funds are considerably larger than the valuation subject. These CEFs are also very diversified in their holdings, investing largely in real estate companies and real estate investment trusts. Additionally, these funds did not have considerable municipal bond holdings. All of these factors greatly reduce the similarity of these funds to The LLC. Therefore, we believe that no guidance can be obtained by using the CEFs to apply the market approach in this valuation.

VALUATION CALCULATIONS

As mentioned earlier, the three approaches to valuation considered in any appraisal are:

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

Each of these methods was previously described.

THE MARKET APPROACH

The market approach was not used for this appraisal because we were unable to locate publicly traded or privately-held companies that would have been useful in making comparisons with The LLC. In the previous section, we discussed the search for closed-end mutual funds whose shares were actively traded on a public exchange. The search did not reveal any useful guideline companies or transactions to make this approach applicable.

THE ASSET-BASED APPROACH

ADJUSTED BOOK VALUE METHOD

Revenue Ruling 59-60 states, “The value of the stock of a closely-held investment or real estate holding company, whether or not family owned, is closely related to the value of the assets underlying the stock.” However, a minority interest does not have the ability to liquidate the underlying assets, and therefore, there is a question as to the value to the owner who cannot embrace the value of the assets. Despite this, the asset-based approach, specifically the adjusted book value method was applied to estimate the value of a member interest in The LLC.

It has previously been determined that the adjusted book value of The LLC is $100,510,809. This reflects the value of The LLC on a control, marketable basis.

The valuation subject is a 49.85 percent member interest in The LLC. In order to estimate this value, we must apply a discount for lack of control, as well as a discount for lack of marketability. These discounts are discussed in the "Premiums and Discounts" section of this report.

Applying these discounts results in the following calculation of value:

Control, Marketable Value	$	100,510,809
Less: Discount for Lack of Control (15.7%)		(15,780,197)
Indication of Value - Minority, Marketable	$	84,730,612
Less: Discount for Lack of Marketability (25%)		(21,182,653)
Indication of Value - Minority, Non-Marketable	$	63,547,957
Interest to Be Valued		49.85%
Value of a 49.85% Interest	**$**	**31,678,658**

Note: Figures may not add due to rounding.

THE INCOME APPROACH

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

CAPITALIZATION OF BENEFITS METHOD

The capitalization of benefits method is premised on the concept that value is based on a stabilized benefit stream that is capitalized by an appropriate capitalization rate to reflect the risk associated with the benefit 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 income to be made for the subject business. We have previously determined that the four year average net income best represents probable future earnings. The amount is estimated as $6,594,894.

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 9.10 percent is appropriate. Therefore, the value under this methodology is calculated as follows:

CAPITALIZATION OF FOUR YEAR AVERAGE NET INCOME

Four Year Average Net Income	$	6,594,894
One Plus the Long-Term Rate of Growth	x	1.025
Net Income for Capitalization	$	6,759,766
Capitalization Rate	÷	9.10%
Indication of Value - Minority, Marketable	$	74,283,143
Less: Discount for Lack of Marketability (25%)		(18,570,786)
Indication of Value - Minority, Non-Marketable	**$**	**55,712,357**
Value of a 49.85% Interest	**$**	**27,772,610**

RECONCILIATION OF VALUES

In this report, several methods were used to develop the value of a 49.85 percent member interest in The LLC. These values are as follows:

Asset-Based Approach	$	31,678,658
Income Approach		27,772,610

The difference between the values of the asset-based and income approaches reflects the fact that The LLC's earnings do not support the value of the underlying assets. The LLC is better off selling its assets than continuing to operate them. However, a minority owner cannot force the sale of the underlying assets to obtain their value. Therefore, the minority owner must look largely to the earnings and cash flow being generated from the property for his or return. The income approach is the most theoretically correct method of valuing a property as it considers the earnings and cash flow being generated from the property. It more closely reflects the value to a minority owner because it reflects monies available to the minority owner who cannot force the sale of the underlying real estate. However, the value of the assets cannot be ignored.

Based on the facts and circumstances of the appraisal, most of the weight was put on the asset-based approach. This reflects the fact that the minority owner cannot force a liquidation of The LLC's assets and should therefore look largely to the income for his or her return. However, this weighting also reflects that The LLC is better off selling its assets, paying off its liabilities, and either reinvesting or distributing the proceeds. This fact is reflected in the higher weighting given to the asset-based approach. Therefore, the value of a 49.85 percent member interest is estimated to be $30,702,000 rounded.

To test the reasonableness of our opinion of value, we performed a return on investment analysis. Based on The LLC's five year average distributions of $5,476,383, if The LLC were to distribute a similar amount, a 49.85 percent owner would receive $2,729,977. Based on a purchase price of $30,702,000, this equates to an 8.9 percent return on investment.

In a later section of this report, rates of return on various real estate investments, as reported in Partnership Profiles 2009 Rate of Return Study, are discussed. These rates of return include growth as well as income returns and are summarized below:

	Average
Real Estate Investment Trusts	
Average 1972-2008	12.98%
Distributing Publicly-Traded	
Real Estate Limited Partnerships No to Low Debt	
Average of Past 15 Years	17.60%

In addition, Morningstar reports the following total returns for other types of investments:

Large Company Stocks	11.7%
Mid-Cap Stocks	13.4%
Low-Cap Stocks	14.9%
Micro-Cap Stocks	17.7%
Long-Term Corporate Bonds	6.2%
Long-Term Government Bonds	6.1%
Treasury Bills	3.8%

Source: *Stock Bonds Bills & Inflation - Valuation Edition 2009*: 23.

What is not included in the data provided by Morningstar are the returns on municipal bonds. Municipal bond yields, as well as U.S. Government bond yields as of the valuation date were as follows:

Yield as of May 20, 2009 Based on Bond Maturity				
	2 Year	5 Year	10 Year	20 Year
Municipal Bonds	1.93	2.38	3.43	4.68
U.S. Treasury Bonds	0.87	2.05	3.19	4.11

Source: BondsOnline.com

As seen above, municipal bond yields as of the valuation date were generally higher than U.S. Treasury bonds of equivalent maturity. Historically, municipal bonds have offered lower yields than Treasury bonds. This is due to the tax benefits of municipal bond interest income. Investors are willing to accept a lower yield because they will not be taxed on the income, and therefore, the tax-equivalent income is on par with the U.S. Treasuries. The fact that the municipal yields are higher than Treasury bond yields shows that the market perceives increased risk in municipal bonds, and therefore expects a higher return.

This data above reflects the fact that an investor has alternatives and different alternatives pay different levels of returns. The minimum return indicated above is a riskless investment in Treasury Bills yielding 3.8 percent. A long-term government bond, which must be held for 20 years in order for an investor to receive the full return, yields 50 percent more than a three month investment. This is another indication that an investor expects a higher rate of return when the investment is long-term. An investor also expects a higher rate of return when the investment is considered to be more risky.

Based on the alternative rates, a return of 8.9 percent for an investment in The LLC is in the middle of the range and slightly below the range of returns offered by alternative real estate investments. The LLC's lower return makes sense because The LLC's portfolio is not exclusively made up of real estate. The LLC also has a considerable municipal bond portfolio, which reduces the risk and overall expected return of The LLC. Therefore, the 8.9 percent return is between the municipal bond returns and alternative real estate investment returns, reflecting The LLC's asset mix. Based on the above alternative rates of return, the value of The LLC is considered to be reasonable as it offers a reasonable rate of return compared to similar investments.

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.

In the text of Revenue Ruling 68-609, capitalization rates of 15 to 20 percent were mentioned as an example. Many appraisers are under the misconception that the capitalization rate must stay within this range. In reality, the capitalization rate must be consistent with the rate of return currently needed to attract capital to the type of investment in question.

There are various methods of determining discount and capitalization rates. In this valuation, we used the build-up method. Using the principle of substitution, we looked to the market for rates of return relating to the type of investments owned by The LLC. The calculation of the discount rate appears on the next page.

Appraisal Date Long-Term Treasury Bond Yield			4.11%[1]
Real Estate Risk Premium			
1972-2008 Equity REIT Return	12.98%[2]		
1972-2008 Government Bond Income Return	- 7.51%[3]		
Average Market Return		+	5.47%
Adjustments for Other Risk Factors		+	2.00%[4]
Discount Rate for Net Income		=	**11.58%**
Rounded			**11.60%**
Discount Rate for Net Income			11.60%
Growth Rate		-	2.50%
Capitalization Rate for Net Income		=	**9.10%**

1. Federal Reserve, Market Yield on U.S. Treasury Securities at 20-year constant maturity as of May 20, 2009.

2. *2009 Rate of Return Study*, Partnership Profiles, Inc. The expected return for Real Estate Investment Trusts traded in the informal secondary market from 1972 through 2008.

3. Long-Term Government Bonds: Income Returns, *Stocks Bonds Bills & Inflation - Valuation Edition 2009 Yearbook*. The average income returns from 1972 through 2008.

4. Valuation analyst's judgment based on the analysis discussed throughout the report.

A capitalization rate has been derived from a discount rate, which has been calculated above. The components of the discount rate include a safe rate which indicates the fact that any investor would receive, at a bare minimum, an equivalent rate for a safe investment. In this particular instance, United States Treasury Bonds are used as an indication of a safe rate.

A real estate risk premium is added to the safe rate which represents the premium that investors receive in the secondary market for real estate investment trusts (REIT) over investors in long-term government bonds. Since publicly-traded REITs are considered to be more risky by the investor, a higher rate of return is required over the period 1972 through 2008. This period was selected as it is the longest period for which data was available, and therefore gives the best indication of the long-term expected return.

In determining the real estate risk premium, we looked at several sources. Information was obtained from *Morningstar Principia's Closed-End Fund* database. An analysis of these funds indicated that their investments consisted primarily of common stock in publicly traded companies, and were therefore not comparable to the assets held by The LLC.

We also consulted the *2009 Rate of Return Study*, published by Partnership Profiles, Inc. This study publishes rates of return on publicly held real estate limited partnerships and equity REITs. This study provides insights into the rates of return on publicly traded entities that invest in real estate assets. The expected rate of return on equity REITs was felt to be most applicable to The LLC. This is due to the fact that REITs own and operate income producing real estate and are required by law to distribute 90 percent of taxable income to their shareholders. This is similar to the 88 percent average payout rate for The LLC over the last five years. As a result of the higher distributions, REITs tend to have lower expected returns than publicly held real estate limited partnerships.

An adjustment has also been made for other risk factors specific to the valuation subject. This additional level of risk is added to reflect the size of the entity in comparison to the REITs, the lack of diversification (based on the number of holdings) and the lack of professional management. For these reasons, investors would expect a greater rate of return on an investment in The LLC than in a publicly-traded REIT. Additionally, this rate reflects the poor market conditions present at the valuation date. As previously discussed, The LLC was experiencing new and renewed rental rates that were 15 to 20 percent lower than the prior year. Lastly, this rate has been increased to reflect the fact that we are discounting net income, which is more risky to an investor than net cash flow. Therefore, 2 percent has been added to the discount rate to reflect these additional risks.

Summing all of these items results in the derivation of a discount rate. The mathematical formula to distinguish between a discount rate and a capitalization rate is the subtraction of the present value of long-term sustainable growth from the discount rate. The present value of the long-term sustainable growth has been included at a rate of 2.5 percent. This rate has been determined based on an estimated increase at the approximate rate of inflation. This is consistent with the property leases which generally call for yearly increases in rent based on the inflation rate, as determined by the Consumer Price Index. However, upon renewal, rents can decline, as seen recently. We have chosen to reflect the risk of lower rents in the discount rate and capitalized net income, rather than the long-term growth rate.

As a sanity check on our discount rate, we reviewed Morningstar's *Cost of Capital Yearbook 2008* for discount rate data for SIC 6798, Real Estate Investment Trusts. Real estate investment trusts were felt to be most applicable to The LLC since like The LLC, they hold real estate, are not taxed at the entity level, and are required to distribute 90 percent of their income which is similar to The LLC's historical 88 percent dividend payout rate. Morningstar's data included data from 27 companies. Morningstar calculated the median cost of equity capital for these companies, using the capital asset pricing model plus size premiums at 11.95 percent. Based on this data, our selected discount rate of 11.60 percent seems reasonable. Our slightly lower discount rate reflects the fact that The LLC carries virtually no debt, whereas real estate investment trusts tend to carry significant debt loads. The LLC low debt reduces its risk. Additionally, this discount rate also reflects The LLC's municipal bond holdings, which help to reduce risk and the required return.

PREMIUMS AND DISCOUNTS

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 information used to derive multiples or discount rates, and normalization adjustments.

CONTROL PREMIUM

In a fair market value appraisal, 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. Valuation professionals recognize these prerogatives of control, and they continue to hold true today. These rights are considered in assessing the size of a control premium. They include:

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

10. Register the company's equity securities for an initial or secondary public offering.
11. Register the company's debt securities for an initial or secondary public offering.
12. Declare and pay cash and/or stock dividends.
13. Change the articles of incorporation or bylaws.
14. Set one's own compensation (and perquisites) and the compensation (and perquisites) of related-party employees.
15. Select joint venturers and enter into joint venture and partnership agreements.
16. Decide what products and/or services to offer and how to price those products/services.
17. Decide what markets and locations to serve, to enter into, and to discontinue serving.
18. Decide which customer categories to market to and which not to market to.
19. Enter into inbound and outbound license or sharing agreements regarding intellectual properties.
20. Block any or all of the above actions.[48]

A control premium is the opposite of a lack of control 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 valuation analyst uses information from the public stock market as the starting point of the valuation. In this assignment, the valuation subject is a minority interest. Therefore, a control premium is not required.

DISCOUNT FOR LACK OF CONTROL

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

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[48] Pratt, Shannon P., Robert F. Reilly and Robert P. Schweihs. *Valuing a Business*, 4th Edition (New York: McGraw-Hill, 2000): 365-366.

A discount for lack of control 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.

A discount for lack of control can be mathematically determined using control premiums that are measured in the public market. The formula to determine the discount for lack of control is as follows:

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

Data on control premiums is generally not available for closely-held businesses, so the valuation analyst uses transactions from the public stock market to act as a gauge as to the amount of premium paid in transactions involving buyouts. This data is tracked by several sources. The most widely used is *Mergerstat Review*, which is published annually by FactSet Mergerstat, LLC.

A summary of the *Mergerstat Review* data appears in Table 9.

TABLE 9
PERCENT PREMIUM PAID OVER MARKET PRICE

Year of Buy Out	Number of Transactions	Average Premium Paid Over Market (%)	Median Premium Paid (%)	Implied Minority Interest Discount
1990	175	42.0	32.0	24.2
1991	137	35.1	29.4	22.7
1992	142	41.0	34.7	25.8
1993	173	38.7	33.0	24.8
1994	260	41.9	35.0	25.9
1995	324	44.7	29.2	22.6
1996	381	36.6	27.3	21.5
1997	487	35.7	27.5	21.6
1998	512	40.7	30.1	23.1
1999	723	43.3	34.6	25.7
2000	574	49.2	41.1	29.1
2001	439	57.2	40.5	28.8
2002	326	59.7	34.4	25.6

TABLE 9
PERCENT PREMIUM PAID OVER MARKET PRICE

Year of Buy Out	Number of Transactions	Average Premium Paid Over Market (%)	Median Premium Paid (%)	Implied Minority Interest Discount
2003	371	62.3	31.6	24.0
2004	322	30.7	23.4	19.0
2005	392	34.5	24.1	19.4
2006	454	31.5	23.1	18.8
2007	491	31.5	24.7	19.8
2008	294	56.5	36.5	26.7

Source: *Mergerstat Review 2009*. (Santa Monica, CA: FactSet Mergerstat, LLC). Discount calculated by the valuation analyst. Mergerstat data excludes negative premiums.

The bottom line is that a minority owner is disadvantaged due to the legal rights that correspond to its ownership. Other than proving that a minority owner is "oppressed," which is a legal concept beyond the qualifications of a valuation analyst, there is little that a minority owner can do to control his investment. Therefore, a discount for lack of control is deemed proper for this interest.

Discounts will be greater for an interest in a privately held business than in a public company because it is more difficult to sell a minority interest when there is virtually no market for the shares. This additional element of discount will be addressed separately in the discount for lack of marketability section.

There are many factors that may impact the degree of control a partial (minority) owner has over the operations. When the control elements are not available to the ownership interest being valued, the value is reduced accordingly. The information in Table 10 summarizes some of the factors that tend to influence the value of minority interests relative to controlling interests:

TABLE 10
FACTORS AFFECTING THE DEGREE OF CONTROL

Factors That May Increase A Lack of Control Discount or Control Premium

- The presence of voting interests.
- An extreme lack of consideration for the interests of minority owners on the part of The Company's management, board of directors, or majority owners.

Factors That May Decrease a Lack of Control Discount or Control Premium

- The presence of enough minority interest votes to elect or have meaningful input on electing one or more directors in a company with cumulative voting.
- The presence of enough minority votes to block certain actions.
- The presence of state statutes granting certain minority ownership rights.

Factors That May Increase or Decrease a Lack of Control Discount or a Control Premium.

- The distribution of other shares (e.g. two shares when 2 others own 49 shares each are more valuable than 2 shares when 49 others own 2 shares each).

Source: Adapted from *Guide to Business Valuations*, Practitioners Publishing Company, Inc. 2009: 8-19, 803.17.

In this appraisal, the net asset value of The LLC was used to determine the control value of the entire LLC. However, to realize this value, an investor would need to be able to gain access to, and liquidate, the underlying assets of The LLC. If minority members were afforded this level of control, a minority share might well be worth a pro rata share of The LLC's net asset value. However, this is not the case. The Agreement specifically limits control by vesting virtually all decision making with the Senior Managers. The basis for lack of control adjustments for a minority interest arises from a range of factors, which include:

- Minority members cannot control the day-to-day management or operation of The LLC.
- Minority members generally cannot control the amount or timing of income distributions to members.

- Minority members do not have specific claims on the underlying assets of The LLC, and they cannot compel the dissolution of The LLC and the liquidation of its underlying assets.
- It is usually very difficult for minority members to remove management.
- It is very difficult for minority members to amend The LLC's Operating Agreement.

The net asset value method develops a freely traded, control value of The LLC's net assets of $100,510,809 at May 20, 2009, and does not provide a meaningful indication of value for a minority interest in The LLC. A lack of control discount is appropriate because a minority interest in The LLC represents an indirect ownership interest in the underlying assets held by The LLC. The interest is in fact, a minority interest in that it conveys no control over the day-to-day conduct of The LLC, has no right or authority to act for or bind The LLC, has no control over policy or investment decisions, cannot control the amount or timing of distributions to be made, and cannot decide the timing or amount of sale of The LLC's assets.

One approach to determining an appropriate lack of control discount is to compare the minority interest under appraisal to published control premium studies. This can be accomplished by using publications such as *Mergerstat Review*, cited previously.

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

Unlike open-end mutual funds, CEFs issue a fixed number of shares. Therefore, investors must buy shares from other investors, not the fund itself. These CEFs mirror the motivations of buyers and sellers, and offer empirical evidence for determination of the appropriate magnitude of the minority interest discount to be applied.

As previously discussed, the portfolio of The LLC consists of several types of investments. The LLC's assets are summarized as follows:

Asset	Value	% of Portfolio
Cash, Cash Deposits, and Accounts Receivable	$ 3,324,299	3.3%
Prepaid Expenses	1,509,643	1.5%
Municipal Bond Investments	11,500,504	11.3%
Loans Receivable	4,578,309	4.5%
Real Estate	80,400,000	79.3%
Vehicles & Equipment	137,388	0.1%
Total	**$ 101,450,143**	**100.0%**

The appraiser located information about CEFs as of May 15, 2009 in the May 18, 2009 issue of *Barron's*. These funds contain investments that are similar to some of the categories of assets owned by The LLC. Since none of the funds is the same as any of the specific assets held in the portfolio, the appraiser used all of the CEFs in a given category as a proxy for the marketplace in similar investments. The details of the discount information are presented in Tables 11 and 12.

Cash and money market funds invest in government bonds. Table 11 presents the U.S. Government Bond Fund Category.

TABLE 11
U.S. GOVERNMENT BOND FUNDS

	NAV	Market Price	Premium/ Discount	52 Week Market Return
FstTr/FIDACMortgInc (FMY)	17.08	15.78	-7.60	+8.2
BlckRk Income (BKT)	6.84	6.06	-11.4	+4.7
BR Enhcd Govt (EGF)	16.56	16.49	-0.40	+7.7
MFS Govt Mkts (MGF)	7.15	6.93	-3.10	+7.2
BlckRk Inv 09 (BCT)	11.53	11.11	-3.60	+2.6
		Average	**-5.22**	
		Median	**-3.60**	

The LLC's municipal bonds are concentrated almost entirely in bonds issued within the State of New York. Table 12 presents New York municipal bond funds.

TABLE 12
NEW YORK MUNICIPAL BOND FUNDS

	NAV	Market Price	Premium/ Discount	52 Week Market Return
BR MuniNY IntDu (MNE)	12.89	10.70	-17.00	+6.0
BR MH NY Insur (MHN)	13.27	10.96	-17.40	+5.9
BR MuniYld NY Insur (MYN)	12.68	10.67	-15.90	+5.9
BlckRk NY Ins Muni Inc (BSE)	13.20	11.65	-11.70	+5.9
EV Ins NY Mun Bd (ENX)	12.22	12.07	-1.20	+5.8
EV Ins NY Mun Bd 2 (NYH)	11.83	12.00	+1.40	+6.0
NeubrgeBrmNY (NBO)	13.55	12.60	-7.00	+5.1
NuvInsNYDivdAdvMu (NKO)	14.37	12.38	-13.8	+5.3
Nuveen Ins NY (NNF)	14.46	12.40	-14.2	+5.0
Nuveen Ins NY TF Adv (NRK)	14.24	12.40	-12.9	+5.1
Nuveen NY Inv (NQN)	14.22	12.52	-12.0	+5.1
Nuveen NY Qual (NUN)	14.21	12.12	-14.70	+5.2
Nuveen NY Sel (NVN)	14.39	12.14	-15.60	+5.4
AllNYMuniInc (AYN)	13.94	11.91	-14.60	+6.0
BlckRk NY Inv (RNY)	12.88	11.94	-7.30	+5.9
BlckRk NY 2018 (BLH)	14.91	15.46	+3.70	+5.4
BlackRock NY Mun Bd (BQH)	14.14	12.78	-9.60	+6.3
BlackRock NY Mun (BNY)	12.66	13.37	+5.60	+7.0
BlackRock NY Mun II (BFY)	13.63	11.67	-14.40	+6.5
EV NY Muni Inc (EVY)	11.70	11.45	-2.10	+6.1
Nuveen NY Div Ad (NAN)	13.59	12.26	-9.80	+5.8
NuvNY Div Adv 2 (NXK)	13.61	12.50	-8.20	+5.7
Nuveen NY Val (NNY)	9.47	9.38	-1.00	+4.5
Nuveen NY Muni Value 2 (NYV)	14.38	13.85	-3.70	NS
Nuveen NY Perf (NNP)	14.49	12.77	-11.90	+5.7
Nuveen NY Sel Tx-Free (NXN)	13.67	13.47	-1.50	+4.5
PIMCO NY (PNF)	9.54	9.55	+0.10	+6.9
PIMCONYMuniII (PNI)	9.48	10.00	+5.50	+7.5
Pimco NY Muni III (PYN)	8.38	8.51	+1.60	+7.1
VKTrInvGrNYMu (VTN)	13.03	11.82	-9.30	+6.9
		Average	**-7.63**	
		Median	**-9.45**	

As mentioned previously, we researched and reviewed real estate stock funds as of April 30, 2009. Information was obtained from *Morningstar Principia Pro For Closed End Funds*. Any funds without pricing information have been removed. Table 13 presents this data.

TABLE 13
REAL ESTATE CLOSED END FUNDS

	NAV	Market Price	Premium/ Discount
Cohen & Steers Advantage Income Realty	4.18	3.43	-17.90
Cohen & Steers Prem Inc Realty	3.83	3.32	-13.30
Cohen & Steers Qual Inc Realty	4.12	3.57	-13.30
Cohen & Steers REIT & Utility Income	7.73	5.83	-24.60
Cohen & Steers Total Return	7.75	6.90	-11.00
DCA Total Return	2.04	1.61	-21.10
DCW Total Return	4.13	3.15	-23.70
Denali Fund	12.48	9.49	-24.00
DWS RREEF Real Estate	2.63	2.18	-17.10
DWS RREEF Real Estate II	0.71	0.58	-18.30
ING Clarion Real Estate Income	4.31	3.44	-20.20
LMP Real Estate Income	5.91	5.00	-15.40
Neuberger Real Estate Securities Income	1.94	1.94	+0.00
Nuveen Real Estate Income	5.33	5.60	+5.10
RMR Dividend Capture Fund	2.16	1.60	-25.90
RMR F.I.R.E.	1.88	1.29	-31.40
RMR Hospitality and Real Estate	2.80	1.98	-29.30
RMR Real Estate	3.20	2.30	-28.10
		Average	**-18.31**
		Median	**-19.25**

Further analysis of these CEFs revealed that almost all of these CEFs hold equity interests in companies that hold real estate rather than actually holding the real estate. These CEFs were also very diversified in their holdings. All of these factors have profound impacts on discounts.

Another proxy located was real estate limited partnerships data compiled by Partnership Profiles, Inc. (PPI) in its 2008 *Executive Summary Report on Partnership Re-Sale Discounts.* This summary includes 58 publicly-registered real estate programs whose units (or shares) traded in the secondary market during the time period December 1, 2007 through July 31, 2008. We analyzed two groupings of real estate programs from this study that have similar attributes to The LLC. They are as follows:

- Equity Real Estate Partnerships
- Triple-Net Lease Programs

EQUITY REAL ESTATE PARTNERSHIPS

There are two general categories of equity real estate partnerships: distributing and non-distributing.

PPI describes distributing partnerships as follows:

> The partnerships in this group own equity interests in income-producing real estate ranging from apartments to mini-warehouses to office buildings. All of these partnerships pay operating cash distributions to their investors. In most cases, these distributions are paid on a regular and predictable basis such as quarterly or semi-annually, although some partnerships pay operating distributions on a sporadic basis, especially those having moderate to high levels of debt financing where cash flow can be less than predictable.[49]

Distributing partnerships can be further divided into those with low to no debt, and those with moderate to high debt.

PPI describes non-distributing partnerships as follows:

> The partnerships in this category are typically unable to pay operating cash distributions due to high debt loads and/or property improvement funding needs.[50]

Table 14 presents the average price-to-value discounts for these three groups from 2000 to 2008.

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49 Partnership Profiles, Inc. *2008 Executive Summary Report on Partnership Re-Sale Discounts* (2008): 7.

50 Ibid: 9.

TABLE 14
EQUITY REAL ESTATE PARTNERSHIPS
AVERAGE PRICE-TO-VALUE DISCOUNTS

Year	Distributing Low to No Debt	Distributing Moderate to High Debt	Non-Distributing
2000	24%	26%	35%
2001	25%	26%	42%
2002	16%	26%	32%
2003	15%	27%	32%
2004	16%	29%	38%
2005	19%	24%	42%
2006	20%	28%	37%
2007	20%	25%	39%
2008	19%	23%	33%

Looking at the data in Table 14, it becomes clear that distributing partnerships trade at lower discounts than non-distributing partnerships. Additionally, distributing partnerships with less debt trade at lower discounts than those with more debt. These two factors are relevant to The LLC, which carries virtually no debt and has historically made distributions.

TRIPLE-NET-LEASE PROGRAMS

The equity real estate partnerships data provides important insights into the effects of cash distributions and debt on lack of control discounts. Further information can be gained by examining triple-net-lease programs. PPI defines the triple-net-lease program group as follows:

> All or substantially all of the real estate properties owned by the programs in this group are net-leased to tenants pursuant to long-term lease agreements, whereby the lessees are obligated to pay all insurance, taxes and day-to-day maintenance expenses associated with the properties. Unlike other real estate partnerships which actively manage their properties, triple-net-lease programs generally act as landlord only. While restaurants are the most common property type owned by these programs, other types of real estate include industrial/warehouse facilities, hotels and office buildings.[51]

[51] Ibid: 10.

In its discussion of the similarities between triple-net-lease programs and distributing debt-free, equity-based partnerships, PPI writes:

> In terms of distribution yields and price-to-value discounts, units of triple-net-lease programs are priced very similar to debt-free, equity-based partnerships that distribute all or substantially all of their operating cash flow. However, distribution yields for net-lease programs tend to be slightly higher and price-to-value discounts lower when compared to debt-free partnerships that actively manage their properties.[52]

The data in Table 15 presents the average price-to-value discounts and average distribution yield from 2004 to 2008 for triple-net-lease programs and for equity, distributing partnerships with low to no debt, as well as the average discounts for equity, non-distributing partnerships.

TABLE 15
AVERAGE PRICE-TO-VALUE DISCOUNTS AND AVERAGE DISTRIBUTION YIELD
2004-2008

	Triple-Net-Lease Programs		Equity Distributing-Low to No Debt		Equity Non-Distributing	
Year	**Average Distribution Yield**	**Average Price-to-Value Discount**	**Average Distribution Yield**	**Average Price-to Value Discount**	**Average Distribution Yield**	**Average Price-to Value Discount**
2004	9.7%	14.0%	8.6%	16.0%	0.0%	38.0%
2005	10.0%	18.0%	7.6%	19.0%	0.0%	42.0%
2006	8.4%	17.0%	6.8%	20.0%	0.0%	37.0%
2007	7.3%	9.0%	7.3%	20.0%	0.0%	39.0%
2008	7.4%	13.0%	6.8%	19.0%	0.0%	33.0%
Average	**8.6%**	**14.2%**	**7.4%**	**18.8%**	**0.0%**	**37.8%**
Median	**8.4%**	**14.0%**	**7.3%**	**19.0%**	**0.0%**	**38.0%**

The data in Table 15 shows that as discussed by PPI, the discounts for triple-net lease programs have tended to be lower, while yields have tended to be higher. This makes sense, as investors will pay more (lower discount) for an investment that pays distributions, as the investor is receiving a more current return on investment. The data in Table 15 shows that the equity partnerships that are not making distributions have had the largest discounts, emphasizing the importance that distributions play in determining discounts.

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52 Ibid: 11.

As discussed previously, The LLC has made distributions every year over the last five years, with an average distribution of $5,476,383 over this time period. Based on the adjusted book value of $101,510,809, The LLC's yield to net asset value is 5.4 percent. This yield is lower than the average yield for the triple-net lease programs and the equity distributing partnerships in Table 15.

To further explore discounts and yields, we searched PPI's Minority Interest Database. This database includes data on over 325 publicly held limited partnerships. The database includes all of the partnerships included in PPI's *2008 Executive Summary Report on Partnership Re-Sale Discounts*, however, the database includes more partnerships and has been updated to include the most recent data on prices and partnership performance.

Our search focused on the two main types of real estate The LLC owns, retail and commercial. We searched for partnerships that had not announced liquidation plans over the period from 2004 to 2008. Programs that had announced liquidation plans were excluded from the search because they are not comparable to The LLC, which has no plans to liquidate. Partnerships without discount data were also removed. The results of the searches of the PPI database appear in Tables 16 through 20.

TABLE 16
2008 COMMERCIAL AND RETAIL PROPERTIES

Partnership Name	Number of Properties	Price to NAV	Discount	Yield/NAV	Total NAV	Revenue
HCW Pension Real Estate Fund LP	2	0.857 : 1	14.3%	NSD	$ 10,627,546	$ 2,099,000
Wells Real Estate Fund XII-CP	7	0.802 : 1	19.8%	7.92%	17,719,743	1,282,000
Wells Real Estate Fund XIII-CP	7	0.890 : 1	11.0%	7.04%	14,894,889	815,000
Wells Real Estate Fund IX-A	9	0.858 : 1	14.2%	5.39%	14,258,775	476,000
Wells Real Estate Fund VIII-A	7	0.866 : 1	13.4%	5.35%	10,818,006	403,000
Wells Real Estate Fund VIII-A	7	0.866 : 1	13.4%	5.35%	10,818,006	403,000
Wells Real Estate Fund X-A	7	0.795 : 1	20.5%	5.12%	6,296,617	262,000
Rancon Realty Fund V	9	0.852 : 1	14.8%	3.70%	80,836,470	15,868,000
Rancon Realty Fund V	9	0.852 : 1	14.8%	3.70%	80,836,470	15,868,000
Rancon Realty Fund IV	12	0.829 : 1	17.1%	3.09%	76,241,034	10,127,000
Rancon Realty Fund IV	12	0.829 : 1	17.1%	3.09%	76,241,034	10,127,000
Wells Real Estate Fund II-A	7	0.781 : 1	21.9%	0.00%	9,327,421	0,000
Wells Real Estate Fund II-B	7	0.787 : 1	21.3%	0.00%	2,883,386	0,000
Wells Real Estate Fund III-A	6	0.762 : 1	23.8%	0.00%	4,123,553	105,000
Wells Real Estate Fund III-B	6	0.714 : 1	28.6%	0.00%	356,236	105,000
Wells Real Estate Fund X - B	7	0.798 : 1	20.2%	0.00%	911,444	262,000
Wells Real Estate Fund XI-A	11	0.8 : 1	20.0%	0.00%	2,950,983	89,000
Wells Real Estate Fund XI-B	10	0.766 : 1	23.4%	0.00%	454,906	89,000
Wells Real Estate Fund XIII-TP	7	0.746 : 1	25.4%	0.00%	16,153,262	815,000
Angeles Income Properties II	5	0.701 : 1	29.9%	0.00%	10,676,888	6,104,000
Wells Real Estate Fund II-A	7	0.781 : 1	21.9%	0.00%	9,327,421	0,000
Wells Real Estate Fund II-B	7	0.787 : 1	21.3%	0.00%	2,883,386	0,000
Wells Real Estate Fund III-A	6	0.762 : 1	23.8%	0.00%	4,123,553	105,000
Wells Real Estate Fund III-B	6	0.714 : 1	28.6%	0.00%	356,236	105,000
		Average	**20.0%**	**2.2%**		
		Median	**20.4%**	**0.0%**		

TABLE 17
2007 COMMERCIAL AND RETAIL PROPERTIES

Partnership Name	Number of Properties	Price to NAV	Discount	Yield/NAV	Total NAV	Revenue
Wells Real Estate Fund XIII-CP	7	0.694 : 1	30.6%	8.00%	$ 22,203,562	$ 929,000
Wells Real Estate Fund XII-CP	7	0.903 : 1	9.7%	6.90%	18,977,085	1,050,000
Wells Real Estate Fund III-A	6	0.818 : 1	18.2%	5.90%	4,319,912	64,000
Wells Real Estate Fund III-A	6	0.818 : 1	18.2%	5.90%	4,319,912	64,000
Wells Real Estate Fund X-A	7	0.817 : 1	18.3%	5.40%	11,841,078	87,000
Wells Real Estate Fund IX-A	9	0.834 : 1	16.6%	4.90%	21,019,677	886,000
HCW Pension Real Estate Fund LP	2	0.798 : 1	20.2%	4.60%	9,952,532	2,225,000
Rancon Realty Fund V	9	0.938 : 1	6.2%	3.50%	75,372,000	14,220,000
Rancon Realty Fund V	9	0.938 : 1	6.2%	3.50%	75,372,000	14,220,000
Rancon Realty Fund IV	12	0.780 : 1	22.0%	2.90%	70,370,623	9,634,000
Rancon Realty Fund IV	12	0.780 : 1	22.0%	2.90%	70,370,623	9,634,000
Angeles Opportunity Properties	5	0.693 : 1	30.7%	0.00%	1,006,425	1,874,000
Consolidated Capital Institutional Prop. 3	8	0.629 : 1	37.1%	0.00%	23,748,046	13,520,000
Wells Real Estate Fund II-A	7	0.808 : 1	19.2%	0.00%	9,478,336	0,000
Wells Real Estate Fund II-B	7	0.827 : 1	17.3%	0.00%	2,925,997	0,000
Wells Real Estate Fund X - B	7	0.871 : 1	12.9%	0.00%	1,684,690	87,000
Angeles Income Properties II	5	0.841 : 1	15.9%	0.00%	16,364,576	5,643,000
Angeles Opportunity Properties	5	0.693 : 1	30.7%	0.00%	1,006,425	1,874,000
Wells Real Estate Fund II-A	7	0.808 : 1	19.2%	0.00%	9,478,336	0,000
Wells Real Estate Fund II-B	7	0.827 : 1	17.3%	0.00%	2,925,997	0,000
		Average	**19.4%**	**2.7%**		
		Median	**18.3%**	**2.9%**		

TABLE 18
2006 COMMERCIAL AND RETAIL PROPERTIES

Partnership Name	Number of Properties	Price to NAV	Discount	Yield/NAV	Total NAV	Revenue
HCW Pension Real Estate Fund LP	2	0.541 : 1	45.9%	NSD	$ 8,853,672	$ 2,286,000
Wells Real Estate Investment Trust	114	0.877 : 1	12.3%	6.70%	4,045,312,924	593,963,000
Wells Real Estate Fund XII-CP	7	0.874 : 1	12.6%	6.50%	18,392,275	1,276,000
Wells Real Estate Fund IX-A	9	0.808 : 1	19.2%	6.00%	19,834,116	1,079,000
Wells Real Estate Fund VIII-A	7	0.806 : 1	19.4%	5.20%	20,739,333	1,064,000
Wells Real Estate Fund VIII-A	7	0.806 : 1	19.4%	5.20%	20,739,333	1,064,000
Wells Real Estate Fund X-A	7	0.803 : 1	19.7%	4.80%	11,131,903	592,000
Rancon Realty Fund V	9	0.870 : 1	13.0%	3.20%	69,719,100	10,415,000
Rancon Realty Fund V	9	0.870 : 1	13.0%	3.20%	69,719,100	10,415,000
Rancon Realty Fund IV	12	0.711 : 1	28.9%	3.00%	58,555,492	7,544,000
Rancon Realty Fund IV	12	0.711 : 1	28.9%	3.00%	58,555,492	7,544,000
Angeles Opportunity Properties	5	0.676 : 1	32.4%	0.00%	1,838,900	1,593,000
Consolidated Capital Institutional Prop. 1	13	0.887 : 1	11.3%	0.00%	67,675,300	23,117,000
Consolidated Capital Institutional Prop. 3	8	0.514 : 1	48.6%	0.00%	27,578,376	12,410,000
Wells Real Estate Fund II-A	7	0.736 : 1	26.4%	0.00%	10,422,912	0,000
Wells Real Estate Fund II-B	7	0.557 : 1	44.3%	0.00%	5,953,537	0,000
Wells Real Estate Fund III-B	6	0.810 : 1	19.0%	0.00%	534,353	108,000
Wells Real Estate Fund X - B	7	0.811 : 1	18.9%	0.00%	1,562,945	592,000
Wells Real Estate Fund XI-B	10	0.813 : 1	18.7%	0.00%	997,601	82,000
Angeles Income Properties II	5	0.695 : 1	30.5%	0.00%	15,796,805	5,220,000
Angeles Opportunity Properties	5	0.676 : 1	32.4%	0.00%	1,838,900	1,593,000
Biggest Little Investments, LP	1	0.676 : 1	32.4%	0.00%	25,763,695	2,233,200
Wells Real Estate Fund II-A	7	0.736 : 1	26.4%	0.00%	10,422,912	0,000
Wells Real Estate Fund II-B	7	0.557 : 1	44.3%	0.00%	5,953,537	0,000
Wells Real Estate Fund III-B	6	0.81 : 1	19.0%	0.00%	534,353	108,000
		Average	**25.5%**	**2.0%**		
		Median	**19.7%**	**0.0%**		

TABLE 19
2005 COMMERCIAL AND RETAIL PROPERTIES

Partnership Name	Number of Properties	Price to NAV	Discount	Yield/ NAV	Total NAV	Revenue
Angeles Opportunity Properties	5	0.655 : 1	34.5%	NSD	$ 2,485,000	$ 1,750,000
Consolidated Capital Institutional Prop. 1	13	0.801 : 1	19.9%	NSD	57,125,915	24,123,000
Angeles Income Properties II	5	0.872 : 1	12.8%	NSD	13,969,760	4,907,000
Angeles Opportunity Properties	5	0.655 : 1	34.5%	NSD	2,485,000	1,750,000
Wells Real Estate Fund XII-CP	7	0.864 : 1	13.6%	8.64%	24,532,780	2,163,000
Wells Real Estate Fund X-A	7	0.826 : 1	17.4%	7.27%	13,302,409	1,074,000
Wells Real Estate Fund IX-A	9	0.833 : 1	16.7%	6.41%	24,992,908	3,422,000
Wells Real Estate Fund VIII-A	7	0.797 : 1	20.3%	3.31%	26,177,261	2,419,000
Wells Real Estate Fund VIII-A	7	0.797 : 1	20.3%	3.31%	26,177,261	2,419,000
Rancon Realty Fund V	9	0.748 : 1	25.2%	2.72%	61,239,750	10,335,000
Rancon Realty Fund V	9	0.748 : 1	25.2%	2.72%	61,239,750	10,335,000
Rancon Realty Fund IV	12	0.721 : 1	27.9%	2.51%	52,387,845	7,058,000
Rancon Realty Fund IV	12	0.721 : 1	27.9%	2.51%	52,387,845	7,058,000
Consolidated Capital Institutional Prop. 2	5	0.724 : 1	27.6%	0.00%	11,855,107	7,955,000
Consolidated Capital Institutional Prop. 3	8	0.749 : 1	25.1%	0.00%	13,942,401	11,725,000
Wells Real Estate Fund VIII-B	8	0.439 : 1	56.1%	0.00%	5,080,828	2,419,000
Wells Real Estate Fund VIII-B	8	0.439 : 1	56.1%	0.00%	5,080,828	2,419,000
		Average	**27.1%**	**3.0%**		
		Median	**25.2%**	**2.7%**		

TABLE 20
2004 COMMERCIAL AND RETAIL PROPERTIES

Partnership Name	Number of Properties	Price to NAV	Discount	Yield/NAV	Total NAV	Revenue
Consolidated Capital Institutional Prop. 1	13	0.462 : 1	53.8%	NSD	$ 68,455,556	$ 18,590,000
Consolidated Capital Institutional Prop. 3	8	0.824 : 1	17.6%	NSD	20,561,211	11,935,000
Wells Real Estate Fund III-A	6	0.857 : 1	14.3%	NSD	13,745,176	135,000
Wells Real Estate Fund III-A	6	0.857 : 1	14.3%	NSD	13,745,176	135,000
Wells Real Estate Fund VIII-A	7	0.937 : 1	6.3%	11.27%	24,644,228	1,567,000
Wells Real Estate Fund VIII-A	7	0.937 : 1	6.3%	11.27%	24,644,228	1,567,000
Wells Real Estate Fund IX-A	9	0.996 : 1	0.4%	10.62%	25,345,372	1,573,000
Rancon Realty Fund V	9	0.810 : 1	19.0%	2.86%	49,462,875	8,562,000
Rancon Realty Fund V	9	0.810 : 1	19.0%	2.86%	49,462,875	8,562,000
Rancon Realty Fund IV	12	0.731 : 1	26.9%	2.57%	43,322,147	7,184,000
Rancon Realty Fund IV	12	0.731 : 1	26.9%	2.57%	43,322,147	7,184,000
Consolidated Capital Institutional Prop. 2	5	0.638 : 1	36.2%	0.00%	12,827,881	5,557,000
Wells Real Estate Fund IX-B	9	0.750 : 1	25.0%	0.00%	4,004,875	1,573,000
Wells Real Estate Fund VIII-B	8	0.751 : 1	24.9%	0.00%	4,614,697	1,567,000
Wells Real Estate Fund X - B	7	0.745 : 1	25.5%	0.00%	4,017,591	1,008,000
Wells Real Estate Fund XI-B	10	0.675 : 1	32.5%	0.00%	3,155,080	560,000
Wells Real Estate Fund VIII-B	8	0.751 : 1	24.9%	0.00%	4,614,697	1,567,000
		Average	**22.0%**	**3.4%**		
		Median	**24.9%**	**2.6%**		

Based on the data in Tables 16 through 20, the yields on commercial and retail partnerships are slightly lower than the yields of triple-net programs and equity distributing partnerships with low to no debt, while the discounts from net asset values are slightly higher.

A summary of the yields and discounts for the commercial and retail partnerships for each year is shown in Table 21.

TABLE 21
COMMERCIAL AND RETAIL PROPERTY DISCOUNTS AND YIELDS

	Yield/NAV		Discount		
	Average	**Median**	**Average**	**Median**	**Count**
2004	3.4%	2.6%	22.0%	24.9%	17
2005	3.0%	2.7%	27.1%	25.2%	17
2006	2.0%	0.0%	25.5%	19.7%	25
2007	2.7%	2.9%	19.4%	18.2%	20
2008	2.2%	0.0%	20.0%	20.4%	24
2004-2008	2.5%	2.5%	22.7%	20.2%	103

The data in Table 21 shows that the discounts for commercial and retail properties have fluctuated somewhat in recent years, but stayed within a certain range. However, what should also be noted is that there is a significant range in the sizes of the partnerships, their number of properties, and their discounts. For example, from 2004 to 2008, discounts range from as low as 0.4 percent to as high as 56.1 percent, and yields range from 0 percent to 11.22 percent. Additionally, data sets in each year are not extensive. The data in any one year does not consist of enough data points to provide any statistically reliable results. Therefore, to better understand and increase our confidence in the data, we analyzed the combined data from 2004 to 2008.

The data from the commercial and retail property partnerships confirmed PPI's finding that lower yielding partnerships tend to have higher discounts. While the yields for the commercial and retail property partnerships were, on average, lower than those for the triple net lease and equity distributing partnerships, this may have been because some of the commercial and retail partnerships were not distributing. Therefore, we examined only those commercial and retail partnerships that were making distributions. A summary of the yields and discounts for each year is shown in Table 22.

TABLE 22
DISTRIBUTING COMMERCIAL AND RETAIL PROPERTIES

	Yield/NAV		Discount		
	Average	Median	Average	Median	Count
2004	6.3%	2.9%	15.0%	19.0%	7
2005	4.4%	3.3%	21.6%	20.3%	9
2006	4.7%	5.0%	18.6%	19.3%	10
2007	4.9%	4.9%	17.1%	18.2%	11
2008	5.0%	5.2%	15.6%	14.8%	10
2004-2008	5.0%	4.8%	17.7%	18.2%	47

The data in Table 22 shows that the average and median yield for these distributing partnerships from 2004 to 2008 were very close to The LLC's average yield at 5.4 percent. The average and median discount over this time period was 17.7 percent and 18.2 percent, respectively. Therefore, we selected a discount of 18 percent to apply to The LLC's real estate assets.

In using PPI's price-to-value discount data, it is important to understand what this discount actually represents. PPI discusses this data as follows:

> For appraisers using data from this survey to value what is truly a noncontrolling interest in an entity owning real estate, the real issue is not whether discounts are valid when valuing such an interest, but how much of the price-to-value discounts applicable to secondary market trading in limited partnerships reflects lack of marketability versus lack of control considerations. Indeed, the question most often posed by business valuation professionals, real estate appraisers and CPAs when using data from the annual discount surveys published by PPI to determine discounts for minority interests in real estate assets is how much of the overall price-to-value discount reflects lack of marketability versus lack of control issues.
>
> Although it is not possible to precisely quantify the amount of discount attributable to marketability versus lack of control considerations, it is the opinion of PPI, along with many appraisers, that most of the overall discount is due to lack of control issues. While the partnership secondary market is certainly not a recognized securities exchange, it is a market where there are usually multiple bidders who stand ready to purchase the units of virtually any publicly-registered partnership that has value. As previously discussed, it is typically not a matter of whether the units of a partnership can be sold, but a matter of how long it takes to get the net sales proceeds into the hands of the seller.
>
> PPI has examined several methods to gauge the extent to which the total price-to-value discounts observed in the partnership secondary market reflect marketability issues. One of these analyses considered the amount of time it takes to sell a publicly-held limited partnership or REIT interest and pay the net proceeds to the seller. [According to the American Partnership Board the average amount of time required to actually disburse funds to a seller in this market is approximately 45 days from the date of sale.] Simply using the time value of money, this analysis suggests that a relatively small portion of the overall discount is due to marketability. Specifically, the estimated portion of the discount for marketability was less than 10% of the overall discount.
>
> While it appears that most of the overall price-to-value discounts inherent in the pricing of partnership interests trading in the secondary market is due to *lack of control*, it is difficult, if not impossible, to allocate with any precision the lack of control versus the marketability component of the total discount. Some valuation professionals believe that the issues of control and marketability are so interrelated that it is simply not possible to ascertain exactly how much of the total discount is attributable to lack of control versus marketability.
>
> It is common practice for appraisers using the discount data reported in this survey when valuing a minority interest in a FLP or some other illiquid investment involving real estate to adjust these discounts upward to account

for the fact that the subject of their valuation is less marketable than the partnership interests included in this survey.[53]

When we determine our discount for lack of control, we will account for the fact that the discount for lack of control associated with The LLC's real estate assets may reflect a small amount of discount for lack of marketability.

Utilizing the information on the previous pages, a blended or weighted discount for lack of control was calculated utilizing the median discounts of the various asset classes. The median was selected from the CEF data as it eliminates the outliers from the data that can skew the results.

The calculation of the discount is presented in Table 23.

TABLE 23
DISCOUNT FOR LACK OF CONTROL

Asset	% of Portfolio	Discount	Weighted Average
Cash, Cash Deposits, and Accounts Receivable	3.3%	3.6%	0.12%
Prepaid Expenses	1.5%	3.6%	0.05%
Municipal Bond Investments	11.3%	9.5%	1.07%
Related Party Loans	4.5%	3.6%	0.16%
Real Estate	79.3%	18.0%	14.27%
Vehicles & Equipment[1]	0.1%	0.0%	0.00%
Total	**100.0%**		**15.67%**
		Rounded	**15.70%**

[1] The amount of vehicles and equipment on the books is so negligible that any discount applied would have no impact on the overall discount.

There are a number of differences between the closed-end funds and The LLC including but not limited to size, management and distributions that could justify a higher discount. However, there is no quantitative methodology to support a higher discount.

53 Ibid: 13, 14.

Therefore, based on the analysis performed, a discount for lack of control of 15.7 percent was deemed appropriate.

DISCOUNT FOR LACK OF MARKETABILITY

A discount for lack of marketability 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.

RESTRICTED STOCK STUDIES

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,[54] which addresses restricted stock issues. Many studies have updated this one.

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[54] 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.

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 important being that the securities cannot be resold without either registration under the Act, or an exemption.[55] 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.[56]

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.[57] Effective

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55 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.

56 Ibid.

57 Richard A. Brealey and Steward C. Myers, "How Corporations Issue Securities," Chapter 14, *Principles of Corporate Finance*, 5th Edition, McGraw-Hill, Inc. 1996: 399-401.

April 1997, the two year holding period was reduced to one year. This holding period was reduced to six months in December 2007.

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.

Table 24 is a summary of many of the more familiar studies regarding restricted stock.

TABLE 24
RESTRICTED STOCK STUDIES

Study	Years Covered in Study	Average Discount (%)
SEC Overall Average[a]	1966-1969	25.8
SEC Non-Reporting OTC Companies[a]	1966-1969	32.6
Gelman[b]	1968-1970	33.0
Trout[c]	1968-1972	33.5[i]
Moroney[d]	[h]	35.6
Maher[e]	1969-1973	35.4
Standard Research Consultants[f]	1978-1982	45.0[i]
Willamette Management Associates[g]	1981-1984	31.2[i]
Silber Study[j]	1981-1988	33.8
FMV Study[k]	1979 - April 1992	23.0
FMV Restricted Stock Study[l]	1980 -1997	22.3
Bruce Johnson[m]	1991-1995	20.0
Columbia Financial Advisors[n]	1996-February 1997	21.0
Columbia Financial Advisors[n]	May 1997-1998	13.0

Notes:

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

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

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

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

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

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

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

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

[I] Median discounts.

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

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

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

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

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

SEC INSTITUTIONAL INVESTOR STUDY

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

> Restricted securities are usually sold at a discount from their coeval market price, if any, primarily because of the restrictions on their resale. With the information supplied by the respondents on the purchase prices of the common stock and the dates of transaction, the Study computed the implied

discounts in all cases in which it was able to locate a market price for the respective security on the date of the transaction.[58]

Table 24 contains a reproduction of Table XIV-45 of the SEC Institutional Investor Study showing the size of discounts at which restricted stock transactions took place compared with the prices, as of the same date, of the freely traded but otherwise identical stocks.[59] The table shows that about half of the transactions, in terms of real dollars, took place at discounts ranging from 20 to 40 percent.

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

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

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

59 Ibid.

TABLE 24
SEC INSTITUTIONAL INVESTOR STUDY

	Discount							
	-15.0% to 0.0%		0.1% to 10.0%		10.1% to 20.0%		20.1% to 30.0%	
Trading Market	No. of Trans-actions	Value of Purchases	No. of Trans-actions	Value of Purchases	No. of Trans-actions	Value of Purchases	No. of Trans-actions	Value of Purchases
Unknown	1	$ 1,500,000	2	$ 2,496,583	1	$ 205,000	0	$ 0
New York Stock Exchange	7	3,760,663	13	15,111,798	13	24,503,988	10	17,954,085
American Stock Exchange	2	7,263,060	4	15,850,000	11	14,548,750	20	46,200,677
Over-the-Counter (Reporting Companies)	11	13,828,757	39	13,613,676	35	38,585,259	30	35,479,946
Over-the-Counter (Non-Reporting Companies)	5	8,329,369	9	5,265,925	18	25,122,024	17	11,229,155
TOTAL	**2626**	**$ 34,681,849**	**67**	**$ 52,337,982**	**78**	**$ 102,965,021**	**77**	**$ 110,863,863**

TABLE 24
SEC INSTITUTIONAL INVESTOR STUDY

	Discount							
	30.1% to 40.0%		40.1% to 50.0%		50.1% to 80.0%		Total	
Trading Market	**No. of Trans-actions**	**Value of Purchases**	**No. of Trans-actions**	**Value of Purchases**	**No. of Trans-actions**	**Value of Purchases**	**No. of Trans-actions**	**Value of Purchases**
Unknown	2	$ 3,332,000	0	$ 0	1	$ 1,259,995	7	$ 8,793,578
New York Stock Exchange	3	11,102,501	1	1,400,000	4	5,005,068	51	78,838,103
American Stock Exchange	7	21,074,298	1	44,250	4	4,802,404	49	109,783,439
Over-the-Counter (Reporting Companies)	30	58,689,328	13	9,284,047	21	8,996,406	179	178,477,419
Over-the-Counter (Non-Reporting Companies)	25	29,423,584	20	11,377,431	18	13,505,545	112	104,253,033
TOTAL	**6767**	**$ 123,621,711**	**35**	**$ 22,105,728**	**48**	**$ 33,569,418**	**398**	**$ 480,145,572**

GELMAN STUDY

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

MORONEY STUDY

An article published in the March 1973 issue of *Taxes*,[61] authored by Robert E. Moroney of the investment banking firm Moroney, Beissner & Co., contained the results of a study of the prices paid for restricted securities by 10 registered investment companies. The study included 146 purchases at discounts ranging from 3 to 90 percent. The average discount was approximately 33 percent. Despite the pretty broad range, the average discount was, once again in line with the other studies.

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

> Obviously the courts in the past have overvalued minority interest in closely-held companies for federal tax purposes. But most (probably all) of those decisions were handed down without benefit of the facts of life recently made available for all to see.

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60 Milton Gelman, "Economist-Financial Analyst's Approach to Valuing Stock of a Closely Held Company," *Journal of Taxation*, June 1972: 353-4.

61 Robert E. Moroney, "Most Courts Overvalue Closely-Held Stock," *Taxes*, March 1973: 144-56.

> Some appraisers have for years had a strong gut feeling that they should use far greater discounts for non-marketability than the courts had allowed. From now on those appraisers need not stop at 35 percent merely because it's perhaps the largest discount clearly approved in a court decision. Appraisers can now cite a number of known arm's-length transactions in which the discount ranged up to 90 percent.[62]

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

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

MAHER STUDY

J. Michael Maher, with Connecticut General Life Insurance Co., conducted another interesting study on lack of marketability discounts for closely-held business interests. The results of this well documented study were published in the September 1976 issue of *Taxes*.[64] Using an approach that was similar to Moroney's, Maher compared prices paid for restricted stocks with the market prices of their unrestricted counterparts. The data used covered the five-year period 1969 through 1973. The study showed that "the mean discount for lack of marketability for the years 1969 to 1973 amounted to 35.43 percent."[65] In an attempt to eliminate abnormally high and low discounts, Maher eliminated the top and bottom 10 percent of the purchases. The results ended up with an average discount of

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[62] Ibid.: 151.

[63] Robert E. Moroney, "Why 25 Percent Discount for Nonmarketability in One Valuation, 100 Percent in Another?" *Taxes*, May 1977: 320.

[64] J. Michael Maher, "Discounts for Lack of Marketability for Closely-Held Business Interests," *Taxes*, September 1976: 562-71.

[65] Ibid.: 571.

34.73 percent, almost the exact same discount that was derived without the top and bottom items removed.

Maher's remarks are a good learning tool, as he distinguished between a discount for lack of marketability and a discount for a minority interest. He said:

> The result I have reached is that most appraisers underestimate the proper discount for lack of marketability. The results seem to indicate that this discount should be about 35 percent. Perhaps this makes sense because by committing funds to restricted common stock, the willing buyer (a) would be denied the opportunity to take advantage of other investments, and (b) would continue to have his investment at the risk of the business until the shares could be offered to the public or another buyer is found.
>
> The 35 percent discount would not contain elements of a discount for a minority interest because it is measured against the current fair market value of securities actively traded (other minority interests). Consequently, appraisers should also consider a discount for a minority interest in those closely-held corporations where a discount is applicable.[66]

[66] Ibid.

TROUT STUDY

The next study was performed by Robert R. Trout. Trout was with the Graduate School of Administration, University of California, Irvine and Trout, Shulman & Associates. Trout's study of restricted stocks covered the period 1968 to 1972 and addressed purchases of these securities by mutual funds. Trout attempted to construct a financial model which would provide an estimate of the discount appropriate for a private company's stock.[67] Creating a multiple regression model involving 60 purchases, Trout measured an average discount of 33.45 percent for restricted stock from freely traded stock.

STANDARD RESEARCH CONSULTANTS STUDY

In 1983, Standard Research Consultants analyzed private placements of common stock to test the current applicability of the SEC Institutional Study.[68] Standard Research studied 28 private placements of restricted common stock from October 1978 through June 1982. Discounts ranged from 7 percent to 91 percent, with a median of 45 percent, a bit higher than seen in the other studies.

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

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67 Robert R. Trout, "Estimation of the Discount Associated with the Transfer of Restricted Securities," *Taxes*, June 1977: 381-5.

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

WILLAMETTE MANAGEMENT ASSOCIATES, INC. STUDY

Willamette Management Associates analyzed private placements of restricted stocks for the period January 1, 1981 through May 31, 1984.[69] In discussing the study, Willamette states that the early part of this unpublished study overlapped the last part of the Standard Research study, but there were very few transactions that took place during the period of overlap. According to the discussion of the study in *Valuing a Business*, most of the transactions in the study took place in 1983.

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

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

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69 Shannon P. Pratt, et al., *Valuing a Business*, Third Edition.

SILBER RESTRICTED STOCK STUDY

In 1991, another study of restricted stock was published which included transactions during the period 1981 through 1988. This study, by William L. Silber, substantiated the earlier restricted stock studies, finding an average price discount of 33.75 percent.[70] Silber identified 69 private placements involving common stock of publicly traded companies. The restricted stock in this study could be sold under Rule 144 after a two-year holding period. Silber, similar to Trout, tried to develop a statistical model to explain the price differences between securities that differ in resale provisions. Silber concluded that the discount on restricted stock varies directly with the size of the block of restricted stock relative to the amount of publicly traded stock issued by the company. He found that the discounts were larger when the block of restricted stock was large compared to the total number of shares outstanding. Silber also noted that the size of the discount was inversely related to the credit-worthiness of the issuing company.

FMV STUDY

As indicated in the table, it is important to emphasize that this study analyzes just over 100 transactions involving companies tending to have larger capitalization. As reported in other studies, such discounts tend to be higher among smaller companies, and conversely, lower with larger companies.

MANAGEMENT PLANNING INC. STUDY

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

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

Management Planning analyzed 200 private transactions involving companies with publicly traded shares. Of the 200, 49 met the base criteria described. Of these, the average mean discount was 27.7 percent, while the average median discount was 28.8 percent.[71]

A more detailed analysis of the Management Planning Study indicated a large range of discounts relative to the sample companies due to varying degrees of revenues, earnings, market share, price stability and earnings stability. The average revenues for the companies selected for review were $47.5 million, however, the median revenue figure was $29.8 million, indicating that the average sales figure was impacted by a few companies that were significantly larger than the others studied. The average discount for companies with revenues under $10 million was 32.9 percent.

Likewise, the average reported earnings of the study group were skewered by 20 companies in the study whose earnings exceeded $1 million, and in fact had a median earnings figure of $2.9 million. Twenty-nine of the companies studied earned less than $1 million, while the median earnings of all of the companies in the sample was $0.7 million. The following chart indicates that fourth quartile companies reflected private placement median discounts to the shares traded in the open markets ranging from 34.6 percent to 44.8 percent, based upon the factors considered. The average discount of sample companies in the fourth quartile for the five factors considered was 39.3 percent.

Factors Considered In the Analysis		First Quartile	Second Quartile	Third Quartile	Fourth Quartile	Original Expectations Re: Discounts
		Restricted Stock Discounts				
Revenues	Medians	18.7%	22.2%	31.5%	36.6%	Higher revenues, lower discounts
	Means	21.8%	23.9%	31.9%	34.7%	
Earnings	Medians	16.1%	30.5%	32.7%	39.4%	Higher earnings, lower discounts
	Means	18.0%	30.0%	30.1%	34.1%	
Market Price/Share	Medians	23.3%	22.2%	29.5%	41.0%	Higher the price, lower discounts
	Means	23.3%	24.5%	27.3%	37.3%	
Price Stability	Medians	34.6%	31.6%	9.2%	19.4%	Lower stability, higher discounts
	Means	34.8%	33.3%	21.0%	22.0%	
Earnings Stability	Medians	14.1%	26.2%	30.8%	44.8%	Higher earnings stability, lower discounts
	Means	16.4%	28.8%	27.8%	39.7%	

71 Z. Christopher Mercer, *Quantifying Marketability Discounts*, Peabody Publishing L.P.; Memphis, TN; 1997: 345-363.

BRUCE JOHNSON STUDY

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

COLUMBIA FINANCIAL ADVISORS, INC. RESTRICTED STOCK STUDY (1996-1997)

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

COLUMBIA FINANCIAL ADVISORS, INC. RESTRICTED STOCK STUDY (1997-1998)

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

REVENUE RULING 77-287

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 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."[72] 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.

INITIAL PUBLIC OFFERING STUDIES

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. STUDIES

Robert W. Baird & Co., a regional investment banking firm has conducted 11 studies over time periods ranging from 1980 through 2000, comparing the prices in closely-held stock transactions, when no public market existed, with the prices of subsequent IPOs in the same stocks. The results are presented in Table 25.

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

TABLE 25
THE VALUE OF MARKETABILITY AS ILLUSTRATED IN INITIAL PUBLIC OFFERINGS OF COMMON STOCK

Study	# of IPO Prospectuses Reviewed	# of Qualifying Transactions	Discount Mean	Discount Median
1997-2000[1]	1847	283	50%	52%
1997-2000[2]	1847	36	48%	44%
1997-2000[3]	NA	53	54%	54%
1995-1997	732	91	43%	42%
1994-1995	318	46	45%	45%
1992-1993	443	54	45%	44%
1990-1992	266	35	42%	40%
1989-1990	157	23	45%	40%
1987-1989	98	27	45%	45%
1985-1986	130	21	43%	43%
1980-1981	97	13	60%	66%
Total	**4,088**	**593**	**47%**	**48%**

[1] Expanded study.
[2] Limited study.
[3] Dot-Com study.

Source: John D. Emory, Sr., F.R. Dengel III, and John D. Emory, Jr., “Expanded Study of the Value of Marketability as Illustrated in Initial Public Offerings of Common Stock,” *Business Valuation Review* (December 2001).

WILLAMETTE MANAGEMENT ASSOCIATES STUDY

A similar private, unpublished study has been performed by Willamette Management Associates. Their results are in the data presented in Table 26.

TABLE 26
SUMMARY OF DISCOUNTS FOR PRIVATE TRANSACTION P/E MULTIPLES COMPARED TO PUBLIC OFFERING P/E MULTIPLES ADJUSTED FOR CHANGES IN INDUSTRY P/E MULTIPLES

Time Period	Number of Companies Analyzed	Number of Transactions Analyzed[a]	Standard Mean Discount (%)	Trimmed Mean Discount[b]	Median Discount	Standard Deviation
1975-1978	17	31	34.0%	43.4%	52.5%	58.6%
1979	9	17	55.6%	56.8%	62.7%	30.2%
1980-1982	58	113	48.0%	51.9%	56.5%	29.8%
1983	85	214	50.1%	55.2%	60.7%	34.7%
1984	20	33	43.2%	52.9%	73.1%	63.9%
1985	18	25	41.3%	47.3%	42.6%	43.5%
1986	47	74	38.5%	44.7%	47.4%	44.2%
1987	25	40	36.9%	44.9%	43.8%	49.9%
1988	13	19	41.5%	42.5%	51.8%	29.5%
1989	9	19	47.3%	46.9%	50.3%	18.6%
1990	17	23	30.5%	33.0%	48.5%	42.7%
1991	27	34	24.2%	28.9%	31.8%	37.7%
1992	36	75	41.9%	47.0%	51.7%	42.6%
1993	51	110	46.9%	49.9%	53.3%	33.9%
1994	31	48	31.9%	38.4%	42.0%	49.6%
1995	42	66	32.2%	47.4%	58.7%	76.4%
1996	17	22	31.5%	34.5%	44.3%	45.4%
1997	34	44	28.4%	30.5%	35.2%	46.7%
1998	14	21	35.0%	39.8%	49.4%	43.3%
1999	22	28	26.4%	27.1%	27.7%	45.2%
2000	13	15	18.0%	22.9%	31.9%	58.5%
2001	2	2	-195.8%	n/a	-195.8%	n/a
2002	5	7	55.8%	n/a	76.2%	42.8%

Source: Willamette Management Associates Reprinted from Pamela J. Garland and Ashley L. Reilly, "Update on the Willamette Management Associates Pre-IPO Discount for Lack of Marketability Study for the Period 1998 through 2002," Willamette Management Associates Insights, Spring 2004.

Notes:

[a] Caution must be taken as to sample size when relying on this data.

[b] Excludes the highest and lowest of indicated discounts.

VALUATION ADVISORS' LACK OF MARKETABILITY DISCOUNT STUDY

Studies published by Valuation Advisors break down the discount for lack of marketability based on the amount of time that transactions occur prior to the IPO. Table 27 reflects this data.

TABLE 27
VALUATION ADVISOR'S LACK OF MARKETABILITY DISCOUNT STUDY™
TRANSACTION SUMMARY RESULTS BY YEAR FROM 1999-2007

Time of Transaction Before IPO	1-90 Days	91-180 Days	181-270 Days	271-365 Days	1-2 Years
1999 Results					
Number of Transactions	149	175	103	92	175
Median Discount	30.8%	53.9%	75.0%	76.9%	82.0%
2000 Results					
Number of Transactions	129	176	116	91	141
Median Discount	28.7%	45.1%	61.2%	68.9%	76.6%
2001 Results					
Number of Transactions	15	17	18	17	48
Median Discount	14.7%	33.2%	33.4%	52.1%	51.6%
2002 Results					
Number of Transactions	9	12	7	16	36
Median Discount	6.2%	17.3%	21.9%	39.5%	55.0%
2003 Results					
Number of Transactions	12	22	24	21	44
Median Discount	28.8%	22.2%	38.4%	39.7%	61.4%
2004 Results					
Number of Transactions	37	74	63	59	101
Median Discount	16.7%	22.7%	40.0%	56.3%	57.9%
2005 Results					
Number of Transactions	18	59	58	62	99
Median Discount	14.8%	26.1%	41.7%	46.1%	45.5%
2006 Results					
Number of Transactions	25	76	69	72	106
Median Discount	20.7%	20.8%	40.2%	46.9%	57.2%
2007 Results					
Number of Transactions	46	76	92	79	124
Median Discount	11.1%	29.4%	36.3%	47.5%	53.1%
2008 Results					
Number of Transactions	4	4	7	8	9
Median Discount	20.3%	19.2%	45.9%	40.4%	49.3%
1999-2008 Transaction Results					
Number of Transactions	444	691	557	517	883
Average Discount	19.3%	29.0%	43.4%	51.4%	59.0%

Source: The Valuation Advisors' *Discount for Lack of Marketability Database* (July 22, 2009).

The above data clearly reflects that the longer the period of time before a liquidity event (the IPO), the greater the discount. The liquidity of a minority interest in a closely-held company can take a considerable amount of time if a sale of the company is not planned. Therefore, it seems that the discounts from this study approximate 60 percent.

OTHER CONSIDERATIONS

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 bankers. The costs associated with smaller offerings can be as much as 25 to 30 percent of a small company's equity.

CONCLUSION

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

The IPO studies are proof that larger discounts can be justified than those quoted from the restricted stock studies. One of the best explanations of why a DLOM varies from case to case was included in an article published by Robert E. Moroney entitled "Why 25% Discount for Nonmarketability in One Valuation, 100% in Another?"[73] 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.

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[73] *Taxes*, May 1977.

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

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

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

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

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

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

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

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

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

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

In this assignment we are appraising a minority interest that has no control. Most of the marketability studies have supported discounts of 35 to 40 percent. These studies relate to minority interests in companies that are either public, with restrictions under Rule 144, or private, but about to go public. Therefore, an argument can easily be made to support a higher discount for an interest in a closely-held company that is not going public. The relevant points that we have taken into consideration with respect to the Moroney factors include the following:

Dividend Yield: The LLC makes considerable distributions, and has on average distributed 88 percent of its net income over the past five years. While The Agreement does not require distributions, The LLC's history suggests that continued dividends are to be expected.

Growth Prospects: Near to medium term, the growth prospects for The LLC's real estate holdings are not strong, as increasing vacancies have been driving down rental rates. Declines in rental rates were expected, and The LLC was reporting significantly lower rental renewal rates at the valuation date. The municipal bond markets have also been in flux, driving down the prices on bonds based on concerns about the fiscal conditions of states as a result of the economy.

Degree of Control: Virtually all control of The LLC is vested in the Senior Manager(s). Any action requiring the approval of the Members requires more than 70 percent of the voting interests, as well as the approval of the Senior Manager. The member interest has virtually no control of The LLC.

Restrictions on Transfer: The restrictions on transfer of membership interests have been reviewed earlier. These restrictions have the effect of limiting the marketplace for the member interest.

Buy-Sell Agreements: There are no buy-sell agreements with respect to this interest.

Stock Quality Grade: The portfolio is not diversified and is invested heavily in assets with poor short to medium term prospects.

Controlling Shareholder Honesty/Friendliness: This is not considered to be an issue in this appraisal.

Prospects for The LLC: Growth prospects for The LLC in the short to medium term are not strong as income is likely to decline for a period of time.

Prospects for the Industry: Considerable uncertainty and negative short to medium term growth.

Mood of the Investing Public: Overall, investor sentiment had picked up as of late. However, serious concerns about the economy remained, and equity markets remained well below their highs.

In addition to the factors above, a buyer of an interest in The LLC is not guaranteed admittance as a member and without the approval of all of the member interests will receive only an assignee interest. This might make it more difficult for a willing seller to find a willing buyer.

The seller, on the other hand, might reduce his asking price in order to obtain immediate liquidity. The LLC does not have a fixed termination or liquidation date. Although a member can transfer his or her interest, a member cannot require The LLC to purchase his or her interest. This results in ownership of an asset that provides current liquidity but no definitive future liquidity. Therefore, a member might negotiate a lower selling price to provide him or herself with liquidity. Also, the seller might want an alternatively allocated portfolio, and gaining liquidity would give him or her an opportunity to invest in assets that meet his or her investment criteria.

The problem with the restricted stock studies is that these are based on operating companies traded on various stock exchanges, while The LLC is a privately-held holding company. The question of relevance arises.

The studies are used as a proxy to measure the decrease in value of an investment due to the inability to sell it and have cash in three days. Although a member in The LLC can transfer an interest to a family member, or sell the interest to another party, it takes time to find a buyer for an investment that is not actively traded, has no guarantee of distributions, and has a perpetual life.

The other exit strategy for an investor is to wait for dissolution of The LLC. However, there are currently no intentions to sell the underlying assets, and The Agreement does not limit the life of The LLC. Even with large growth in the underlying assets, the present value of that growth into perpetuity can be very small to non-existent.

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

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

Based on the facts and circumstances, a DLOM of 25 percent was deemed appropriate for this assignment. This discount also reflects the fact that a small portion of the discount for lack of marketability may have been captured in the discount for lack of control that was used for The LLC's real estate holdings. This discount is at the lower range of the discount studies discussed previously.

GIANT SHOPPING CENTER, LLC
BALANCE SHEET
AS OF

	December 31, 2003	2004	2005	2006	2007	2008	March 31, 2009
Current Assets							
Cash	$ 7,133,592	$ 3,210,803	$ 6,402,241	$ 966,159	$ 3,961,586	$ 1,933,033	$ 3,975,179
Marketable Securities	-	-	-	8,848,601	13,808,133	16,013,518	12,709,326
Accounts Receivable	953,739	420,040	671,392	869,041	473,900	339,901	255,153
Prepaid Expenses	5,867	835	-	-	-	2,627	306,444
Loans to Related Parties	-	-	-	-	-	-	3,234,689
Total Current Assets	$ 8,093,198	$ 3,631,678	$ 7,073,633	$ 10,683,801	$ 18,243,619	$ 18,289,079	$ 20,480,791
Fixed Assets							
Land	$ 6,007,547	$ 6,007,547	$ 6,007,547	$ 6,007,547	$ 6,007,547	$ 6,007,547	$ -
Real Estate	24,744,486	24,961,476	25,267,679	25,690,619	26,928,749	28,885,211	-
Gross Fixed Assets	$ 30,752,033	$ 30,969,023	$ 31,275,226	$ 31,698,166	$ 32,936,296	$ 34,892,758	$ -
Accumulated Depreciation	17,286,025	18,161,186	18,886,451	19,543,685	20,140,315	20,788,136	-
Net Fixed Assets	$ 13,466,008	$ 12,807,837	$ 12,388,775	$ 12,154,481	$ 12,795,981	$ 14,104,622	$ 14,129,613
Other Assets							
Due From Vendor	$ 234,000	$ -	$ -	$ -	$ -	$ -	$ -
Due From Affiliate	4,881,800	10,500,000	10,500,000	6,500,000	-	100,000	-
Prepaid Expenses	3,176,723	2,449,405	1,680,490	1,635,239	1,355,423	1,278,146	1,203,199
Cash Tenant Deposits	450,256	461,564	446,295	453,212	477,434	500,659	487,587
Total Other Assets	$ 8,742,779	$ 13,410,969	$ 12,626,785	$ 8,588,451	$ 1,832,857	$ 1,878,805	$ 1,690,786
TOTAL ASSETS	**$ 30,301,985**	**$ 29,850,484**	**$ 32,089,193**	**$ 31,426,733**	**$ 32,872,457**	**$ 34,272,506**	**$ 36,301,190**

GIANT SHOPPING CENTER, LLC
BALANCE SHEET
AS OF

	December 31, 2003	2004	2005	2006	2007	2008	March 31, 2009
Current Liabilities							
Accounts Payable	$ 143,084	$ 160,929	$ 344,106	$ 335,182	$ 163,819	$ 271,660	$ 448,658
Sales Taxes Payable	318	2,264	2,839	503	1,044	167	714
Transmitter Deposits	2,050	2,190	2,259	2,190	2,295	2,375	2,375
Total Current Liabilities	$ 145,452	$ 165,383	$ 349,204	$ 337,875	$ 167,158	$ 274,202	$ 451,747
Total Long-Term Liabilities	467,751	461,564	446,295	453,212	477,434	500,659	487,587
Total Liabilities	$ 613,203	$ 626,947	$ 795,499	$ 791,087	$ 644,592	$ 774,861	$ 939,334
Total Members' Equity	$ 29,688,782	$ 29,223,537	$ 31,293,694	$ 30,635,646	$ 32,227,865	$ 33,497,645	$ 35,361,856
TOTAL LIABILITIES AND MEMBERS' EQUITY	**$ 30,301,985**	**$ 29,850,484**	**$ 32,089,193**	**$ 31,426,733**	**$ 32,872,457**	**$ 34,272,506**	**$ 36,301,190**

GIANT SHOPPING CENTER, LLC
INCOME STATEMENT
FOR THE

	Years Ended December 31,				
	2004	2005	2006	2007	2008
Rental Revenues	$ 11,939,313	$ 12,059,627	$ 12,690,829	$ 13,343,405	$ 12,912,750
Operating Expenses					
Auto Expense	$ 16,529	$ 14,182	$ 21,117	$ 28,429	$ 27,425
Bad Debts	805,463	160,353	-	5,000	-
Charitable Contributions	26,520	14,525	6,270	3,070	1,270
Commissions	204,388	411,357	212,640	222,271	208,926
Depreciation	875,158	750,711	657,233	596,627	647,823
Insurance	144,470	132,999	125,389	134,360	128,143
Leasing Expense	696,807	708,882	217,111	57,545	57,545
Management Fees	611,768	607,934	637,917	681,606	651,447
Miscellaneous	31,742	(20,362)	(7,025)	(1,893)	9,077
Office Expenses	108,960	163,089	194,361	233,868	386,679
Professional Fees	69,471	55,806	83,799	85,464	100,134
Rents	10,020	-	-	-	-
Repairs and Maintenance	379,798	446,085	546,247	521,334	689,660
Taxes - Other	1,766,746	1,897,020	2,021,171	1,809,017	1,760,851
Utilities	1,183,361	1,346,385	1,332,013	1,409,308	1,502,384
Lot Maintenance	135,386	126,331	126,525	163,302	101,019
Janitorial	341,342	359,007	395,414	419,128	323,286
Elevator Maintenance	27,929	29,261	27,907	29,095	30,496
Total Operating Expenses	$ 7,435,858	$ 7,203,565	$ 6,598,089	$ 6,397,531	$ 6,626,165
Operating Income	$ 4,503,455	$ 4,856,062	$ 6,092,740	$ 6,945,874	$ 6,286,585
Other Income					
Interest Income	$ 307,749	$ 346,836	$ 473,622	$ 679,559	$ 713,676
Gain on Sale of Assets	-	8,000	-	-	-
Total Other Income	$ 307,749	$ 354,836	$ 473,622	$ 679,559	$ 713,676
Total Other Expenses	-	-	-	11,875	11,502
Total Other Income	$ 307,749	$ 354,836	$ 473,622	$ 667,684	$ 702,174
NET INCOME	**$ 4,811,204**	**$ 5,210,898**	**$ 6,566,362**	**$ 7,613,558**	**$ 6,988,759**

SOURCES OF INFORMATION UTILIZED

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

1. James and Karen Jackson Partners' Certificate of Conversion into Giant Shopping Center LLC.
2. Operating Agreement of Giant Shopping Center LLC dated May 20, 1997.
3. Restated Operating Agreement of Giant Shopping Center, LLC dated September 30, 1999.
4. Resolution of the Members of Giant Shopping Center dated October 12, 2006 amending the Restated Operating Agreement of Giant Shopping Center LLC.
5. Resolution of the Members of Giant Shopping Center dated April 23, 2009 amending the Restated Operating Agreement of Giant Shopping Center LLC.
6. Notice of Resignation of Karen Jackson as co-Manager of Giant Shopping Center LLC dated April 23, 2009.
7. Resolution of the Members of Giant Shopping Center, LLC dated May 19, 2009 amending the Restated Operating Agreement of Giant Shopping Center, LLC.
8. $1,078,229.75 promissory note dated January 27, 2009 between Nicholas Jackson and Giant Shopping Center LLC.
9. $1,078,229.75 promissory note dated January 27, 2009 between William Jackson and Giant Shopping Center LLC.
10. $1,078,229.75 promissory note dated January 27, 2009 between George Jackson and Giant Shopping Center LLC.
11. $1,343,619.83 promissory note dated January 27, 2009 between George Jackson, Nicholas Jackson, and William Jackson, as Trustees of the Trust u/a/d December 13, 1989, James Jackson, Grantor and Giant Shopping Center LLC.
12. Compiled financial statement of Giant Shopping Center LLC as of March 31, 2009.
13. 2008 Form 1065, U.S. Tax Return of Giant Shopping Center LLC.
14. 2007 Form 1065, U.S. Tax Return of Giant Shopping Center LLC.
15. 2006 Form 1065, U.S. Tax Return of Giant Shopping Center LLC.
16. 2005 Form 1065, U.S. Tax Return of Giant Shopping Center LLC.
17. 2004 Form 1065, U.S. Tax Return of Giant Shopping Center LLC.

SOURCES OF INFORMATION UTILIZED

18. Citi Smith Barney Statement showing investments as of May 20, 2009.

19. Reconciliation of depreciation schedule to financial statement dated December 31, 2008 and March 31, 2009.

20. 2008 book depreciation schedule.

21. Real Estate Appraisal of 123 Post Road, Scarsdale, New York as of May 20, 2009 prepared by Land Value Resources - New York.

22. Real Estate Appraisal of 456 Post Road, Scarsdale, New York as of May 20, 2009 prepared by Land Value Resources - New York.

23. Real Estate Appraisal of 900 Post Road, Scarsdale, New York as of May 20, 2009 prepared by Land Value Resources - New York.

24. Real Estate Appraisal of 690-698 Post Road, Scarsdale, New York as of May 20, 2009 prepared by Land Value Resources - New York.

25. Real Estate Appraisal of 682-688 Post Road, Scarsdale, New York as of May 20, 2009 prepared by Land Value Resources - New York.

26. Integra Information, Inc.'s benchmarking data for SIC 6512.

Since this entity is a holding company, no site visit was conducted. However, a telephone interview with members of The LLC's management was conducted to discuss The LLC's operating environment as of the valuation date. Information gathered on this telephone interview is an integral part of this report.

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

This appraisal 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 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.

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

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 appraisal report shall be made by anyone other than Trugman Valuation Associates, Inc., and we shall have no responsibility for any such unauthorized change.

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

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

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 appraiser'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 appraiser, 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. 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 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.

19. 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.

Appraisal of a 49.85 percent member interest in Giant Shopping Center, LLC.

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 organizations' programs.
- no one provided significant business and/or intangible asset appraisal assistance to the person signing this certification.

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)*. Reaccredited in 2008.
- **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*).

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

Faculty

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

Appraisal Education

- *IRS New Rules: Pension Protection Act and Beyond*, Webinar, Business Valuation Resources, LLC, 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.
- *Discount for Lack of Marketability Workshop*, San Diego, CA, Business Valuation Resources, LLC, 2008.
- *NJ Law & Ethics*, Webcast, NJ Society of CPAs, 2008.
- *Valuation of Intangible Assets for Financial Reporting Purposes*. Arlington, VA, American Society of Appraisers, 2008.
- *Exploring the Longstaff Model and Abbott Liquidity Factor for Enhanced Marketability Discount Determinations*. Teleconference, American Institute of CPAs, 2008.
- *FICPA Valuation, Accounting and Litigation Services Conference*. Ft. Lauderdale, FL, Florida Institute of Certified Public Accountants, 2008.
- *AICPA National Business Valuation Conference*. New Orleans, LA, American Institute of CPAs, 2007.
- *FCG Conference*. New Orleans, LA, Financial Consulting Group, 2007.
- *ASA Advanced BV Conference.* San Diego, CA, American Society of Appraisers, 2007.
- *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.

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

Appraisal Education

- *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.
- *Valuation*^{2}. Las Vegas, NV, American Institute of Certified Public Accountants and American Society of Appraisers, 2005.
- *AICPA National Business Valuation Conference*. Orlando, FL, American Institute of Certified Public Accountants, 2004.
- *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.
- *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.

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

Appraisal Education

- *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.
- *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.

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

Appraisal Education

- *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.
- *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.

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–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

- *Valuation for Tax Purposes*, Ft. Lauderdale, FL, FICPA Valuation, Forensic Accounting and Litigation Services Conference, 2009.
- *Pass Through Investment Holding Company Entities - FLPs*, Las Vegas, NV, 2008 AICPA/ASA National Business Valuation Conference, 2008.
- *Family Limited Partnerships*, Washington, DC, 2008 National AICPA National Tax Conference, 2008.
- *The Valuation of FLPs and FLLCs: What Does the Tax Practitioner Need to Know?* Las Vegas, NV, 2008 AICPA Small Business Practitioners Tax Conference, 2008.
- *Basic Business Valuation*, 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.
- *Valuing Family Limited Partnerships and LLC*, Teleconference, Institute of Business Appraisers, 2008.
- *Discounts for Lack of Marketability Panel Discussion – Who's on First, What's on Second, I Don't Know's on Third*, New Orleans, LA, AICPA National Business Valuation Conference, 2007.
- *A Family Limited Partnership (FLP) Valuation Example*. New Orleans, LA, AICPA National Business Valuation Conference, 2007.
- *Financial Valuation: Applications and Methods*, Lansing, MI, Michigan Accounting and Auditing Conference, 2007.
- *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.

LINDA B. TRUGMAN, C.P.A./A.B.V., M.C.B.A., A.S.A., M.B.A.
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, 2009.
- *Case Study for Estate and Gift Tax Purposes.* Ft. Lauderdale, FL, FICPA Valuation, Accounting and Litigation Services Conference, 2006.
- *Report Writing*. Las Vegas, NV, Valuation^2, 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.
- *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.

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

Lecturer

- *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

- *Essentials of Business Appraisal*. The Institute of Business Appraisers, Ft. Lauderdale, FL, 2008.
- *Principles of Valuation: Business Valuation Case Study*. American Society of Appraisers, Chicago, IL 2007, 2008; Arlington, VA 2008.
- *Principles of Valuation: The Market Approach*. American Society of Appraisers, Herndon, VA 2006, 2007; Brooklyn, NY 2007; Manhattan Beach, CA, 2008; Atlanta, GA, 2009.
- *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.
- *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.

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

Instructor

- *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.
- *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, 2008; Maryland, 2001; Minnesota, 2001; Indiana, 2002; New York, 2003, 2004, 2005, 2007; Georgia, 2004; Florida 2004, 2008; Rhode Island, 2005; Connecticut 2006;

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

Instructor

- *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

- *Are Family Limited Partnerships and LLCs Still Viable Planning Tools?*, Valuations Plus, Winter 2008.
- *Does Your Valuation Professional Qualify as a Qualified Appraiser?*, Valuations Plus, Winter 2008.
- *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).
- 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.

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

Organizations

- American Society of Appraisers
- American Institute of Certified Public Accountants
- New Jersey Society of Certified Public Accountants
- Florida Institute of Certified Public Accountants

Committee Service

- Member, 2009 AICPA National Business Valuation Conference, American Institute of Certified Public Accountants.
- *Business Valuation Committee.* American Society of Appraisers.
- *Chair - Business Valuation Education Committee.* American Society of Appraisers.
- *Secretary - ASA Educational Foundation*. American Society of Appraisers.
- *Steering Committee of Valuation Forensic and Litigation Services Section*. Florida Institute of Certified Public Accountants.
- *Governor at Large*, The Institute of Business Appraisers.
- *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

- *Conference Chair - 2009 Valuation Forensic and Litigation Services Conference,* Florida Institute of Certified Public Accountants.
- *Business Valuation/Forensic & Litigation Services Executive Committee.* American 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.
- 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.

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

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.

Technical Reviewer

- Gary R. Trugman. *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).
- Gary R. Trugman. *Essentials of Valuing a Closely Held Business,* American Institute of Certified Public Accountants, 2008.