26 PERCENT COMMON STOCK INTEREST IN NORTHERN LIGHTS & STAMPING, INC.

VALUATION REPORT

JANUARY 1, 2011

August 11, 2011

Morris Weaver, CPA
c/o Northern Lights & Stamping, Inc.
123 Main Road
Jupiter, FL 23456

Re: Valuation of a 26 percent common stock interest in Northern Lights & Stamping, Inc.

Dear Mr. Weaver:

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 26 percent common stock interest in Northern Lights & Stamping, Inc. as of January 1, 2011. This valuation was performed solely for gift tax 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. 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 26 percent common stock interest in Northern Lights & Stamping, Inc. as of January 1, 2011 is:

NINE HUNDRED SIXTY-TWO THOUSAND DOLLARS ($962,000)

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 Morris Weaver to appraise a 26 percent common stock interest in Northern Lights & Stamping, Inc. as of January 1, 2011.

The purpose of this appraisal is to determine the fair market value of this common stock interest for gift tax 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. This valuation will be prepared on a going concern basis.

GOING CONCERN VALUATION

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

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

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

THE MARKET APPROACH

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

Another common variation of this approach is to locate entire companies that have been bought and sold in the marketplace, publicly traded or closely-held, that provide the appraiser with the ability to determine the multiples that resulted from the transaction. These multiples can then be applied to the appraisal subject, with or without adjustment, depending on the circumstances.

THE ASSET-BASED APPROACH

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

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

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

THE INCOME APPROACH

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

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

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

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.

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

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

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

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

Northern Lights & Stamping, Inc. ("NLS" or "The Company") was incorporated in the State of Florida on May 19, 1954 and elected to be taxed as a Subchapter S corporation on January 1, 1987.

John Rogers and his father incorporated this business and purchased the property where NLS is currently located in Jupiter, Florida. Until fairly recently, Mr. Rogers was the sole stockholder. Since inception, The Company has been in the business of processing wire and producing spring products. Over time, NLS has expanded its business to include additional custom fabrication services.

At the valuation date, The Company had three lines of business: wire processing (springs), stamping and fabrication. Each line of business comprises approximately one-third of revenues. Although NLS once employed almost 100 people, due to automation, The Company currently employs 45 people in the factory. NLS employs only one trained machinist. The remaining production employees operate computer-controlled machinery. Management estimates that The Company could increase revenues by 50 percent, while only increasing labor by 10 percent.

John Rogers ran NLS on a full-time basis until he turned the day-to-day operations over to his children, Jeff and Linda Rogers, along with Morris Weaver. Approximately five to six years ago, Mr. Rogers gave each of his children 24 percent of the common stock of The Company based on a fair market value appraisal performed at that time. Currently, ownership of NLS is as follows:

John Rogers	52%
Jeff Rogers	24%
Linda Rogers	24%

Jeff Rogers is a college graduate with a degree in business. He is responsible for the daily production operations, and approves all hires, terminations, pay rates, promotions, assignments, etc. Linda Rogers did not attend college. She is responsible for the office operations, as well as all quoting and purchasing activities. Mr. Weaver is a certified public accountant who is responsible for all accounting activities, financial decisions, data processing, land and building acquisitions, corporate investment and debt, tax planning, customer credit review, etc. Most major decisions are made jointly between these three individuals.

The Company's sales are performed by one direct sales person and three independent representatives. Sales people are compensated via commissions. The Company also participates in industry trade shows. A lot of business is generated from The Company's reputation, and obtaining new customers involves a lengthy sales cycle.

The Company operates from a relatively new facility located at 123 Main Road in Jupiter, Florida. This property is improved with four buildings, two of which are used by NLS and the remainder by XYZ Company and PDQ Company, which are related by common ownership. The Company's production facility was constructed in 2005 and consists of approximately 53,500 square feet of building area, which includes approximately 2,400 square feet of office space. The facility has some excess space, which could be used to create additional capacity. The Company uses a second building for painting and silk screening of its products. As will be explained later in this section, an undeveloped portion of the property was contaminated in the 1980s by treated wastewater from ABC Plating & Anodizing, Inc., a company no longer in business that was owned by John Rogers.

NLS does not sell its products to a particular industry. Most of The Company's sales are generated from customers operating on the East Coast. Its largest customers in 2010 were as follows:

	% of Revenues
Sun Hydraulics	28.2%
Ametek	12.7%
Boyd	3.6%
Haliburton	3.0%
CEF	2.3%

Clearly, the loss of Sun Hydraulics or Ametek could have a detrimental effect on the business. Customers are generally loyal to NLS and do not switch from The Company to competitors for small price differences. However, new customers are very price sensitive. Although NLS purchases approximately 15 percent of its wire from one supplier, there is plenty of available supply and The Company would not have a problem finding an alternative. Management did not note any single company that provided significant competition to NLS.

NLS has been the target of a lawsuit for a number of years related to the previously mentioned environmental contamination of the property on which it operates. In 1995, NLS and the Florida Department of Environmental Protection (“FDEP”) settled the case under the stipulation that The Company would install eight test wells on the property to verify that the contamination was naturally diminishing. While the contamination exists on a small and undeveloped portion of the property, NLS will continue to be encumbered by the potential for further action from the FDEP. Management indicated that as long as testing continues and contamination diminishes, the FDEP has agreed that it will not seek further action. The contaminated portion of the property can be partitioned in the case of a sale of the real estate.

Overall, The Company's revenues tend to be cyclical with the economy. Due to the nature of its products, NLS was affected by a broad transition from mechanical products to electronic products. However, NLS has been in business for 43 years and has withstood many economic and technological changes. Management does not seem to be concerned about its continuing existence or success, and expects business to increase as the economy strengthens.

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[1]

According to advance estimates released by the Department of Commerce's Bureau of Economic Analysis ("BEA"), real gross domestic product ("GDP"), the output of goods and services produced by labor and property located in the United States, increased at an annualized rate of 3.2 percent during the fourth quarter of 2010. This represents the sixth increase in annualized quarterly GDP since the recently revised third quarter of 2009, and follows a revised growth rate of 2.6 percent during the third quarter of 2010. GDP grew 2.9 percent for all of 2010, versus 0.0 and negative 2.6 percent in 2008 and 2009, respectively.

The economy deteriorated considerably during the fourth quarter of 2008 and continued to decline during the first half of 2009 as crisis engulfed the financial sector causing significant damage to financial institutions. As a result of this crisis, lending activities and market

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1 This section has been adapted from Mercer Capital's *National Economic Review*, Fourth quarter 2010.

liquidity became constrained, intensifying a downward spiral in the broader economy as businesses struggled to obtain the capital necessary for operations and investment, and consumers controlled spending in response to high unemployment and unfavorable conditions in the housing market.

In late November 2008, the Business Cycle Dating Committee of the National Bureau of Economic Research ("NBER") determined that economic activity in the U.S. had peaked in December 2007 and that the economy had then entered a state of contraction. In September 2010, the NBER determined that the contraction which began in December 2007 had ended in June 2009.

Republicans gained control of the U.S. House of Representatives in the mid-term elections in November, which many hope will result in constrained government spending and an extension of Bush-era tax policies, but could result in legislative gridlock. Many economists feel that a congressional stalemate will be positive for the stock market, as it will diminish the element of uncertainty related to regulatory actions.

According to a monthly survey of over 50 forecasters polled by *The Wall Street Journal*, GDP is expected to increase at an annualized rate of 3.3 percent for the first quarter of 2011 and increase 3.3 percent for all of 2011. Economists were generally more optimistic in this survey than in other recent surveys. On average, growth is anticipated to approximate the economy's long-term potential despite persistent weakness in the housing and labor markets.

The Consumer Price Index ("CPI") increased 0.5 percent to 219.2 in December. The seasonally adjusted annual rate of inflation for the fourth quarter of 2010 was 3.5 percent. During fiscal 2010, inflation rose 1.5 percent following a 2.7 percent increase in 2009. The Producer Price Index ("PPI") increased 1.1 percent in December after increases of 0.4 and 0.8 percent in October and November, respectively. On an unadjusted basis, the PPI in December was up 4.0 percent from the previous year.

According to the Bureau of Labor Statistics, the seasonally adjusted annual rate of non-farm business productivity increased 2.6 percent in the fourth quarter of 2010. This increase was higher than the 2.2 percent expected by economists and follows a revised 2.4 percent increase during the third quarter of 2010. Annual average productivity increased 3.6 percent from 2009 to 2010, and productivity rose 2.4 percent for the entire business sector in the fourth quarter of 2010. Manufacturing productivity increased 5.8 percent during the quarter as output increased 3.7 percent and hours declined 2.0 percent.

Industrial production increased 0.8 percent in December, after decreasing 0.1 percent in October and increasing 0.3 percent in November. Fourth quarter 2010 production increased at an annual rate of 2.4 percent, following revised increases of 7.2 percent and 6.5 percent for the second and third quarters, respectively. Manufacturing production rose 0.4 percent in December following increases of 0.4 percent in October and 0.3 percent in November. Capacity utilization increased in December to 76.0 percent, up from 75.4 percent in November. Capacity utilization for the fourth quarter of 2010 measured 75.5 percent. During the third quarter of 2010, capacity utilization measured 75.1 percent.

Stock markets were up in the third and fourth quarters, following a dip in the second quarter. The Dow closed the fourth quarter at 11577.51, up 7.3 percent for the quarter, while the S&P 500 Index increased 10.2 percent to close at 1257.64. The NASDAQ Composite Index increased 12.0 percent during the fourth quarter to close at 2652.87.

The unemployment rate was 9.4 percent in December 2010, down from 9.7 percent and 9.8 percent for October and November, respectively. Unemployment is expected to drop to 8.8 percent by the end of 2011. Manufacturing payrolls increased by 10,000 in December, but are down 18,000 from December 2009. Economists surveyed by *The Wall Street Journal* anticipate payroll gains of 179,000 a month over the next year.

Target rates remained unchanged in the fourth quarter of 2010 at two scheduled meetings of the Federal Reserve. The Federal Open Market Committee ("FOMC") notes that inflation is expected to remain subdued and should remain so during the foreseeable future, and anticipates GDP will rise at an increasing rate in the near term, and the pace of recovery is anticipated to be a bit faster than initially predicted. The FOMC plans to maintain the target range for the federal funds rate at zero to 1/4 percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels for the federal funds rate for an extended period.

While the so-called Great Recession reached its official end in mid-2009, economic growth remains subdued. The employment situation did not change much in the fourth quarter despite payrolls increasing and a slight decrease in the unemployment level. Consumer spending picked up in 2010, but is likely to be constrained by tight credit and the weak labor market going forward. GDP growth expectations from private economists surveyed by *The Wall Street Journal* are on the order of 3.3 percent for all of 2011.

The near-term outlook for the stock market remains positive, but economists warn that there could be volatility in the near-term. Many of the problems in foreign economies remain troubling. Europe's sovereign debt problems remain a concern, and China's inflationary pressures are urgent. Furthermore, budgetary deficit issues at all levels of United States government will need to be addressed as soon as possible. As these issues unfold, they will likely inject a degree of volatility into the markets.

The Federal Reserve's outlook concurs with that of many private economists which suggests that GDP growth is expected to continue, but may be constrained by a weak labor market for some time going forward. On average, economists surveyed by *The Wall Street Journal* expect unemployment to decline slowly to 8.8 percent by the end of 2011.

INDUSTRY

As a manufacturer of metal products for a wide range of industries, NLS is most reliant on the health of the overall economy. However, there are a number of industry-specific trends that offer insight into the health of the fabricated metal products industry.

According to the BEA, activity within this industry grew from 2004 to 2008, before declining in 2009.[2] As a percentage of total GDP, metal fabrication declined in 2008 and 2009, indicating a slowdown in demand greater than the decline in the national economy.[3] Given the rise in commodities' prices and declining demand, the cost to produce metal parts has risen. Specific to The Company, steel prices rose considerably in 2010, as shown below.

2010	Global Composite Carbon Steel Price (U.S. $/Tonne)
January	$ 653
February	673
March	693
April	773
May	798
June	757
July	732
August	746
September	748
October	751
November	741
December	736

Source: Worldsteelprices.com (accessed June 30, 2011).

This reflects an increase of 12.7 percent, and prices are expected to continue to rise. Rising prices in the midst of lower consumer demand may further reduce the performance of metal fabricators.

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2 Latest available data.

3 Bureau of Economic Analysis, "GDP Value Added by Industry" (accessed April 26, 2011).

As noted earlier, many economists believe that GDP growth will continue to be limited by a weak labor market for some time, as material improvement in the labor markets is not expected until the end of 2011.

A December 2010 poll conducted by the Fabricators & Manufacturers Association International ("FMA") of metal fabricators revealed that the state of the economy and operating expenses (specifically health care costs) were among the greatest current concerns for manufacturers. The health of many companies surveyed has been largely dependent on the industries they have served.

For the manufacturing industry, 2011 is likely to show mixed results. According to Dr. Chris Kehl, an economist for the FMA, the performance of manufacturers will depend on the industry served. As an example, housing and commercial construction is likely to remain weak and many states have severe budget deficits, which will hurt manufacturers supported by construction activity. Manufacturers for the oil and gas industry will likely prosper as drilling activity expands and the cost of oil increases. Thus, for The Company, which sells to a wide variety of industries, growth will likely track the general economy.

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

The Company's financial information was derived from its Forms 1120S, U.S. Income Tax Return for an S Corporation, for the years ended December 31, 2006 through 2010. Summaries of these tax returns are presented in Schedules 1 and 2 at the end of this report.

Total assets fluctuated from a low of approximately $7.7 million at December 31, 2007 to about $10.9 million at December 31, 2006. At December 31, 2010, total assets amounted to almost $8.3 million. These fluctuations were driven by changes in The Company's due from affiliate item, which was the largest single asset over the period observed.

Current assets followed a trend similar to that of total assets and amounted to $6.3 million at December 31, 2010. Accounts receivable declined from $1.0 million at December 31, 2006 to $5.0 million at December 31, 2009, and then increased to $5.3 million at December 31, 2010. The change in accounts receivable was driven by declining sales between 2006 and 2009, and a subsequent increase in 2010.

Gross fixed assets increased nominally over the period analyzed due to minimal capital investments. Depreciation outpaced capital investment, which resulted in a decline in net fixed assets from $3.4 million at December 31, 2006 to $2.0 million at December 31, 2010. As noted earlier, portions of The Company's property are rented to other companies related by common ownership.

Current liabilities fluctuated between $1.0 million at December 31, 2007 and $1.4 million at December 31, 2010. Accrued expenses and due to affiliates comprised the largest portion of current liabilities. The Company's due to/due from affiliates accounts are the result of numerous related-party transactions, which are not expected to be paid back. Thus, amounts due to affiliates will be normalized later in this section.

Long-term liabilities included long-term debt and loans from stockholders. The long-term debt is related to ownership of the NLS property. Loans from stockholders reflects various transactions that have occurred between NLS and its stockholders. Overall, stockholders' equity was stable at approximately $1.0 million in each period analyzed.

Before a meaningful analysis can be completed, certain normalization adjustments to the balance sheet was required. The process of normalization is intended to reflect The Company's financial statements on an economic level; to reflect those items that a willing buyer would expect to see as a result of normal operations.

We started the normalization process by analyzing the balance sheet. This process is reflected in Table 1.

TABLE 1
BALANCE SHEET ADJUSTMENTS

	December 2006	Adjustments	Adjusted 2006	December 2007	Adjustments	Adjusted 2007	December 2008	Adjustments	Adjusted 2008	December 2009	Adjustments	Adjusted 2009	December 2010	Adjustments	Adjusted 2010
Current Assets															
Cash	$ 134,328	$ -	$ 134,328	$ 164,695	$ -	$ 164,695	$ 181,693	$ -	$ 181,693	$ 77,403	$ -	$ 77,403	$ 217,134	$ -	$ 217,134
Accounts Receivable	1,021,129	-	1,021,129	1,034,257	-	1,034,257	748,479	-	748,479	468,584	-	468,584	756,782	-	756,782
Prepaid Taxes	-	-	-	-	-	-	-	-	-	-	-	-	9,211	-	9,211
Due from Affiliates[1]	6,364,626	(6,364,626)	-	3,510,841	(3,510,841)	-	4,439,651	(4,439,651)	-	4,961,748	(4,961,748)	-	5,317,734	(5,317,734)	-
Total Current Assets	$ 7,520,083	$ (6,364,626)	$ 1,155,457	$ 4,709,793	$ (3,510,841)	$ 1,198,952	$ 5,369,823	$ (4,439,651)	$ 930,172	$ 5,507,735	$ (4,961,748)	$ 545,987	$ 6,300,861	$ (5,317,734)	$ 983,127
Fixed Assets															
Land[2]	$ 146,993	$ (146,993)	$ -	$ 146,993	$ (146,993)	$ -	$ 146,993	$ (146,993)	$ -	$ 146,993	$ (146,993)	$ -	$ 146,993	$ (146,993)	$ -
Building & Improvements[2]	8,288,961	(6,019,203)	2,269,758	8,543,372	(6,019,202)	2,524,170	8,561,372	(6,019,202)	2,542,170	8,561,372	(6,019,202)	2,542,170	8,616,025	(6,019,203)	2,596,822
Gross Fixed Assets	$ 8,435,954	$ (6,166,196)	$ 2,269,758	$ 8,690,365	$ (6,166,195)	$ 2,524,170	$ 8,708,365	$ (6,166,195)	$ 2,542,170	$ 8,708,365	$ (6,166,195)	$ 2,542,170	$ 8,763,018	$ (6,166,196)	$ 2,596,822
Accumulated Depreciation[2]	5,040,083	(3,082,057)	1,958,026	5,713,797	(3,695,693)	2,018,104	6,153,003	(4,073,021)	2,079,982	6,468,226	(4,326,366)	2,141,860	6,795,495	(4,586,292)	2,209,203
Net Fixed Assets	$ 3,395,871	$ (3,084,139)	$ 311,732	$ 2,976,568	$ (2,470,502)	$ 506,066	$ 2,555,362	$ (2,093,174)	$ 462,188	$ 2,240,139	$ (1,839,829)	$ 400,310	$ 1,967,523	$ (1,579,904)	$ 387,619
TOTAL ASSETS	**$ 10,915,954**	**$ (9,448,765)**	**$ 1,467,189**	**$ 7,686,361**	**$ (5,981,343)**	**$ 1,705,018**	**$ 7,925,185**	**$ (6,532,825)**	**$ 1,392,360**	**$ 7,747,874**	**$ (6,801,577)**	**$ 946,297**	**$ 8,268,384**	**$ (6,897,638)**	**$ 1,370,746**
Current Liabilities															
Accounts Payable	$ 84,794	$ -	$ 84,794	$ 88,429	$ -	$ 88,429	$ 66,540	$ -	$ 66,540	$ 38,988	$ -	$ 38,988	$ 86,860	$ -	$ 86,860
Accrued Expenses	395,694	-	395,694	315,462	-	315,462	413,950	-	413,950	373,360	-	373,360	381,017	-	381,017
Sales Taxes Payable	-	-	-	-	-	-	440	-	440	228	-	228	-	-	-
Due to Affiliate[1]	604,972	(604,972)	-	629,808	(629,808)	-	655,348	(655,348)	-	681,244	(681,244)	-	936,760	(936,760)	-
Total Current Liabilities	$ 1,085,460	$ (604,972)	$ 480,488	$ 1,033,699	$ (629,808)	$ 403,891	$ 1,136,278	$ (655,348)	$ 480,930	$ 1,093,820	$ (681,244)	$ 412,576	$ 1,404,637	$ (936,760)	$ 467,877
Long-Term Liabilities															
Long-Term Debt[2]	$ 2,896,054	$ (2,896,054)	$ -	$ 2,819,762	$ (2,819,762)	$ -	$ 2,723,740	$ (2,723,740)	$ -	$ 2,628,772	$ (2,628,772)	$ -	$ 2,527,570	$ (2,527,570)	$ -
Loans from Stockholders[3]	5,864,630	(5,864,630)	-	2,773,090	(2,773,090)	-	3,015,357	(3,015,357)	-	2,985,472	(2,985,472)	-	3,306,367	(3,306,367)	-
Total Long-Term Liabilities	$ 8,760,684	$ (8,760,684)	$ -	$ 5,592,852	$ (5,592,852)	$ -	$ 5,739,097	$ (5,739,097)	$ -	$ 5,614,244	$ (5,614,244)	$ -	$ 5,833,937	$ (5,833,937)	$ -
Total Liabilities	$ 9,846,144	$ (9,365,656)	$ 480,488	$ 6,626,551	$ (6,222,660)	$ 403,891	$ 6,875,375	$ (6,394,445)	$ 480,930	$ 6,708,064	$ (6,295,488)	$ 412,576	$ 7,238,574	$ (6,770,697)	$ 467,877
Stockholders' Equity															
Common Stock	$ 25,000	$ -	$ 25,000	$ 25,000	$ -	$ 25,000	$ 25,000	$ -	$ 25,000	$ 25,000	$ -	$ 25,000	$ 25,000	$ -	$ 25,000
Retained Earnings	1,044,810	(83,109)	961,701	1,034,810	241,317	1,276,127	1,024,810	(138,380)	886,430	1,014,810	(506,089)	508,721	1,004,810	(126,941)	877,869
Total Stockholders' Equity	$ 1,069,810	$ (83,109)	$ 986,701	$ 1,059,810	$ 241,317	$ 1,301,127	$ 1,049,810	$ (138,380)	$ 911,430	$ 1,039,810	$ (506,089)	$ 533,721	$ 1,029,810	$ (126,941)	$ 902,869
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 10,915,954**	**$ (9,448,765)**	**$ 1,467,189**	**$ 7,686,361**	**$ (5,981,343)**	**$ 1,705,018**	**$ 7,925,185**	**$ (6,532,825)**	**$ 1,392,360**	**$ 7,747,874**	**$ (6,801,577)**	**$ 946,297**	**$ 8,268,384**	**$ (6,897,638)**	**$ 1,370,746**

1. Per NLS's debt covenants, the cash balances of all related entities are transferred to NLS at the end of each business day. As a result, The Company reflects various intercompany accounts related to these transfers. However, these funds are generally not repaid, and therefore, they have been removed from the balance sheet. In addition, all debt related to the real estate has been removed as it is considered to be non-operating.

2. Due to the mixed use of the real estate and the inability to partition value to the operating portion of NLS, we have removed the real estate entirely and all items related to ownership (i.e., depreciation, debt, interest expense).

   After removing The Company's real estate, fixed assets consist of machinery and equipment. The adjustment to annual depreciation of these fixed assets will be discussed in the normalization of the income statement.

3. Cash is transferred between The Company and shareholders for a variety of reasons. Due to the nature of the exchanges, the loan from shareholders was considered to be a form of equity and was reclassified.

   After making the normalization adjustments to the balance sheet, it was restated and is presented in Table 2.

TABLE 2
ADJUSTED BALANCE SHEET

	December 31, 2006	2007	2008	2009	2010
Current Assets					
Cash	$ 134,328	$ 164,695	$ 181,693	$ 77,403	$ 217,134
Accounts Receivable	1,021,129	1,034,257	748,479	468,584	756,782
Prepaid Taxes	-	-	-	-	9,211
Total Current Assets	$ 1,155,457	$ 1,198,952	$ 930,172	$ 545,987	$ 983,127
Gross Fixed Assets	$ 2,269,758	$ 2,524,170	$ 2,542,170	$ 2,542,170	$ 2,596,822
Accumulated Depreciation	1,958,026	2,018,104	2,079,982	2,141,860	2,209,203
Net Fixed Assets	$ 311,732	$ 506,066	$ 462,188	$ 400,310	$ 387,619
TOTAL ASSETS	**$ 1,467,189**	**$ 1,705,018**	**$ 1,392,360**	**$ 946,297**	**$ 1,370,746**
Current Liabilities					
Accounts Payable	$ 84,794	$ 88,429	$ 66,540	$ 38,988	$ 86,860
Accrued Expenses	395,694	315,462	413,950	373,360	381,017
Sales Taxes Payable	-	-	440	228	-
Total Current Liabilities	$ 480,488	$ 403,891	$ 480,930	$ 412,576	$ 467,877
Stockholders' Equity					
Common Stock	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000
Retained Earnings	961,701	1,276,127	886,430	508,721	877,869
Total Stockholders' Equity	$ 986,701	$ 1,301,127	$ 911,430	$ 533,721	$ 902,869
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 1,467,189**	**$ 1,705,018**	**$ 1,392,360**	**$ 946,297**	**$ 1,370,746**

As a result of the normalization process, total assets and stockholders' equity were restated to $1.4 million and $902,869, respectively, at December 31, 2010.

Turning to the historic income statements, revenues declined from a high of $7.5 million in 2007 to $4.8 million in 2009. This decline was caused by deteriorating economic conditions across the U.S. As economic conditions improved in 2010, revenues increased to $5.9 million. After accounting for cost of goods sold, gross profit declined from a high of $4.3 million in 2007 to $2.7 million in 2009 and then increased to $3.5 million in 2010.

The largest components of operating expense include depreciation, officers' compensation, and sales expense. Other notable expenses include salaries and wages, which declined substantially in 2009 and 2010 due to the loss of The Company's information technology manager. Related to this event, data processing expense increased materially in 2010, as NLS outsourced its information management needs to an outside consultant. Repairs and maintenance expenses declined in recent years, as maintenance was deferred, but are expected to return to levels similar to those seen in 2006. Overall, operating expenses declined over the period analyzed from $3.3 million in 2007 to $2.4 million in 2010.

Other income and expenses included interest income and expense. On a net basis total other expenses declined from $302,408 in 2006 to $125,907 in 2009, and then increased to $194,689 in 2010. After accounting for other income and expenses, net income increased from $504,242 in 2006 to $706,070 in 2008. Due primarily to a sharp decline in revenues, net income declined to $28,458 in 2009, and subsequently recovered to $887,511 in 2010.

In order to analyze The Company's operations, we normalized the income statement. The term normalization has changed in the recent past in the valuation literature. Z. Christopher Mercer, ASA, CFA distinguishes between different types of "normalization" adjustments from the literature published previously. Mercer takes what used to be grouped as "normalization adjustments" and divides these adjustments into "normalizing adjustments" and "control adjustments." He distinguishes between these two types of adjustments as follows:

> 1. With normalizing adjustments, we attempt to adjust private company earnings to a reasonably well-run, public company equivalent basis. Normalizing adjustments can be further divided into two types to facilitate discussion and understanding. Normalization adjustments are *not* control adjustments.
>
> 2. Control adjustments adjust private company earnings 1) for the economies or efficiencies of the *typical financial buyer;* and 2) for synergies or strategies of *particular buyers.* Control adjustments can therefore also be divided into two types.[4]

Further, Mercer states that

> Normalizing adjustments adjust the income statement of a private company to show the prospective purchaser the return from normal operations of the business and reveal a 'public equivalent' income stream. If such adjustments

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

were not made, something other than a freely traded value indication of value would be developed by capitalizing the derived earnings stream.[5]

This process appears in Table 3.

TABLE 3
NORMALIZATION OF INCOME

	December 31, 2006	2007	2008	2009	2010
Historic Net Income (Schedule 2)	$ 504,242	$ 679,789	$ 706,070	$ 28,458	$ 887,511
Adjustments					
Interest Expense[1]	597,408	450,313	419,485	353,907	301,689
Depreciation/Amortization Expense[2]	630,140	613,636	377,328	253,345	259,925
Officers' Compensation - Addback[3]	553,000	653,000	653,000	653,000	650,000
Officers' Compensation - Reasonable[3]	(453,000)	(553,000)	(553,000)	(553,000)	(550,000)
Market Rent Expense[4]	(256,395)	(264,087)	(272,010)	(280,170)	(288,575)
Bad Debts[5]	-	40,520	-	68,233	-
Interest Income	(295,000)	(176,000)	(202,000)	(228,000)	(107,000)
ADJUSTED PRETAX NET INCOME	$ 1,280,395	$ 1,444,171	$ 1,128,873	$ 295,773	$ 1,153,550
Income Taxes[7]	481,813	543,442	424,795	108,525	434,081
ADJUSTED HISTORIC NET INCOME	**$ 798,582**	**$ 900,729**	**$ 704,078**	**$ 187,248**	**$ 719,469**

1. Since all debt has been removed from the balance sheet, all interest expense has been removed from the income statement.

2. The Company has historically depreciated its assets on an accelerated schedule based on methods allowed under the Internal Revenue Code. Management has provided the useful lives of these assets and depreciation has been adjusted accordingly. In addition, all depreciation related to the real estate has been removed, as the real estate is being considered a non-operating asset.. The derivation of this adjustment is presented in Table 4.

   Management provided depreciation expense on a straight-line basis over the remaining economic useful lives of fixed assets. As we removed the real estate from the operating balance sheet, we included only the straight-line depreciation of the equipment. The adjustment to depreciation expense is shown in Table 4.

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5 Ibid: 149 (Valuation analyst’s note for clarification: The reference to “capitalizing the derived earnings stream” would also apply to discounting a future benefit stream, whether cash flow or earnings, since the capitalization model is a shortcut that is derived from a discounting model).

TABLE 4
DEPRECIATION EXPENSE

	2006	2007	2008	2009	2010
Depreciation Expense per Tax Returns	$ 664,777	$ 673,714	$ 439,206	$ 315,223	$ 327,268
Equipment Economic Depreciation					
2006	$ 34,637	$ 34,637	$ 34,637	$ 34,637	$ 34,637
2007	-	12,500	12,500	12,500	12,500
2007	-	12,941	12,941	12,941	12,941
2008	-	-	1,800	1,800	1,800
2010	-	-	-	-	5,465
Total Annual Economic Depreciation	$ 34,637	$ 60,078	$ 61,878	$ 61,878	$ 67,343
Adjustment to Income Statement	**$ 630,140**	**$ 613,636**	**$ 377,328**	**$ 253,345**	**$ 259,925**

Note: This adjustment includes the depreciation on the real estate that is being removed.

3. To determine if the level of officers' compensation was reasonable, we analyzed data from the Economic Research Institute's *Compensation Assessor & Survey* for market rates of executive compensation for NLS's management team. In total, officers' compensation appears to be approximately $100,000 higher than market rates. Thus, officers' compensation was reduced by that amount.

4. The Company's facility has been treated as a non-operating asset, but is used by NLS. According to the real estate appraisal, market rent is $5.00 per square foot on a triple net basis. The calculation of market rent expense for 2010 is presented in Table 5. Rent expense for earlier years has been deflated by 3 percent, which reflects the rate of inflation.

TABLE 5
MARKET RENTAL EXPENSE

Rent per Square Foot per Real Estate Appraiser		$ 5.00
Buildings used by NLS	**Square Feet**	
Building 1 (Main Shop)	51,630	
Building 3 (Paint Shop)	6,085	
		57,715
Estimated Market Rent 2010		**$ 288,575**

5. In 2007 and 2009, bad debt expenses were higher than normal. Therefore, these expenses were removed as they are considered to be non-recurring.

6. Even though The Company is a Subchapter S corporation, an adjustment was made for taxes based on effective tax rates at the valuation date in order to bring the adjusted earnings of NLS to a level comparable to that of a publicly-traded company.

   A Subchapter S corporation does not pay tax at the "corporate" level. Over the past several years, the business valuation community has acknowledged that the conventional wisdom of taxing these pass-through entities as if they were taxpaying C corporations is no longer an automatic thing to do. In fact, the United States Tax Court opined on this issue in several court cases.[6] Since that time, many authors have contributed to the valuation literature with ideas about how to treat these non-taxpaying enterprises.

   In many of the court cases that have addressed the issue of tax affecting an S corporation, the appraisers on opposite sides have taken an *all or none* position. They have either taxed the pass-through entity as if it was a regular taxpaying C corporation, or they have taken the position that since the pass-through entity does not pay taxes at the corporate level, then no tax should be computed. We do not believe that an *all or none* position is always warranted, and will use a simple illustration to demonstrate the appropriate level of tax to be applied to NLS.

   Assume that NLS had a pretax profit of $100. If 100 percent of the earnings were being distributed to the shareholders, the difference between being a C corporation and a pass-through can be explained by the calculations in the following table.

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6 *Gross v. Commissioner*, T.C. Memo. 1999-254, affd. 272 F.3d 333 (6th Cir. 2001), *Heck v. Commissioner*, T.C. Memo. 2002-34, Filed February 5, 2002, and *Adams v. Commissioner*, T.C. Memo. 2002-80, Filed March 28, 2002.

		C Corporation			S Corporation	
Annual Earnings		$	100		$	100
Corporate Income Tax	40%		40	0%		0
Net Income Available to Shareholders		$	60		$	100
Dividends		$	60		$	100
Personal Income Tax	15%		9	40%		40
Net Cash Flow to Shareholders		$	51		$	60
Benefit of Being an S Corporation					**$**	**9**

The data in the table above reflects the fact that in a situation when all of the after-corporate tax profits are being distributed to the shareholders, the effective corporate tax rate for an S corporation is 0 percent since the entity does not pay tax. At the valuation date, the tax rates in effect would have required the shareholders of a C corporation to pay a 15 percent dividend tax after the corporation would have paid an approximate 40 percent income tax. The amount of money available to the shareholders after all taxes were paid would have been $51.

As an S corporation, the shareholders avoid a corporate tax, but they pay personal taxes on the "pass-through" earnings regardless of the amount of dividends. Since only one 40 percent tax is paid, the shareholders end up with $60 in their pockets after all taxes are paid. In this instance, being an S corporation produces a benefit of $9.

Now we must deal with the realities of NLS. As The Company made relatively low levels of distributions historically (14.5 percent on average since 2006), shareholders were responsible for the pass-through tax liability out-of-pocket. Thus, there would be a perceived detriment to an investor in NLS. The net detriment to shareholders is presented in the following tables.

COMPARISON OF C CORPORATION TO PASS-THROUGH CORPORATION

	C Corporation		Pass-Through	
Debt Free Pre-Tax Income		100.00		100.00
Corporate Income Tax	37.63%	(37.63)	0.00%	-
Net Income Available to Shareholders		62.37		100.00
Less: Addition to Retained Earnings	85.00%	53.30		85.46
Distributions	14.54%	9.07	14.54%	14.54
Less: Personal Taxes	15.00%	(1.36)	35.00%	(35.00)
Net Cash Flow to Shareholders		7.71		(20.46)
Net Increment to Shareholder				**(28.20)**

CALCULATION OF EFFECTIVE S CORPORATION TAX RATE

	C Corp.	Pass-Through	Pass-Through Valuation
Income Before Tax	100.00	100.00	100.00
Corporate Rate	37.63%	0.00%	No S Corp Benefit
Available Earnings For Distribution	62.37	100.00	62.37
Distributions	9.07	14.54	9.07
Dividend or Personal Income Tax Rate	15.00%	35.00%	15.00%
Available After Dividends	7.71	(20.46)	7.71

The corporate tax rate of 37.63 percent is derived based on the applicable tax rate structure for Federal and state income taxes at the date of the valuation based on the results for 2010. The personal tax rates were determined based on a Federal rate of 35 percent (there is no state personal income tax in Florida). The dividend tax is based on a 15.00 percent Federal rate.

NLS made relatively low levels of distributions between 2006 and 2010. We used the average over that period to calculate the detriment to being an S corporation. Recalculating the net amount available to the shareholders after taxes considers the benefits or detriments of being an S corporation.[7] For the purpose of this valuation,

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[7] This model does not take into consideration the added benefit that the shareholders will receive as a result of the undistributed income of the companies. Since income taxes are paid, and in this model calculated, on the available earnings, regardless of whether they are actually

the shareholders should be placed in the same position that they would be in after paying tax as a C corporation shareholder. In the above analysis, the shareholders would have to reach into their pockets to pay the tax on any net income generated by The Company. As a result, it is better for this entity to be a C corporation, and corporate taxes have been included in the normalization process.

In the analysis above, the minority shareholder is disadvantaged by NLS being an S corporation because the shareholder has to pay personal tax on the income generated by The Company. In the interim, he would be receiving a step-up in his basis in the corporation. However, since it is not the intention of the controlling shareholder to sell the business in the near future, there is no exit strategy for the minority shareholder. As a result, the build up in the basis would likely have minimal to no value to the minority shareholder.

As a result of the adjustments made to the income statement, the adjusted income statement is presented in Table 6.

distributed or not, the members of The Company can remove the undistributed profits without taxation in subsequent periods. If they do not remove the distributions, they receive a step-up in the basis of their investment and will pay less capital gains, if and when they sell their interest in The Company.

TABLE 6
ADJUSTED INCOME STATEMENT

	December 31,				
	2006	2007	2008	2009	2010
Total Revenues	$ 7,230,054	$ 7,454,789	$ 6,973,673	$ 4,828,331	$ 5,917,241
Total Cost of Sales	3,256,621	3,199,909	3,060,211	2,085,681	2,409,751
Gross Profit	$ 3,973,433	$ 4,254,880	$ 3,913,462	$ 2,742,650	$ 3,507,490
Total Operating Expenses	2,180,248	2,282,535	2,240,569	1,886,537	1,776,790
Operating Income (Loss)	$ 1,793,185	$ 1,972,345	$ 1,672,893	$ 856,113	$ 1,730,700
Income Taxes	674,776	742,193	629,509	322,155	651,262
NET INCOME (LOSS)	**$ 1,118,409**	**$ 1,230,152**	**$ 1,043,384**	**$ 533,958**	**$ 1,079,438**

As seen in Table 6, adjusted net income declined from a high of $1.2 million in 2007 to a low of $533,958 in 2009, and then increased to $1.1 million in 2010.

After normalizing the financial statements, we compared NLS to its peers within the industry. We were supplied with the *2010 Annual Market Report* published by the Springs Manufacturers Institute ("SMI") and conducted by the Mackay Research Group. The SMI report provides financial data for spring manufacturers based on the size of surveyed companies and profitability characteristics. Although NLS is not solely a spring manufacturer, this data is the closest data available for comparison. The Company's adjusted common size balance sheet between December 31, 2006 and 2010 is presented with the SMI data in Table 7.

TABLE 7
ADJUSTED COMMON SIZE BALANCE SHEET
DECEMBER 31,

	2006	2007	2008	2009	2010	SMI
Current Assets						
Cash	9.16%	9.66%	13.05%	8.18%	15.84%	13.10%
Accounts Receivable	69.60%	60.66%	53.76%	49.52%	55.21%	23.50%
Inventories	0.00%	0..00%	0.00%	0.00%	0.00%	23.20%
Prepaid Taxes	0.00%	0.00%	0.00%	0.00%	0.67%	0.00%
Other Current Assets	0.00%	0.00%	0.00%	0.00%	0.00%	0.80%
Total Current Assets	78.75%	70.32%	66.81%	57.70%	71.72%	60.60%
Gross Fixed Assets	154.70%	148.04%	182.58%	268.64%	189.45%	N/A
Accumulated Depreciation	133.45%	118.36%	149.39%	226.34%	161.17%	N/A
Net Fixed Assets	21.25%	29.68%	33.19%	42.30%	28.28%	35.60%
Total Other Assets	0.00%	0.00%	0.00%	0.00%	0.00%	3.80%
TOTAL ASSETS	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
Current Liabilities						
Accounts Payable	5.78%	5.19%	4.78%	4.12%	6.34%	7.80%
Notes Payable	0.00%	0.00%	0.00%	0.00%	0.00%	11.80%
Accrued Expenses	26.97%	18.50%	29.73%	39.45%	27.80%	0.00%
Sales Taxes Payable	0.00%	0.00%	0.03%	0.02%	0.00%	0.00%
Other Current Liabilities	0.00%	0.00%	0.00%	0.00%	0.00%	4.10%
Total Current Liabilities	32.75%	23.69%	34.54%	43.60%	34.13%	23.30%
Total Long-Term Liabilities	0.00%	0.00%	0.00%	0.00%	0.00%	20.20%
Total Liabilities	32.75%	23.69%	34.54%	43.60%	34.13%	44.00%
Stockholders' Equity						
Common Stock	1.70%	1.47%	1.80%	2.64%	1.82%	0.00%
Retained Earnings	65.55%	74.85%	63.66%	53.76%	64.04%	0.00%
Total Stockholders' Equity	67.25%	76.31%	65.46%	56.40%	65.87%	56.00%
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Note: Figures may not add due to rounding.

The Company's largest single asset was accounts receivable, which comprised between 50 and 70 percent of total assets between December 31, 2006 and 2010. As NLS purchases raw materials on an as-needed basis, The Company maintains no inventory balances. Industry peers, on the other hand, maintained almost 25 percent of total assets in inventory. Total current assets accounted for 71.72 percent of The Company's total assets at

December 31, 2010, as compared to 60.60 percent for its industry peers. Net fixed assets amounted to 28.28 percent of total assets relative to 35.60 percent for NLS's peers.

The Company's liabilities primarily consist of accrued expenses. Accounts payable made up a relatively small portion of total liabilities and equity over the period analyzed. On an adjusted basis, NLS held no debt over the period observed, while industry peers financed 11.80 percent of assets with short-term debt. As a result, NLS had a higher percentage of equity relative to its peers.

The next part of the financial analysis requires the appraiser to analyze The Company's earnings capacity based on its historic results, as well as what may be produced in the future. Future earnings capacity is critical, as it is a major component in the valuation process. The Company's adjusted common size income statements along with the data from SMI are presented in Table 8.

TABLE 8
ADJUSTED COMMON SIZE INCOME STATEMENT
DECEMBER 31,

	2006	2007	2008	2009	2010	SMI
Total Revenues	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Total Cost of Sales	45.04%	42.92%	43.88%	43.20%	40.72%	75.80%
Gross Profit	54.96%	57.08%	56.12%	56.80%	59.28%	24.20%
Total Operating Expenses	37.25%	37.70%	39.93%	50.68%	39.78%	21.40%
Operating Income	17.71%	19.37%	16.19%	6.13%	19.49%	2.80%
Total Other Expenses	0.00%	0.00%	0.00%	0.00%	0.00%	1.10%
Income Before Taxes	17.71%	19.37%	16.19%	6.13%	19.49%	1.70%
Income Taxes	6.66%	7.29%	6.09%	2.25%	7.34%	
NET INCOME	**11.05%**	**12.08%**	**10.10%**	**3.88%**	**12.16%**	

Note: Figures may not add due to rounding.

As was discussed previously, revenues reached a peak of $7.5 million in 2007, before declining to $4.8 million in 2009. The decline was due to poor economic activity and lower demand for fabricated metal parts. While recovering somewhat to $5.9 million in 2010, revenues remain well below the peak years of 2006 and 2007. Gross margins were relatively stable between 2007 and 2009, but increased in 2010 as management became more vigilant in improving profitability. NLS's gross margins were significantly higher than those of its industry peers.

Operating margins declined significantly in 2009 due to a much lower revenue base, but improved considerably in 2010 relative to 2.80 percent for its industry peers. Profitability was highest in the latest period.

We also performed a ratio analysis to analyze trends that have taken place in the financial performance of The Company relative to its industry peers. These ratios are presented in Table 9.

TABLE 9
ADJUSTED FINANCIAL RATIOS

	December 31,					Industry
	2006	2007	2008	2009	2010	SMI
Current Ratio	2.40	2.97	1.93	1.32	2.10	1.50
Quick Ratio	2.40	2.97	1.93	1.32	2.08	1.00
Receivables Day Sales	46.64	50.32	46.65	46.00	37.79	52.30
Inventory Turnover	N/A	N/A	N/A	N/A	N/A	5.30
Inventory Day Sales	N/A	N/A	N/A	N/A	N/A	68.90
Net Sales to Working Capital	28.52	10.14	11.21	16.57	18.24	8.80
Net Sales to Net Fixed Assets	23.19	14.73	15.09	12.06	15.27	3.80
Times Interest Earned	N/A	N/A	N/A	N/A	N/A	2.50
Total Debt to Equity	N/A	N/A	N/A	N/A	N/A	0.80
EBITDA to Sales	18.19%	20.18%	17.07%	7.41%	20.63%	8.60%
EBIT to Total Assets	87.27%	84.70%	81.08%	31.26%	84.15%	4.50%
EBIT to Sales	17.71%	19.37%	16.19%	6.13%	19.49%	3.60%

NLS is more liquid than other companies in the industry as its current and quick ratios were higher and accounts receivable days outstanding were shorter. The Company was not encumbered by debt and profitability was substantially higher than that of the industry group. Based on the above, NLS is generally in better financial and operating condition than its peers.

THE EARNING CAPACITY OF THE COMPANY

Management provided guidance into The Company's expected future performance. Based on this guidance and NLS's historical results, a projected income statement was constructed and is shown in Table 10.

TABLE 10
INCOME STATEMENT FORECAST

	2011	2012	2013
Sales[1]	$ 7,100,689	$ 7,384,717	$ 7,680,106
Cost of Goods Sold[2]	3,077,043	3,200,125	3,328,130
Gross Profit	$ 4,023,646	$ 4,184,592	$ 4,351,976
Operating Expenses[3]	2,505,978	2,606,218	2,710,467
Earnings Before Interest, Taxes, Depreciation and Amortization	$ 1,517,668	$ 1,578,374	$ 1,641,509
Depreciation and Amortization[4]	53,762	83,762	108,762
Earnings Before Taxes	$ 1,463,906	$ 1,494,612	$ 1,532,747
Taxes[6]	550,868	562,423	576,773
NET INCOME	**$ 913,038**	**$ 932,190**	**$ 955,974**

Note: Figures may not add due to rounding.

1. The Company expects 20 percent revenue growth in 2011 as the economy strengthens and NLS returns to a level more consistent with prior years. This will be followed by a more normal level of long-term growth, which has been estimated at 4 percent. Management noted that there are no capacity issues or production bottlenecks and current production staff is adequate for the expected increase in revenues.

2. Management has indicated that historical gross margins between 2007 and 2009 are most indicative of gross margins going forward. The Company's gross margin in 2010 was somewhat higher than normal due to The Company deferring certain expenses in that year. Historical fluctuations in gross profit margins were driven by the cost of labor, and gross margins in 2006 were somewhat low due to a relatively high cost of labor. Therefore, an average of 2007 through 2009 gross margins was used to estimate gross profitability going forward.

3. The Company's operating expenses have historically consisted primarily of fixed costs. As such, we forecast fixed and variable costs separately. Variable costs were forecast at 15.2 percent of revenues based on the 2010 income statement. Fixed costs in 2010 were grown at a rate of 4.0 percent each year to reflect long-term growth.

4. Equipment was depreciated based on an estimated 10-year average useful life. Forecasted capital expenditures were also depreciated based on this schedule.

5. Since the real estate and associated mortgage obligation were removed from the historical balance sheets, no interest expense has been forecast. Similarly, all related party loans were removed from the books. Thus, no interest income was forecast.

6. Taxes were estimated based on corporate rates as of the valuation date, consistent with the methodology used in the normalization adjustments discussed earlier in this section.

The Company's forecasted balance sheet is presented in Table 11.

TABLE 11
BALANCE SHEET FORECAST
DECEMBER 31,

	2011	2012	2013
Current Assets			
Cash[1]	$ 216,375	$ 225,030	$ 234,031
Accounts Receivable[2]	778,158	869,980	967,904
Total Current Assets	$ 994,533	$ 1,095,010	$ 1,201,935
Fixed Assets			
Gross Fixed Assets	$ 2,596,822	$ 2,896,822	$ 3,196,822
Capital Expenditures[3]	300,000	300,000	200,000
Accumulated Depreciation	2,262,965	2,346,727	2,455,489
Net Fixed Assets	$ 633,857	$ 850,095	$ 941,333
TOTAL ASSETS	**$ 1,628,390**	**$ 1,945,105**	**$ 2,143,268**
Current Liabilities			
Accounts Payable[4]	$ 80,348	$ 83,562	$ 86,905
Other Current Liabilities[5]	329,813	343,006	356,726
Total Current Liabilities	$ 410,161	$ 426,568	$ 443,631
Equity			
Capital Stock	$ 25,000	$ 25,000	$ 25,000
Retained Earnings	1,193,229	1,493,537	1,674,637
Total Equity	$ 1,218,229	$ 1,518,537	$ 1,699,637
TOTAL LIABILITIES AND EQUITY	**$ 1,628,390**	**$ 1,945,105**	**$ 2,143,268**

1. Due to the abnormally low level of cash at December 31, 2009, we examined end-of-period cash turnover ratios. The Company's financial condition over the latest three years was considered most relevant to future results. However, the turnover ratio of 2009 was excluded from our average due to the low balance in that year. Therefore, an average of 2008 and 2010 cash turnover ratios was utilized to forecast cash.

2. The Company's days accounts receivable ratio declined substantially in 2010, as The Company collected on its receivables at a faster pace due to lower sales. Typical collection appeared to be approximately 46 days. Thus, we gradually increased the days accounts receivable ratio over three years to 46 days.

3. Management indicated that a $300,000 equipment purchase will be required in both 2011 and 2012. Subsequent capital expenditures have been estimated at $200,000 based on management's expectations and are increased at an inflationary rate of 3 percent.

4. Accounts payable were forecast based on the latest year's days payable ratio.

5. Other current liabilities consisted of accrued expenses. Accrued expenses are related to operating expenses and have been forecast based on the historical days ratio. As the forecasted level of operating expenses are closer to 2007 and 2008 levels, we forecast accrued expenses based on an average of the days ratios in 2007 and 2008.

Although the analyst only presented a three-year forecast, the income statement and balance sheet were both extended for nine years until depreciation and capital expenditures approximated one another. The forecasted income statement and balance sheet provide the basis for an income-based approach described later in this report.

THE DIVIDEND[8] PAYING CAPACITY OF THE COMPANY

As with any privately-owned company, there is no requirement to pay distributions to the shareholders. A publicly-traded company generally pays dividends as a means to entice investors to invest in the company. The question raised in Revenue Ruling 59-60 is: does the company have the capacity to pay dividends?

The capacity to pay dividends is a very subjective consideration based on the goals of the company, as well as its cash flow. For a minority interest, actual dividends paid is more important than capacity, since the minority stockholder cannot force dividends to be paid.

NLS has made minimal distributions to its stockholders. The Company's average dividend amounted to 7.5 percent of adjusted pre-tax income between 2006 and 2010.

Based on the forecasts discussed previously, NLS is expected to generate substantial net cash flow as shown in Table 12. Thus, The Company's dividend paying capacity is relatively strong. However, historic cash flow has also been strong, but distributions are made at the discretion of management and have been minimal historically.

TABLE 12
DISCOUNTED NET CASH FLOW FORECAST

	2011	2012	2013
Net Income	$ 913,038	$ 932,190	$ 955,974
+ Depreciation	53,762	83,762	108,762
- Capital Expenditures	(300,000)	(300,000)	(200,000)
- Increase in Working Capital	(86,974)	(84,784)	(90,604)
Net Cash Flow	**$ 597,678**	**$ 631,881**	**$ 774,875**

8 The terms dividend and distribution are used interchangeably throughout this report.

WHETHER OR NOT THE ENTERPRISE HAS GOODWILL OR OTHER INTANGIBLE VALUE

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

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

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

Revenue Ruling 59-60 suggests that valuation analysts consider whether there have been any previous sales of the stock, and the size of the block being valued. There have been no sales of The Company's stock.

We are valuing a 26 percent common stock interest in NLS. This interest has no control over NLS. The 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 listed in Revenue Ruling 59-60 is a market comparison between the appraisal subject and other companies that are traded on public stock exchanges. This is the basis for the market approach to valuation.

GUIDELINE COMPANIES

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

In order to locate potential guideline companies, the appraiser searched for U.S. companies operating under the following Standard Industrial Classification ("SIC") and North American Industrial Classification System ("NAICS") codes:

SIC:	
3429	Hardware, N.E.C.[1]
3465	Automotive Stampings
3469	Metal Stamping, N.E.C.
3493	Steel Springs, Except Wire
3495	Wire Springs
3496	Miscellaneous Fabricated Wire Products
3499	Fabricated Metal Products, N.E.C.

N.E.C. = not classified elsewhere.

NAICS:

3332116	Metal Stamping
332322	Sheet Metal Work Manufacturing
33251	Hardware Manufacturing
332611	Spring (Heavy Gauge) Manufacturing
332612	Spring (Light Gauge) Manufacturing
332618	Other Fabricated Wire Product Manufacturing
33271	Machine Shops
332721	Precision Turned Product Manufacturing
332722	Bolt, Nut, Screw, Rivet, and Washer Manufacturing

Based on this criteria, 17 potential guideline companies were located. We reviewed these companies in detail, but none could be used as guideline companies. Some companies had substantial exposure to single industries (i.e., energy, housing, automotive, etc.), which reduced comparability with NLS (which has no single industry focus). Companies with little to no trading volume and a low stock price were also eliminated. Companies with low stock prices often are traded by speculative investors attracted to the low stock price and not by fundamentals, such as growth and profitability. Finally, companies that generated revenues more than 20 times larger than those of NLS were considered too large to be comparable to The Company. Thus, no suitable guideline companies could be located.

MERGER AND ACQUISITION TRANSACTIONS

In addition to attempting to review the market price of stocks traded on an exchange, this appraiser also reviewed merger and acquisition activity. In order to accomplish this, we searched the following databases to obtain information:

1. IBA Market Data
2. BizComps®
3. Pratt's Stats®

These databases were searched for transactions of companies in SIC codes 3429, 3469, 3495, 3496 and 3499 that were completed in 2009 and 2010. The results of our searches are described below.

IBA MARKET DATA

We located six transactions in the IBA Market Data database. We do not believe that six transactions are an adequate sample from which to draw a statistically reliable analysis. Therefore, we did not use this data.

BIZCOMPS®

We located six transactions in the BizComps® database. As we cannot draw statistically reliable conclusions from six transactions, the BizComps® data was not used.

PRATT'S STATS®

We located four transactions in the Pratt's Stats® database. As we cannot draw statistically reliable conclusions from four transactions, the Pratt's Stats® data was not used.

As we were unable to find enough data to analyze, the merger and acquisition method could not be used as a primary method to determining value for NLS. However, we will attempt to use the transaction data to test the reasonableness of our final conclusions.

VALUATION CALCULATIONS

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

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

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

THE INCOME APPROACH

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

DISCOUNTED FUTURE BENEFITS METHOD

The discounted future benefits method is one of the most theoretically correct methods of appraisal. It is premised on the concept that value is based on the present value of all future benefits that flow to an owner of a property. These future benefits can consist of current income distributions, appreciation in the property, or a combination of both.

When future net cash flows are expected to fluctuate, the discounted future benefits method is more applicable than the capitalized future benefits method. In essence, this method requires a forecast to be made of future benefits going out far enough into the future until an assumed stabilization occurs for the appraisal subject. In this case, the benefit stream being used is net cash flow.

The formula for the discounted future benefits method is as follows:

$$\sum_{n=1}^{n=t} \frac{E_n}{(1+i)^n} + \frac{TV_t}{(1+i)^t}$$

Where

E	=	Forecasted benefit stream.
n	=	Year in which the benefit stream is achieved.
i	=	Required rate of return.
TV	=	Terminal value, which is the estimated value of the benefit stream after the forecast period.
t	=	Year of stabilization.

The formula appears much more complicated than it is. In essence, the discounted future benefits method requires a forecast of earnings or cash flow over the economic life of the subject company. This is accomplished by forecasting income over a realistic period and then deriving a terminal value through the capitalization of future benefits method beyond this period. When determining a realistic period in which to forecast future benefits, we considered three factors: 1) as we extend the projection period, the financial data loses reliability, which reduces the marginal benefit of projecting an additional year; 2) in order to determine the future net income or net cash flow of a company, its financial results should be considered over at least one operating cycle; and 3) additional years should be projected until growth equals the expected long-term rate.

In a previous section, The Company's forecasted financial statements were discussed in some detail. Using the forecasts, we prepared a forecast of net cash flow for 2011 through 2019. This was previously presented.

Once the net cash flow has been forecasted, the selection of a proper discount rate becomes necessary. Since the benefit stream will not be generated until some time in the future, the future benefits must be discounted to their present value. In this instance, a discount rate of 24.4 percent has been considered applicable (see section of this report entitled "Discount and Capitalization Rates"). This results in the value estimate of NLS being calculated as shown in Table 13.

TABLE 13
DISCOUNTED NET CASH FLOW

Year	Forecasted Net Cash Flow	x	24.4% Discount Rate	=	Present Value of Future Cash Flow
2011	$ 597,678		0.8966		$ 535,878
2012	631,881		0.7207		455,397
2013	774,875		0.5794		448,962
2014	876,996		0.4657		408,417
2015	920,060		0.3744		344,470
2016	964,832		0.3009		290,318
2017	1,011,376		0.2419		244,652
2018	1,059,763		0.1945		206,124
2019	1,110,070		0.1563		173,504
TV	5,652,754		0.1563		883,525
Minority, Marketable Value					**$ 3,991,248**

In this instance, the terminal value is determined by growing the last year's forecasted net cash flow by a long-term stabilized growth rate of 4.0 percent and capitalizing this amount by 20.4 percent.

The resulting equity value shown above represents the value of The Company's equity on a minority interest basis. However, this interest is less liquid than a share of stock in a publicly-traded company, and therefore, we have applied a discount for lack of marketability of 25 percent (for more information on the discount for lack of marketability, see the "Premiums and Discounts" section of the report). Therefore, the value of the operating entity under the income approach on a minority, nonmarketable basis is approximately $2,993,436 or $2,993,000 rounded.

THE MARKET APPROACH

As discussed in the previous sections, were unable to locate an adequate amount of market data. Therefore, this approach could not be utilized.

THE ASSET-BASED APPROACH

A minority owner cannot force the sale of the underlying assets of The Company to obtain the values of these assets. In addition, the income approach derived a value considerably larger than the tangible equity value derived earlier in this report. Therefore, the asset-based approach was not considered in this valuation.

RECONCILIATION OF VALUE

As a result of our analysis, the fair market value of the operating equity of NLS on a minority, nonmarketable basis was determined to be $2,993,000. To test the reasonableness of this result, we looked at the transactions located in the various merger and acquisition databases discussed previously. The price to revenues multiples ranged from 0.13 to 0.85, which results in a value range after discounts of approximately $963,000 to $4.2 million. Although this data does not have much statistical reliability, the value derived falls in this range with a price to revenues multiple of 0.51. Due to the profitability of NLS in comparison to its industry peers, one might expect it to sell at the higher end of the multiples. Although there were very few transactions to analyze, this analysis provides some level of reasonableness check of the value conclusion.

Now that the value of the operating entity has been derived, the net value of NLS's non-operating assets must be added back to derive the value of the equity. NLS's non-operating asset consists of its real estate. The fair market value of the real estate was determined to be $3,700,000 based on a real estate appraisal prepared by Sourthern Realty Appraisers as of December 10, 2010. NLS also has a mortgage on the property amounting to $2,527,570 as of the valuation date. As a minority investor would not have control over this non-operating asset, we applied a discount for lack of control of 20 percent, based on discounts observed in publicly-traded real estate limited partnerships, as well as a discount for lack of marketability of 25 percent (see "Premiums and Discounts" section of this report). Therefore, the value of the equity is derived and presented in Table 14.

TABLE 14
DETERMINATION OF FAIR MARKET VALUE FOR A 26% INTEREST IN NLS

Concluded Value of the Operating Entity			$	2,993,000
Value of Non-Operating Assets - Control, Marketable	$	1,172,430		
Less: Discount for Lack of Control (20%)		(234,486)		
Value of Non-Operating Assets - Minority, Marketable	$	937,944		
Less: Discount for Lack of Marketability (25%)		(234,486)		
Value of Non-Operating Assets - Minority, Nonmarketable				703,458
Estimated Value of NLS - Minority, Nonmarketable			$	3,696,458
Rounded			**$**	**3,700,000**
Ownership Interest Being Valued			x	26.00%
Estimated Value of a 26.00% Interest in NLS			**$**	**962,000**

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. Using the build up method of determining these rates results in the following:

Appraisal Date Long-Term Treasury Bond Yield		4.13%[1]
Equity Risk Premium -- Stocks over Bonds	+	6.72%[2]
Average Market Return	=	**10.85%**
Benchmark Premium for Size	+	6.36%[3]
Industry Risk Premium		4.17%[4]
Adjustments for Other Risk Factors	+	3.00%[5]
Discount Rate for Net Cash Flow	=	**24.38%**
Rounded		**24.40%**
Growth Rate	-	4.00%
Capitalization Rate for Net Earnings	=	**20.40%**

1. Yield on a 20-year U.S. Treasury Bond as of December 31, 2010 <http://www.federalreserve.gov/releases/h15/data.htm>.

2. *Stocks, Bonds, Bills and Inflation 2011 Yearbook*, Valuation Edition, Morningstar, difference between the total returns on common stocks and long-term government bonds from 1926 to 2010.

3. *Stocks, Bonds, Bills and Inflation 2011 Yearbook*, Valuation Edition, Morningstar, difference between the total returns on small company stocks (Decile 10) and large company stocks.

4. *Stocks, Bonds, Bills and Inflation 2011 Yearbook*, Valuation Edition, Morningstar, SIC 349: Miscellaneous Fabricated Metal Products.

5. Based on the judgment and analysis of the appraiser specific to NLS (see below).

Every discount rate, regardless of how it is derived, includes the following basic components: (1) the risk-free rate of return, (2) the equity risk premium, and (3) the specific company risk premium.

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

Sources of risk-free rates of return most commonly include U.S. Treasury bonds. More often than not, long-term rates are used to simulate the long-term holding period of a closely-held business. The 20-year bond (actually it is a composite rate for bonds that have 20 years to maturity) is frequently used. The 20-year bond has become popular among valuation analysts because of the fact that many valuation analysts use the equity risk premium data provided by Morningstar and these are based on 20-year bonds.

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

The equity risk premium for corporate equity securities can be obtained from various sources. Historically, the most commonly used source was *Stocks, Bonds, Bills and Inflation Annual Yearbook* (the "SBBI Yearbook"), published by Morningstar. Morningstar data is a compilation of investment returns for several types of financial assets since 1926. Business valuation analysts are generally interested in the information relating to risk-free returns, market equity returns, small company stock premiums, and the calculated differentials between them.

The Morningstar studies are considered to be a comprehensive compilation of data relating to the equity risk premium. In addition to the overall equity risk premium, a type of premium that is generally considered by the valuation analyst is the small company risk premium. This is frequently considered as part of the specific company risk premium, but very often separately stated. The Morningstar data provides information about returns for small company stocks. Morningstar breaks down the premium based on the market capitalization of public companies.

The Morningstar data indicates that the returns for these smaller companies have been higher than those of the larger companies. This means that an investor who makes an investment in a smaller company should look for a higher return based on this market data. Size may have something to do with it. Obviously, there are many other factors that also cause smaller companies to be riskier than larger companies.

Specific Company Risk. There is some risk associated with The Company's forecasts. Management anticipates revenue growth of 20 percent in 2011, which is dependent on improvement in economic conditions. If demand does not increase as anticipated, revenue growth may be much lower in 2011, which would adversely impact profitability that year. In addition, NLS has significant sales concentration in two customers: Sun Hydraulics and Ametek. The loss of either customers would have an adverse effect on NLS.

It is important to consider the fact that The Company has been the target of an ongoing environmental contamination lawsuit. While the case was settled in 1995 and NLS has undertaken the required steps to monitor the depletion of contamination, there remains potential for further action against The Company. If the contamination does not decline, NLS may incur additional legal fees and be required to make further investment in its clean-up efforts. Further action on this matter would likely reduce The Company's profitability.

Additional risk stems from the size difference that exists between NLS and the companies within decile 10 of the *SBBI Yearbook*. Decile 10 includes companies with market capitalizations of up to $235.6 million. The average market capitalization of companies within decile 10 is $103.1 million. Thus, some additional risk exists related to The Company's size (i.e., depth of management, access to capital, etc.) that was not accounted for in the size risk premium.

In considering all of the factors above, a 3.0 percent specific company risk premium was considered necessary. As a result of our analysis, the appropriate discount rate for NLS is 24.40 percent.

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 long-term sustainable growth has been included at a rate of 4.0 percent for NLS. This rate of growth reflects expected economic growth and inflation over the long-term. It is higher than the inflation rate due to the strong growth forecasted in the next year.

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, which will depend on which methods of valuation were used during the appraisal as well as other factors such as the sources of the information used to derive multiples or discount rates, and normalization adjustments.

CONTROL PREMIUM

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 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.[9]

A control premium is the opposite of a discount for lack of control. The control premium is used to determine the control value of a closely-held business when its freely traded minority value has been determined. In this assignment, the valuation subject is a minority interest with no control over NLS or its underlying assets. Therefore, a control premium is not required.

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

DISCOUNT FOR LACK OF CONTROL

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

A DLOC is basically the opposite of a premium for control. This type of discount is used to obtain the value of a noncontrolling interest in the 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.

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

TABLE 15
FACTORS AFFECTING THE DEGREE OF CONTROL

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

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

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

- The presence of enough minority interest votes to elect or have

TABLE 15
FACTORS AFFECTING THE DEGREE OF CONTROL

meaningful input on electing one or more directors in a company with cumulative voting.

- The presence of enough minority votes to block certain actions (subject to state statutes and/or articles of incorporation).

- The presence of state statutes granting certain minority stockholder rights.

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

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

Source: Adapted from *Guide to Business Valuations*, Practitioners Publishing Company, Inc. 2011: 8-19.

In this appraisal, the net asset value of NLS was used to determine the control value of The Company's non-operating assets. However, to realize this value, an investor would need to be able to gain access to, and liquidate, the non-operating assets of The Company. If minority shareholders were afforded this level of control, a minority share would be worth a pro rata share of the non-operating asset's net asset value. However, this is not the case. A 26 percent shareholder in NLS has no control over The Company.

Use of the net asset value method develops a freely traded, control value of The Company's non-operating assets and does not provide a meaningful indication of value for a minority interest. A DLOC is appropriate because a minority interest in NLS represents an indirect ownership interest in the non-operating assets held by The Company. The interest is, in fact, a minority interest in that it conveys no control over the day-to-day conduct of NLS, has no right or authority to act for or bind The Company, 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 Company's assets.

In order to determine an appropriate DLOC to apply to The Company's non-operating assets, we examined real estate limited partnership ("RELP") data compiled by Partnership Profiles, Inc. ("PPI") in its 2006 through 2010 *Executive Summary Report on Partnership Re-Sale Discounts*. These summaries include data from publicly-registered real estate programs whose units (or shares) traded in the secondary market. We analyzed all real estate programs and focused on commercial RELPs from this study as NLS holds commercial real estate. A summary of the RELP data is presented in Table 16.

TABLE 16
SUMMARY OF PARTNERSHIP PROFILES
MINORITY INTEREST DISCOUNTS

All Real Estate Limited Partnerships				
Year	**Low**	**High**	**Median**	**Average**
2006	4.10%	57.20%	25.05%	27.63%
2007	0.80%	64.40%	25.40%	28.05%
2008	1.60%	57.80%	21.30%	24.95%
2009	-8.10%	81.90%	30.35%	27.79%
2010	-3.90%	72.50%	30.00%	31.03%

Commercial Real Estate Limited Partnerships				
Year	**Low**	**High**	**Median**	**Average**
2006	11.30%	48.60%	19.20%	23.88%
2007	6.20%	37.10%	18.20%	18.07%
2008	10.10%	44.00%	20.20%	20.22%
2009	12.80%	46.70%	31.00%	30.64%
2010	18.00%	53.50%	34.30%	34.59%

The data in Table 16 shows that the discounts for all RELPs between 2006 and 2010 ranged from a premium of 8.1 percent in 2009 to a discount of 81.9 percent in 2009. Commercial RELPs had discounts ranging from 6.2 percent in 2007 to 53.5 percent in 2010. Median and average discounts increased in the latest three years. The median and average discounts in 2010 for commercial RELPs was 34.3 and 34.6 percent, respectively.

It is important to note that PPI identifies a portion of the discounts in Table 15 to be attributable to a lack of marketability due to the time it takes for a transaction to close in the secondary market for RELPs. This would reduce the discount for lack of control derived from the PPI data. Based on the data in Table 15, and the fact that the property generates income from its tenants, a DLOC applicable to the net asset value of The Company's non-operating assets is 20 percent.

DISCOUNT FOR LACK OF MARKETABILITY

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

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

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

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

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

The registration exemption on restricted stocks is granted under Section 4(2) of the 1933 Securities Act. The intent of Section 4(2) is to provide "small" corporations with 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 Act 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.[11] The exemptions for these securities are granted under Rule 144.

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[10] 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.

[11] 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.

> 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.[12]

Therefore, a holder of restricted stock must either register their securities with the SEC or qualify for a Rule 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.[13] Effective 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 effect 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.

A summary of the familiar studies regarding restricted stock is presented in Table 17.

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[12] Ibid.

[13] 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.

TABLE 17
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
Management Planning[m]	1980-1995	27.7
Bruce Johnson[n]	1991-1995	20.0
Columbia Financial Advisors[o]	1996-February 1997	21.0
Columbia Financial Advisors[o]	May 1997-1998	13.0
Trugman Valuation Associates[p]	2007-2008	18.1

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

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

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

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

SEC *INSTITUTIONAL INVESTOR STUDY*

As part of a major study of institutional investor actions performed by the SEC, the amount of discount at which transactions in restricted stock took place compared to the 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.[14]

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

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

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14 "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.

relationship between restricted stock prices and their freely tradable counterparts. This body of data can provide empirical benchmarks for quantifying marketability discounts.

GELMAN STUDY

In 1972, Milton Gelman, with National Economic Research Associates, Inc., published the results of his study of prices paid for restricted securities by four closed-end investment companies specializing in restricted securities investments.[15] 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*,[16] 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 fairly 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

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

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

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.
>
> 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.[17]

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![18]

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

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[17] Ibid.: 151.

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

Taxes.[19] 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."[20] In an attempt to eliminate abnormally high and low discounts, Maher eliminated the top and bottom 10 percent of the purchases. The results showed an average discount of 34.73 percent, almost the exact same discount that was derived without the top and bottom items removed.

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

> The result I have reached is that most appraisers underestimate the proper discount for lack of marketability. The results seem to indicate that this discount should be about 35 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.[21]

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

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

[20] Ibid.: 571.

[21] Ibid.

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.[22] 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 Investor Study*.[23] Standard Research studied 28 private placements of restricted common stock from October 1978 through June 1982. Discounts ranged from 7 to 91 percent, with a median of 45 percent, a bit higher than seen in the other studies.

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

WILLAMETTE MANAGEMENT ASSOCIATES, INC. STUDY

Willamette Management Associates analyzed private placements of restricted stocks for the period January 1, 1981 through May 31, 1984.[24] 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

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

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

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

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.

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.[25] 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

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

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

FMV analyzed just over 100 transactions involving companies tending to have larger capitalizations. As reported in other studies, 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.

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.[26]

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

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.

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 transacted 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 seemed 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 were clearly impacted by the shorter holding period.

TRUGMAN VALUATION ASSOCIATES, INC. RESTRICTED STOCK STUDY

Trugman Valuation Associates, Inc. ("TVA") conducted an analysis of private placements of restricted stock for the years 2007 and 2008. Using 80 transactions, the average discount was 18.1 percent and the median discount was 14.4 percent. The TVA Restricted Stock Study was the first study published after the Rule 144 holding period was reduced to six months, which became effective on February 15, 2008.

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

The first part of the analysis included an examination of the linear relationships between the different variables and the magnitude of the implied discounts. These linear relationships were measured by performing a correlation analysis, which is a statistical technique that can show how strongly pairs of variables are related. The correlation analysis revealed that stock price volatility, which in this instance was measured by the stock's one-year annualized, historical daily price volatility, had a solid linear relationship with the magnitude of the implied discount. In this instance, stock price volatility had an R-squared statistic of 0.60 which means that 60 percent of the variation in the implied discounts included in the sample are explained by the price volatility of the underlying security. Other variables that had notable relationships with the size of the discount included the exchange the stock was traded on, the number of shares placed in relation to the stock's trading volume and the period of time in which the stock remained unmarketable. Stocks traded on the Over-the-Counter Bulletin Board Exchange, transactions with a large number of shares placed in relationship to the stock's trading volume, and stocks that remained unmarketable for longer periods of time had higher discounts, on average.

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

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

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."[27] 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 for 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

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

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. Based on the studies, the average discount has been 47 percent, while the median discount is 48 percent.

WILLAMETTE MANAGEMENT ASSOCIATES STUDY

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

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. From 1999 through 2010, Valuation Advisors analyzed over 8,700 transactions showing an extremely wide range of discounts depending on the length of time between the sale of the privately-held stock to the IPO date.

The data in their database shows that the longer the period of time before a liquidity event (the IPO), the greater the discount. The mean and median discount for transactions occurring less than two years before the IPO were 46 and 51.1 percent, respectively. For transactions occurring more than two years before the IPO, the mean and median discounts were 68 and 80.9 percent, respectively.

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 pre-IPO studies are proof that larger discounts can be justified than those quoted from the restricted stock studies. One of the best explanations of why a DLOM varies from case to case was included in an article published by Robert E. Moroney entitled "Why 25% Discount for Nonmarketability in One Valuation, 100% in Another?"[28] 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.

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.

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[28] *Taxes*, May 1977.

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 points that we have taken into consideration with respect to the Moroney factors include the following:

1. The Company has made relatively low dividend payments historically. Distributions were not large enough to cover the pass-through tax liability of The Company's shareholders. Distributions are particularly important to an investor in an S corporation, as the investor is responsible for the pass-through tax burden. This factor would increase the discount for lack of marketability.

2. NLS has a strong short-term and a stable long-term outlook. Given continued improvements in the economy, NLS should continue to grow, which should make the stock more marketable.

3. No swing value exists for a minority interest in NLS.

4. Transfers of the shares in NLS are not restricted by The Company's by-laws. However, there is no market for The Company's stock. This factor is neutral.

5. There are no buy-sell agreements as of the valuation date. The lack of an agreement would make this stock interest less marketable.

6. The financial condition of The Company is relatively strong. This would make the stock more marketable.

7. There is no reason to believe that the controlling shareholder would be less than honest with a minority investor. This factor is neutral.

8. There is no reason to believe that the controlling shareholder would not be friendly to a minority investor. This factor is neutral.

9. The Company's growth prospects are strong in the short-term (2011) and stable over the long-term (after 2011). This growth, however, is dependent on the rebound of the economy. Assuming economic conditions continue to improve, this factor makes the stock more marketable.

10. The industry is heavily reliant on economic conditions, as demand is driven largely by economic growth. There is some risk to the industry given possible slow economic growth or a double-dip recession.

11. The investing public remains relatively uncertain about the strength and sustainability of the economic recovery.

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 Company 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 liquidity has value to a seller that might cause him to reduce the selling price.

Giving consideration to the restricted stock and pre-IPO studies, as well as the costs related to flotation of a public offering and The Company's prospects, and low level of dividends, we believe that an appropriate discount in this matter is 25 percent.

In order to test the reasonableness of our determined discount for lack of marketability, we consulted the *FMV Discount for Lack of Marketability Calculator*™ developed by FMV Opinions, Inc. This calculator provides an indicated discount based on a comparison of financial characteristics to restricted stock issued by public companies, market price volatility, and the amount of liquidity available to the securities. The calculator indicated that a discount of approximately 30 percent is appropriate for an investment in NLS, which is higher than our previously determined discount of 25 percent. This indicates that a discount applicable to The Company could be greater and that our 25 percent DLOM is reasonable.

NORTHERN LIGHTS & STAMPING, INC.
BALANCE SHEET
AS OF DECEMBER 31,

	2005	2006	2007	2008	2009	2010
Current Assets						
Cash	$ 30,914	$ 134,328	$ 164,695	$ 181,693	$ 77,403	$ 217,134
Accounts Receivable	826,636	1,021,129	1,034,257	748,479	468,584	756,782
Prepaid Taxes	-	-	-	-	-	9,211
Due from Affiliates	5,683,549	6,364,626	3,510,841	4,439,651	4,961,748	5,317,734
Total Current Assets	$ 6,541,099	$ 7,520,083	$ 4,709,793	$ 5,369,823	$ 5,507,735	$ 6,300,861
Fixed Assets						
Land	$ 146,993	$ 146,993	$ 146,993	$ 146,993	$ 146,993	$ 146,993
Building & Improvements	7,955,361	8,288,961	8,543,372	8,561,372	8,561,372	8,616,025
Gross Fixed Assets	$ 8,102,354	$ 8,435,954	$ 8,690,365	$ 8,708,365	$ 8,708,365	$ 8,763,018
Accumulated Depreciation	4,375,306	5,040,083	5,713,797	6,153,003	6,468,226	6,795,495
Net Fixed Assets	$ 3,727,048	$ 3,395,871	$ 2,976,568	$ 2,555,362	$ 2,240,139	$ 1,967,523
TOTAL ASSETS	**$ 10,268,147**	**$ 10,915,954**	**$ 7,686,361**	**$ 7,925,185**	**$ 7,747,874**	**$ 8,268,384**
Current Liabilities						
Accounts Payable	$ 453,986	$ 84,794	$ 88,429	$ 66,540	$ 38,988	$ 86,860
Accrued Expenses	571,463	395,694	315,462	413,950	373,360	381,017
Sales Taxes Payable	-	-	-	440	228	-
Due to Affiliate	581,463	604,972	629,808	655,348	681,244	936,760
Total Current Liabilities	$ 1,606,912	$ 1,085,460	$ 1,033,699	$ 1,136,278	$ 1,093,820	$ 1,404,637
Long-Term Liabilities						
Long-Term Debt	$ 2,974,573	$ 2,896,054	$ 2,819,762	$ 2,723,740	$ 2,628,772	$ 2,527,570
Loans from Stockholders	4,606,852	5,864,630	2,773,090	3,015,357	2,985,472	3,306,367
Total Long-Term Liabilities	$ 7,581,425	$ 8,760,684	$ 5,592,852	$ 5,739,097	$ 5,614,244	$ 5,833,937
Total Liabilities	$ 9,188,337	$ 9,846,144	$ 6,626,551	$ 6,875,375	$ 6,708,064	$ 7,238,574
Stockholders' Equity						
Common Stock	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000
Retained Earnings	1,054,810	1,044,810	1,034,810	1,024,810	1,014,810	1,004,810
Total Stockholders' Equity	$ 1,079,810	$ 1,069,810	$ 1,059,810	$ 1,049,810	$ 1,039,810	$ 1,029,810
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 10,268,147**	**$ 10,915,954**	**$ 7,686,361**	**$ 7,925,185**	**$ 7,747,874**	**$ 8,268,384**

NORTHERN LIGHTS & STAMPING, INC.
INCOME STATEMENT
FOR THE YEARS ENDED DECEMBER 31,

	2006	2007	2008	2009	2010
Revenues					
Revenues	$ 7,252,191	$ 7,409,607	$ 6,943,159	$ 4,831,328	$ 5,908,178
Returns & Allowances	(85,113)	(38,170)	(20,379)	(35,073)	(20,944)
Scrap Metal Sales	62,976	83,352	50,893	32,076	30,007
Total Revenues	$ 7,230,054	$ 7,454,789	$ 6,973,673	$ 4,828,331	$ 5,917,241
Cost of Sales					
Purchases	$ 1,244,413	$ 1,145,177	$ 1,094,004	$ 651,815	$ 859,892
Cost of Labor	1,741,663	1,754,131	1,698,926	1,211,776	1,310,525
Outside Services	270,545	300,601	267,281	222,090	239,334
Total Cost of Sales	$ 3,256,621	$ 3,199,909	$ 3,060,211	$ 2,085,681	$ 2,409,751
Gross Profit	$ 3,973,433	$ 4,254,880	$ 3,913,462	$ 2,742,650	$ 3,507,490
Operating Expenses					
Advertising	$ 2,981	$ 697	$ 677	$ -	$ 560
Bad Debts	-	40,520	1,625	68,233	(3,093)
Data Processing	32,956	11,620	-	11,935	37,421
Depreciation	664,777	673,714	439,206	315,223	327,268
Employee Benefit Programs	125,176	117,935	138,682	126,997	130,837
Officers' Compensation	553,000	653,000	653,000	653,000	650,000
Insurance - General	125,415	145,500	129,520	104,225	73,859
Office Expenses	40,370	34,346	41,434	70,592	37,518
Pension , Profit - Sharing Plans	157,197	168,483	145,268	105,197	114,963
Professional Fees	17,913	16,294	9,826	18,065	17,014
Repairs and Maintenance	225,220	178,820	165,984	113,076	97,353
Salaries & Wages	165,865	208,718	210,442	123,611	76,557
Taxes - Other	92,578	86,564	74,367	72,126	64,449
Taxes - Payroll	179,140	180,619	174,850	134,525	150,393
Travel	8,069	5,848	4,278	2,337	4,959
Utilities	153,152	157,271	175,283	139,132	141,347
Freight	146,020	137,828	118,589	66,938	101,434
Supplies	270,671	174,340	187,111	151,022	172,360
Sales Expense	206,283	308,661	319,765	312,051	230,091
Total Operating Expenses	$ 3,166,783	$ 3,300,778	$ 2,989,907	$ 2,588,285	$ 2,425,290
Operating Income	$ 806,650	$ 954,102	$ 923,555	$ 154,365	$ 1,082,200
Total Other Income	$ 295,000	$ 176,000	$ 202,000	$ 228,000	$ 107,000
Total Other Expenses	597,408	450,313	419,485	353,907	301,689
Total Other Income (Expenses)	$ (302,408)	$ (274,313)	$ (217,485)	$ (125,907)	$ (194,689)
NET INCOME	**$ 504,242**	**$ 679,789**	**$ 706,070**	**$ 28,458**	**$ 887,511**

SOURCES OF INFORMATION UTILIZED

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

1. Northern Lights & Stamping, Inc. Form 1120S, U.S. Income Tax Return for an S Corporation for 2006 through 2010, prepared by Jones & Co., LLP.
2. Articles of incorporation of Northern Lights & Stamping, Inc. filed with the Florida Secretary of State.
3. By-Laws of Northern Lights & Stamping, Inc.
4. Tax depreciation worksheets prepared by Northern Lights & Stamping, Inc.
5. Tangible personal property tax schedules prepared by Northern Lights & Stamping, Inc.
6. Accounts receivable aging report as of January 1, 2011.
7. Accounts payable schedule as of January 1, 2011.
8. Northern Lights & Stamping Inc.'s five largest customers for 2008 through 2010.
9. Northern Lights & Stamping, Inc.'s five largest suppliers for 2008 through 2010.
10. Promissory note between Northern Lights & Stamping, Inc. and Wachovia Bank, N.A. for $3,000,000 dated August 15, 2005.
11. Due to/from affiliates worksheet prepared by Northern Lights & Stamping, Inc.
12. Schedule of stockholders' loans prepared by Northern Lights & Stamping, Inc.
13. Summary appraisal report of property located at 123 Main Road, Jupiter, Florida prepared by Southern Realty Appraisers as of December 10, 2010.
14. Organization chart of Northern Lights & Stamping, Inc.
15. Spring Manufacturers Institute *2010 Annual Market Report* prepared by Mackay Research Group.
16. Various e-mails and telephone conversations with the client.
17. Other items referenced throughout the report.

In addition to the written documentation provided, a physical inspection of the business premises was conducted, and a management interview took place. Information gathered at this interview became an integral part of this report.

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

This 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

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

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

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

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

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

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

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

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

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

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

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

16. All facts and data set forth in the report are true and accurate to the best of the 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. Unless otherwise provided for in writing and agreed to by both parties in advance, the extent of the liability for the completeness or accuracy of the data, opinions, comments, recommendations and/or conclusions shall not exceed the amount paid to the appraisers for professional fees and, then, only to the party(s) for whom this report was originally prepared.

19. The conclusion reached in this report is based on the standard of value as stated and defined in the body of the report. An actual transaction in the business or business interest may be concluded at a higher value or lower value, depending on the circumstances surrounding the company, the 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.

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

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

Appraisal of a 26 percent common stock interest in Northern Lights & Stamping, Inc.

VALUATION ANALYST'S REPRESENTATION

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

- the statements of fact contained in this report are true and correct.
- the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- we have no present or prospective interest in the property that is the subject of this report, and we have no personal interest with respect to the parties involved.
- we have performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
- we have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- our engagement in this assignment was not contingent upon developing or reporting predetermined results.
- our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this 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 other than Ray K. Bratcher.

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. Reaccredited in 2009.
- **ASA**: Accredited Senior Appraiser designated by the American Society of Appraisers *(1997).* Reaccredited in 2007.

Education

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

Faculty

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

Appraisal Education

- *AICPA National Business Valuation Conference*, Las Vegas, NV, American Institute of Certified Public Accountants, 2011.
- *Judges Roundtable: The View From the Bench,* Business Valuation Resources, Webinar, 2011.
- *Lawyers Roundtable: What Attorneys are Seeing in Tax Court & What They Are Looking for in Expert Financial Witnesses*, Business Valuation Resources, Webinar, 2011.
- *Estate of Gallagher: How the Court Sees the State of Business Valuation*, Business Valuation Resources, Webinar, 2011.
- *The Correct Way to Use Ibbotson and Duff and Phelps Risk Premium Data*, Valuation Products and Services, Webinar, 2011.

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

Appraisal Education

- *ASA 30th Annual Advanced Business Valuation Conference,* American Society of Appraisers, Chicago, IL, 2011.
- *NACVA IBA 2011 Annual Consultants Conference,* National Association of Certified Valuation Analysts and Institute of Business Appraisers, San Diego, CA 2011.
- *Explanation of the NICE Method, Business Valuation Webinar,* American Society of Appraisers, 2011.
- *Valuation, Forensic Accounting and Litigation Services Conference*, FL Institute of Certified Public Accountants, Ft. Lauderdale, FL 2011.
- *Advanced Summit on Business Valuation: Resolving Tax & Legal Issues,* BVR/Georgetown Law, Washington, DC, 2010.
- *AICPA National Business Valuation Conference,* Washington, DC, American Institute of Certified Public Accountants, 2010.
- *2010 ASA-CICBV Business Valuation Conference*, South Beach Miami, FL, American Society of Appraisers and Canadian Institute of Certified Business Valuers, 2010.
- *The NACVA/IBA 2010 Annual Consultants' Conference*, Miami Beach, FL, The National Association of Certified Valuation Analysts and The Institute of Business Appraisers, 2010.
- *Valuing Tiered Partnership Structures*, Webinar, Business Valuation Resources, LLC, 2010.
- *FICPA Valuation, Forensic Accounting and Litigation Services Conference*, Ft. Lauderdale, FL, Florida Institute of CPAs, 2010.
- *AICPA National Business Valuation Conference*, AICPA, San Francisco, CA, 2009.
- *28th Annual Advanced Business Valuation Conference*, American Society of Appraisers, Boston, MA, 2009.
- *2nd Annual Business Valuation and Tax Conference,* University of San Diego Law School, San Diego, CA, 2009.
- *FCG Fall Conference Program 2009 Live Seminar*, Financial Consulting Group, San Diego, CA, 2009.
- *NACVA and the IBA's 2009 Annual Consultants' Conference*, Boston, MA, NACVA and IBA, 2009.
- *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.

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

Appraisal Education

- *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.
- *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.

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

Appraisal Education

- *20th Annual Advanced Business Valuation Conference.* Seattle, WA, American Society of Appraisers, 2001.
- *2001 Share the Wealth Conference.* Orlando, FL, The Institute of Business Appraisers, 2001.
- *2000 National Conference on Business Valuation.* Miami, FL, American Institute of Certified Public Accountants, 2000.
- 19th Annual Advanced Business Valuation Conference. Philadelphia, PA, American Society of Appraisers, 2000.
- *Hot Issues in Estate and Gift Tax Returns: What do the Auditors Look For?* New Brunswick, NJ, New Jersey Institute for Continuing Legal Education, 2000.
- *Pulling Ahead of the Pack - The Institute of Business Appraisers' 2000 National Conference.* Phoenix, AZ, The Institute of Business Appraisers, 2000.
- Has performed extensive reading and research on business valuations and business valuation related topics

.

Lecturer

- *Estate and Gift Tax Update*, AICPA National Business Valuation Conference, Las Vegas, NV, American Institute of Certified Public Accountants, 2011.
- *Hardball with Hitchner*, AICPA National Business Valuation Conference, Las Vegas, NV, American Institute of Certified Public Accountants, 2011.
- *Practical Applications of the Market Approach (co-presenter)*, AICPA National Business Valuation Conference, Las Vegas, NV, American Institute of Certified Public Accountants, 2011.
- *Management and Marketing of a Valuation Practice (co-presenter),* AICPA National Business Valuation Conference, Las Vegas, NV, American Institute of Certified Public Accountants, 2011.
- *What's Happening in the Estate and Gift Tax Arena?* Anyone Society of CPAs Business Valuation Conference, Phoenix, AZ, Anyone Society of CPAs, 2011.
- *The Use and Application of Data for Control Premiums and Discounts,* Webinar, Business Valuation Resources, LLC, 2011.
- *What's Happening in the Courts?*, FL Institute of Certified Public Accountants, Ft. Lauderdale, FL 2011.
- *What's Happening in the Courts?* AICPA National Business Valuation Conference, Washington, DC, American Institute of Certified Public Accountants, 2010.
- *Applying the Guideline Public Company Method (GPCM) SKA,* AICPA National Business Valuation Conference, Washington, DC, American Institute of Certified Public Accountants, 2010.
- *Valuation of Family Limited Partnerships*, Business Valuation Workshop, Society of Louisiana CPAs, New Orleans, LA, 2010.
- *Valuation of a Professional Practice as a Tax Planning Tool, 41st Annual Chesapeake Tax Conference*. Maryland Association of CPAs, Baltimore, MD, 2010.
- *Fair Market Value versus Fair Value -What's the Difference*, Coral Gables, FL, American Institute of CPAs, AICPA Small Business Practitioners' Tax Conference, 2010.
- *Business Valuation During Crazy Economic Times*, Tampa, FL, Florida Institute of CPAs, FAB Expo, 2010, Ft. Lauderdale, FL., 2010, FICPA Accounting Show, Ft. Lauderdale, FL, 2010.

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

Lecturer

- *Pitchbook – A First Look*, Webinar, Business Valuation Resources, LLC, 2010.
- *The Income Approach – It's Not All About the Cost of Capital*, Miami Beach, FL, The NACVA/IBA 2010 Annual Consultants' Conference, 2010.
- *Valuation Issues in Estate & Gift Tax*, Webinar, Business Valuation Resources, LLC, 2010.
- *Controversial Issues in Business Valuation*, Ft. Lauderdale, FL, FICPA Valuation, Forensic Accounting and Litigation Services Conference, 2010.
- *Hardball with Hitchner*, San Francisco, CA, AICPA National Business Valuation Conference, 2009.
- *Valuation for Tax Purposes*, San Francisco, CA, AICPA National Business Valuation Conference, 2009.
- *Qualitative and Quantitative DLOM Analysis*, San Francisco, CA, AICPA National Business Valuation Conference, 2009.
- *Valuations of FLPs and FLLCs*, Washington Twsp., NJ, Greater NJ Estate Planning Council, 2009.
- *Valuations for Tax Purposes,* Overland Park, KS, 2009 Business Valuation and Litigation Support Conference, 2009.
- *FLPs and FLLCs - What's An Appraiser to Do?* Golden Valley, MN, Business Valuation Conference, 2009.
- *Ask the Experts Panel*, San Diego, CA, 2nd Annual Business Valuation and Tax Conference, 2009.
- *How to Apply and Reconcile the Various Qualitative and Quantitative DLOM Models and Databases*, San Diego, CA, 2nd Annual Business Valuation and Tax Conference, 2009.
- *Ask the Experts Panel*. San Diego, CA, FCG Fall Conference Program 2009 Live Seminar, 2009.
- *FLPs and FLLCs - What's An Appraiser to Do?* Baltimore, MD, CPA Associates International BV Conference, 2009.
- *Valuations of FLPs*, Ft. Lauderdale, FL, Ft. Lauderdale Trusts and Estates Roundtable, 2009.
- *Guideline Public Company Method Workshop Highlights*, Business Valuation Resources, 2009.
- *Fundamentals of Business Valuation and SSVS #1*, Seattle, WA, AICPA Small Business Practitioners Tax Conference, 2009.
- *FLPs and FLLCs - What's An Appraiser to Do?* Chicago, IL, 2009 Business Valuation Conference, 2009.
- *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.

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

Lecturer

- *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.
- *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.

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PROFESSIONAL QUALIFICATIONS

Lecturer

- *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.
- *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

- *Introduction to Business Valuation*: *Part 1*, American Society of Appraisers, Bethesda, MD, 2010.
- *Introduction to Business Valuation*, American Institute of Certified Public Accountants, Roseland, NJ, 2010.
- *AICPA National Business Valuation School*, American Institute of Certified Public Accountants, Chicago, IL, 2009, Atlanta, GA, 2010.
- *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, Manhattan Beach, CA, 2010., Herndon, VA, 2011.
- *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.

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

Instructor

- *Small Business Valuation: A Real Life Case Study*. American Institute of Certified Public Accountants, Iowa, 2005; Indiana, 2005; Florida, 2006; New Jersey, 2009.
- *Business Valuation Essentials: Market Approach and Discounts and Premiums.* American Institute of Certified Public Accountants, Florida, 2005; Tennessee, 2006.
- *Valuation of Specialized Areas*. Financial Consulting Group, Georgia, 2005.
- *Valuing Family Limited Partnerships.* Rhode Island Society of CPAs, Rhode Island, 2004.
- *Report Writing.* Rhode Island Society of CPAs, Rhode Island, 2004.
- *Principles of Valuation: The Income Approach*. American Society of Appraisers, Illinois, 2004.
- *Valuing Goodwill and Intangible Assets*. American Institute of Certified Public Accountants, New Jersey, 2004, Iowa, 2005.
- *Small Business Valuation Case Study*: *Let's Work Through the Issues!* American Institute of Certified Public Accountants, New Jersey, 2004.
- *Small Business Case Study*. The Institute of Business Appraisers, Inc., Florida, 2004.
- *Valuing Family Limited Partnerships*. The Institute of Business Appraisers, Inc., New York, 2003, Florida, 2005.
- *Principles of Valuation: Introduction to Business Valuation - Section A.* American Society of Appraisers, Illinois, 2003.
- *Business Appraisal in Divorce*. The Institute of Business Appraisers, Inc., Massachusetts, 2002; New York, 2003.
- *Splitting Up is Hard to Do: Advanced Valuation Issues in Divorce and Other Litigation Disputes.* American Institute of Certified Public Accountants. Atlanta, GA, 2002; Louisville, KY, 2002.
- *The Nuances of Appraising Interests in Family Limited Partnerships.* 2002 Annual Business Valuation Conference, Washington, DC, The Institute of Business Appraisers, 2002.
- *Financial Statements in the Courtroom (Business Valuation Component).* American Institute of Certified Public Accountants for the National Judicial College. New York, 2001; California, 2002.
- *How to Write Business Valuation Appraisal Reports.* The Institute of Business Appraisers, Inc. Missouri, 2001; Massachusetts, 2002.
- *Application of the Market Approach.* The Institute of Business Appraisers, Inc. Missouri, 2001.
- *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.
- *AICPA ABV Examination Review Course.* American Institute of Certified Public Accountants. North Carolina, 2000; Illinois, 2000, 2008, 2009; Maryland, 2001; Minnesota, 2001; Indiana, 2002; New York, 2003, 2004, 2005, 2007; Georgia, 2004; Florida 2004, 2008; Rhode Island, 2005; Connecticut 2006; Texas, 2009, Atlanta, 2010.
- *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.

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

Instructor

- *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

- *The Valuation of FLPs: What Does the Tax Practitioner Need to Know?* The Tax Advisor, AICPA (Vol. 41, No.1) January 2010: 38-45.
- *Can Your Appraiser Support Her Discounts*, Valuations Plus, Summer 2009.
- *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 2007.
- *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,* Wiley Finance, 1st edition (2003), 2nd edition (2006) and 3rd edition (2011).
- Co-author of course entitled *Splitting Up is Hard to Do: Advanced Valuation Issues in Divorce and Other Litigation Disputes.* American Institute of Certified Public Accountants (2002).
- Course entitled *Fundamentals of Business Appraisal.* The Institute of Business Appraisers, Inc.(2000).

Organizations

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

Committee Service

- Chair - Business Valuation Committee,. American Society of Appraisers.
- Secretary - ASA Educational Foundation, American Society of Appraisers.

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

Committee Service

- Business Valuation/Forensic & Litigation Services Advisory Board to the Journal of Accountancy. American Institute of Certified Public Accountants.
- Chair - Relations with the Florida Bar *Committee*. Florida Institute of Certified Public Accountants.
- Qualifications Review Committee. The Institute of Business Appraisers, Inc.

Past Committee Service

- *Governor at Large*, The Institute of Business Appraisers.
- Chair - Business Valuation *Education Committee.* American Society of Appraisers.
- Co-Chair - 2010 ASA-CICBV Joint Business Valuation Conference, American Society of Appraisers.
- 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 Committee. American Institute of Certified Public Accountants.
- Chair - 2002 AICPA Business Valuation Conference. American Institute of Certified Public Accountants, Member of Committee for 2001 and 2009 Conferences.
- International Board of Examiners. American Society of Appraisers.
- Joint AICPA/ASA 2005 Conference Committee. American Institute of Certified Public Accountants.
- Steering Committee of Valuation Forensic and Litigation Services Section. Florida Institute of Certified Public Accountants.

Editor

- *BVR's Guide to Business Valuation Issues in Estate and Gift Tax, 2010 Edition*, Business Valuation Resources.
- Former 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 "Jerry F. Larkins Volunteer Service Award 2009-2010" by the American Society of Appraisers for exceptional, devoted and invaluable volunteer service to the American Society of Appraisers.
- Presented with the "Hall of Fame Award" by the American Institute of Certified Public Accountants in 2009 for outstanding service the goals of the business valuation profession.
- Presented with the "Volunteer of the Year Award" by the American Institute of Certified Public Accountants in 2008 for outstanding service the goals of the business valuation profession.

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

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 in 1987 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.
- Shannon Pratt. *The Lawyer’s Business Valuation Handbook,* American Bar Association, 2010.

RAY K. BRATCHER
PROFESSIONAL QUALIFICATIONS

Experience

Valuation Analyst at Trugman Valuation Associates, Inc., specializing in business valuation. Was previously employed with a nationally recognized valuation firm from May 2007 to October 2010. Experience includes a wide variety of assignments including the valuation of closely-held businesses, professional practices, thinly traded public companies, and intangible assets. Notable industry experience includes the following:

- Asset Management
- Business Services
- Construction
  - Commercial and Industrial
  - Residential
- Energy
- Food and Beverage
- Insurance
- Manufacturing
  - Aircraft Parts
  - Automobile Parts
  - Chemicals
  - Industrial and Commercial Machinery
  - Specialty Consumer Goods
- Media
- Pharmaceuticals and Research
- Real Estate Investment Trust
- Retail
- Security
- Service
- Technology
- Vegetation Management

Business valuation services have been rendered for a variety of purposes including, but not limited to estate and gift tax matters, buying and selling businesses, ESOPs and other share-based compensation calculations, purchase price allocations and goodwill impairment testing.

Education

- B.S., Business Administration, The College of New Jersey, 2007.

Appraisal Education

- *The Correct Way to Use Ibbotson and Duff and Phelps Risk Premium Data*, Valuation Products and Services, Webinar, 2011.
- *Fundamentals of Business Valuation - Part 2*, American Society of Appraisers, Bethesda, MD, 2011.
- *Fundamentals of Business Valuation - Part 1*, American Society of Appraisers, Bethesda, MD, 2011.