SCOTT M. BROWN DDS, P.A.

VALUATION REPORT

MARCH 23, 2000
NOVEMBER 28, 1987

April 26, 2004

Alan Roberts, Esq.
Roberts & Home, P.A.
1268 Main Street
City One, FL 33333

Re: Brown v. Brown

Dear Mr. Roberts:

We have performed a valuation engagement, as that term is defined in the Statement on Standards for Valuation Services (SSVS) of the American Institute of Certified Public Accountants, of the common stock of Scott M. Brown DDS, P.A., as of March 23, 2000 and November 28, 1987. This valuation was performed solely to assist in the matter of *Scott M. Brown v. Cynthia Brown*. The resulting estimate of value should not be used for any other purpose or by any other party for any purpose. This valuation engagement was conducted in accordance with the SSVS, as well as the standards promulgated by The Appraisal Foundation, the American Society of Appraisers, and The Institute of Business Appraisers, Inc. The estimate of value that results from a valuation engagement is expressed as a conclusion of value.

Based upon the facts presented in the attached report, which must be signed in blue ink by the valuation analyst to be authentic, and other matters considered during our analysis, it is our opinion that the fair market value of the practice, subject to equitable distribution was:

As of March 23, 2000:

FIVE HUNDRED SIXTY-ONE THOUSAND SIX HUNDRED DOLLARS
($ 561,000)

As of November 28, 1987:

FOUR HUNDRED FIFTY-SIX THOUSAND DOLLARS
($ 456,000)

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

Respectfully submitted,

TRUGMAN VALUATION ASSOCIATES, INC.

Gary R. Trugman
CPA/ABV, MCBA, ASA, MVS

GRT/kag
Attachment

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INTRODUCTION

DESCRIPTION OF THE ASSIGNMENT

Trugman Valuation Associates, Inc. was retained by Alan Roberts, Esquire on behalf of Roberts & Home, P.A. to appraise the common stock of Scott M. Brown DDS, P.A., a Florida corporation as of March 23, 2000 and November 28, 1987. In addition, Trugman Valuation Associates, Inc. was requested to address the issue of how much of the value relates to the personal goodwill associated with Dr. Scott Brown.

The purpose of this appraisal is to determine the fair market value of this common stock interest as the basis for equitable distribution in the matter of *Scott M. Brown v. Cynthia Brown*.

DEFINITION OF FAIR MARKET VALUE

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

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

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

VALUATION METHODOLOGIES

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

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

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

GOING CONCERN VALUATION

Going concern value assumes that the company will continue in business, and looks to the enterprise's earnings power and cash generation capabilities as indicators of its fair market value. There are many acceptable methods used in business valuation today. The foundation for business valuation arises from what has been used in valuing real estate for many years. The three basic approaches that must be considered by the valuation analyst 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 valuation analyst. Appraisal standards suggest that an valuation analyst test as many methods as may be applicable to the facts and circumstances of the property being appraised. It is then up to the valuation analyst's informed judgment as to how these values will be reconciled in deriving a final estimate of value.

THE MARKET APPROACH

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

Another common variation of this approach is to locate entire companies that have been bought and sold in the marketplace, publicly traded or closely-held, that provides the valuation analyst 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 valuation analyst estimates value, using this approach, by estimating the cost of duplicating or replacing the individual elements of the business property being appraised, item by item, asset by asset.

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

THE INCOME APPROACH

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

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

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

LIQUIDATION VALUE

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

Shannon Pratt, a well known authority in business appraisal states

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

He adds,

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

Pratt concludes by stating:

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

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

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

1. The nature of the business and the history of the enterprise from its inception.

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

[2] Ibid.

[3] Ibid.

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.

In addition to the application of Revenue Ruling 59-60, the "formula approach" as promulgated in Revenue Ruling 68-609 has been used in the application of these factors since it is a technique for valuing intangibles when no better method exists. This means that the valuation relies on the fair market value of net tangible assets plus a capitalization of excess earnings.

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, a valuation analyst will find wide differences of opinion as to the fair market value of a particular business or business interest. In resolving such differences, one should recognize that valuation is not an exact science. Revenue Ruling 59-60 states that "a sound valuation will be based on all relevant facts, but the elements of common sense, informed judgment and reasonableness must enter into the process of weighing those facts and determining their aggregate significance."

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

There is no single formula acceptable for determining the fair market value of a closely-held business, and therefore, the valuation analyst must look to all relevant factors in order to establish the true business fair market value as of a given date. In order to establish a uniform system for valuing businesses, the Internal Revenue Service issued Revenue Ruling 59-60 listing the factors to consider.

HISTORY AND BACKGROUND OF THE PRACTICE

Scott M. Brown DDS, P.A., trading as ABC Dental Care (hereafter referred to as "ABC Dental Care" or "The Practice") was incorporated in the State of Florida on March 19, 1993. Prior to that time, The Practice operated as a sole proprietorship, owned and operated by Dr. Scott Brown.

The Practice was purchased in or about November 1983 and has operated at the same location since the time of purchase. ABC Dental Care is located at 1234 Main Avenue, City One, Florida. As The Practice grew, ABC Dental Care occupied more space in its location. Originally, it rented approximately 1,200 square feet and in 1984, it added an additional 1,600 square feet. In 1986, it added an additional 1,600 square feet. In or about August 1994, Dr. Brown began a dental lab which began to service the dental practice. This dental lab is not part of this appraisal. In addition to the City One practice, Dr. Brown operated a second location as ABC Dental Care in City Two, Florida. On October 3, 1989, this practice was sold to Dr. Mark Kaplan. Dr. Brown informed us that he spent approximately one day every two weeks at this location and Mrs. Brown worked there one day per week, or less.

ABC Dental Care is considered to be a general dentistry practice. However, since about 1987, Dr. Brown has added implants to the services that The Practice offers. In addition to Dr. Brown performing implants, he also does endodonture, bone grafting, periodonture and wisdom teeth surgery. He is the only one in The Practice that provides these treatments. The patient base is considered to be average and the only marketing activities that the firm carries on is *Yellow Page* advertising. According to the ABC County Areawide Telephone Directory, covering the time period August 1999 to 2000, there were slightly more than 200 dentists listed. In 1983, The Practice consisted of Dr. Brown and four office personnel. At the current date of the appraisal, there are approximately 20 people employed, including three dentists.

BROWN TO KAPLAN TRANSACTION

In July 1989, an Asset Purchase Agreement was entered into between Dr. Scott Brown and Dr. Mark Kaplan. As mentioned previously, the City Two location was sold at this time. According to The Agreement, the following assets were sold: equipment, office furniture and fixtures, office and clinical supplies, leasehold improvements, miscellaneous assets (which included the present telephone numbers of The Practice, a list of current suppliers of The Practice, and the goodwill of The Practice) and patient records. In addition, the purchase price included a restrictive covenant. The Asset Purchase Agreement indicates:

> this covenant is conveyed by Dr. Brown individually, pursuant to the terms and conditions outlined in this agreement; the parties hereby acknowledge that a portion of the total purchase price, as hereinafter set forth, is compensation to Dr. Brown for this covenant.

The total purchase price was $366,000. The purchase price was allocated as follows:

Equipment	$	73,200
Office Furniture and Fixtures		18,300
Office and Clinical Supplies		21,960
Leasehold Improvements		29,280
Miscellaneous Assets		10,980
Patient Records		131,760
Restrictive Covenant		80,520
Total	$	366,000

The restrictive covenant covered a three mile radius from the business premises for a three year period. The location of the current office is in the central city of City One, which has a relatively stable population. Most of the patients come from a five mile radius, primarily from the north of the existing location. It is our understanding that the more affluent section of City One is to the South and East of the current location. This does not tend to be the area that this practice draws from. The demographics of The Practice can best be described as retirees and working class people, non union laborers, but relatively stable. Many of the patients are older, but there is primarily a mix of patients within The Practice.

REFERRALS

Referrals to the practice tend to come to a particular doctor. Dr. Brown described his practice as "almost like running three private practices." Each dentist has his own responsibility regarding patients and the costs are reduced due to all of them operating under one roof. However, the other two dentists are, in fact, employees of the corporation, as is Dr. Brown. In many instances, Dr. Brown will perform the higher end services that the other dentists are unable to perform and in many instances, Dr. Brown refers new patients to the other doctors.

Less than 10 percent of The Practice relates to DMOs (Dental Maintenance Organizations); most of the services are fee for service. The current location has reached its capacity and there is no additional room to expand. Major competition exists within a two block location from this practice. ABC Dental Care is one of the largest dental practices in the community. A physical examination of The Practices' equipment indicates that much of the equipment is at least 15 years old or older. Although it is in good condition, much of it was bought in the late 1980s. A refurbishment had taken place at around the valuation date, therefore, other than normal maintenance, it is not anticipated that there should be any major repairs on the existing facilities.

EMPLOYEES AND OFFICE SETUP

The two main professional employees of The Practice are Dr. Scott M. Brown and Dr. Paul M. Koch. Dr. Brown is a graduate of Boston University and his employment history includes ABC Dental Care at the current location and the City Two location. Dr. Koch graduated from the University of Idaho, including the University of Idaho Dental School, and has been with The Practice since December 1998. Turnover in The Practice has been very low at 10 to 15 percent per year. Dr. Brown belongs to the American Society of Osseintegration and the International Congress of Oral Implantologists.

The office is normally staffed from 8:00 a.m. to 5:00 p.m. Monday through Friday and 8:00 a.m. to 4:00 p.m. on Saturday. Doctors are generally available at the office during these hours as well. Non-owner professionals generally work a 40 hour week, and the other individuals employed by the firm work about the same hours. This includes three and a half hygienists, seven to eight dental assistants, four secretarial/office clerical individuals and one office manager.

Fees charged tend to be relatively modest; a typical new patient fee is $53, including an exam and a single x-ray. Recall fees for adults and children are $50 and $37, respectively. The Practice has approximately 6,000 active patient files and sees approximately 125 new patients per month. Overall, this is a well established, mature practice.

ECONOMY/INDUSTRY INFORMATION

Generally, business performance varies in relation to the economy. Just as a strong economy can improve overall business performance and value, a declining economy can have the opposite effect. Business 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 Valuation analyst review the economic outlook as it would impact the appraisal subject.

The U.S. economy has experienced a tremendous expansion in the past decade. Starting in the early 1990s, this growth has reached new heights and broken many records. As of December 1999, the current economic expansion, having lasted 105 months, was the longest ever during peace time and only a month shy of the longest on record. Recently, this blockbuster performance has slowed, and experts are expecting moderation over the next few years.

As explained in the section of this report entitled "History of the Dental Practice," ABC Dental Care is a professional firm of general dentists located in City One, Florida. Many economic components affect a dental practice. Some are much clearer than others, but as many facts as possible must be considered.

Although many Americans see dental services as a requirement and not as an alternative, the well being of the national economy and thus stable households' incomes would have an impact over patients visiting their dentists and the type of services required by the patients.

Real gross domestic product (GDP), the output of goods and services produced by labor and property located in the United States, grew in each quarter of 2000 except the second, when it dipped to a 1.9 percent annual rate. Overall, the national economy increased 4.2 percent in 1999, posting 6.9 percent growth in the fourth quarter. The breakdown of the contributions to growth by major categories in 1999 was somewhat similar to that over the whole expansion to date, with household spending and business investment in equipment being the two major contributors to growth. In addition, government consumption and gross investment posted an annual growth of 4.8 percent above the previous year, contributing 0.8 percent to GDP growth for the year.[4] Historical changes in the main components of real GDP are shown in Table 1.

TABLE 1
REAL GROSS DOMESTIC PRODUCT, REAL DOMESTIC PURCHASES, AND REAL FINAL SALES TO DOMESTIC PURCHASERS (SEASONALLY ADJUSTED AT ANNUAL RATES)

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level 1999	Change from preceding quarter 1999				1999			
	IV	I	II	III	IV	I	II	III	IV
Gross domestic product	**9,050.9**	**78.7**	**40.7**	**122.0**	**150.3**	**3.7**	**1.9**	**5.7**	**6.9**
Less: Exports of goods and services	1,077.0	-14.4	10.0	28.4	22.2	-5.5	4.0	11.5	8.7
Plus: Imports of goods and services	1,426.7	37.8	44.5	47.6	33.7	12.5	14.4	14.9	10.0
Equals: Gross domestic purchases	**9,377.5**	**125.9**	**70.8**	**138.7**	**160.6**	**5.8**	**3.2**	**6.3**	**7.2**
Less: Change in private inventories	68.7	-20.6	-36.1	24.0	30.7	-	-	-	-
Nonfarm	74.0	-15.1	-30.0	28.1	32.8	-	-	-	-
Farm	-6.4	-5.4	-6.5	-4.7	-2.6	-	-	-	-
Equals: Final sales to domestic purchasers	**9,302.9**	**144.2**	**103.0**	**114.4**	**130.7**	**6.7**	**4.7**	**5.2**	**5.8**
Personal consumption expenditures	6,120.3	92.6	73.4	71.5	87.0	6.5	5.1	4.9	5.9
Durable goods	846.6	22.8	17.3	15.1	25.4	12.4	9.1	7.7	13.0
Nondurable goods	1,810.6	36.9	14.2	15.6	31.3	8.9	3.3	3.6	7.2
Services	3,473.0	34.5	42.7	41.4	32.4	4.2	5.2	5.0	3.8
Private fixed investment	1,615.8	33.4	25.1	26.3	8.5	9.1	6.6	6.8	2.1
Nonresidential	1,242.0	21.9	20.2	31.4	7.7	7.8	7.0	10.9	2.5
Structures	243.4	-3.8	-3.4	-2.4	-2.7	-5.8	-5.3	-3.8	-4.3
Equipment and software	1,008.0	27.2	25.2	35.7	11.4	12.5	11.2	15.7	4.7
Residential	376.1	11.1	5.1	-3.7	1.0	12.9	5.5	-3.8	1.0
Government consumption expenditures and gross investment	1,570.8	18.7	4.9	17.0	34.3	5.1	1.3	4.5	9.2
Federal	557.9	-0.6	2.8	5.5	18.2	-0.5	2.1	4.1	14.2
National defense	362.0	-3.5	-2.2	9.1	13.7	-4.0	-2.6	11.2	16.7
Nondefense	195.9	2.8	5.0	-3.6	4.6	6.1	10.9	-7.1	9.9
State and local	1,012.7	19.3	2.2	11.5	16.1	8.2	0.9	4.8	6.6
Addendum: Final sales of domestic product	**8,976.3**	**96.9**	**72.7**	**97.9**	**120.5**	**4.6**	**3.4**	**4.5**	**5.6**

Note. Chained (1996) dollar series are calculated as the product of the chain-type quantity index and the 1996 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained (1996) dollar levels and residuals, which measure the extent of nonadditivity in each table, are shown in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are shown in NIPA table 5.1. (See "Selected NIPA Tables," which begin on page D-2 of this issue.)

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4 U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, March 2000.

Personal consumption expenditures (PCE), representing more than two-thirds of U.S. economy activity, is among the best economic indicator of the financial state of dentistry due to its direct influence over the type of procedures performed in dental offices. PCE is driven by many things including the impact of changes in household wealth, indebtedness, and credit conditions, as well as job and income prospects. A high level of PCE would trigger households to visit their dentist more often, as well as their willingness to spend on more expensive dental procedures.

In 1999, personal consumption expenditure (PCE) increased at a 5.4 percent annual rate and contributed 3.6 percentage points to the growth in GDP over the year as a whole. Favorable economic performance continues to boost household wealth through a strong stock market and an increase in the value of homes. Real disposable personal income (deflated by the PCE chain-weighted price index) recorded a growth of about 3.7 percent over the prior year.[5]

Floridians expended a total of $66.1 billion in personal health care products/services in 1999, somewhat higher that the $63.7 billion posted in 1998. This represents an increase of 3.8 percent in health care costs, the smallest annual percentage increase in costs since 1992. Among health services, expenditures for medical laboratories (19.1 percent) and medicinal drugs (14.4 percent) had the highest annual increases. Dental services registered a 5.6 percent increase for the 1998-1999 period, totaling 59.9 percent for the 1992-1999 period.[6] Table 2 summarizes expenditures by health service and changes over the 1998-1999 and 1992-1999 periods.

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5 Executive Office of the President and the Council of Economic Advisors, The U.S. Government Printing Office, *Economic Report of the President, February 2000*, p.54.

6 Agency for Health Care Administration, State Center for Health Statistics, *Florida Health Care Expenditures 1992-1999*, June 2001.

TABLE 2
EXPENDITURES BY HEALTH SERVICE
PERCENT CHANGE, 1998-99 AND 1992-99

Health Service	1998-99	1992-99
Hospitals	1.9%	32.3%
Physicians	3.7%	36.2%
Dentists	5.6%	59.9%
Medical Laboratories	19.1%	50.0%
Other Professional and Miscellaneous Clinics	-6.5%	53.1%
Home Health	-5.4%	39.3%
Medicinal Drugs	14.4%	85.0%
Durable Medical Equipment	3.6%	33.8%
Nursing Homes	2.8%	83.7%
Specialized Government and Other Services	10.4%	165.7%
Total Personal Health Care	3.8%	46.8%

Source: AHCA

Over the seven-year period 1992-1999, the proportion of total expenditures in hospital and physician services declined in Florida, while dental health services gained ground, rising from 4.4 percent in 1992 to about 4.8 percent in 1999. Although the expansion was not substantial in comparison to other segments of health services, the *Journal of Dental Education* reported that with average individuals living longer and improving oral health technology, the number of teeth to be cared for would increase at a faster rate than the population.[7] Table 3 shows the percentage of total expenditures divided by segments over the period 1992, 1998 and 1999.

[7] Ibid.

TABLE 3
EXPENDITURES BY HEALTH SERVICE
PERCENT OF TOTAL EXPENDITURES, 1992, 1998 AND 1999

Health Service	1992 Amount	1992 Percent	1998 Amount	1998 Percent	1999 Amount	1999 Percent
Hospitals	$ 17.8	39.5	$ 23.1	36.3	$ 23.6	35.6
Physicians	11.1	24.6	14.6	22.9	15.1	22.9
Dentists	2.0	4.4	3.0	4.7	3.2	4.8
Medical Laboratories	1.1	2.4	1.4	2.1	1.6	2.5
Other Professional	2.9	6.5	4.8	7.6	4.5	6.8
Home Health	1.4	3.1	2.1	3.2	2.0	3.0
Medicinal Drugs	4.7	10.4	7.6	11.9	8.7	13.1
Durable Medical Equipment (DME)	0.9	2.1	1.2	1.9	1.3	1.9
Nursing Homes	2.4	5.4	4.3	6.8	4.4	6.7
Specialized Government	0.7	1.5	1.7	2.6	1.8	2.8
Total Personal Health Care	$ 45.0	100.0	$ 63.7	100.0	$ 66.1	100.0

Note: Expenditures in $billions; Numbers and percents may not add to totals due to rounding.

Source: AHCA

While the national unemployment rate average 4.2 percent in 1999, City One-City Two posted an even lower unemployment rate of 2.6 percent during 1999.[8] [9] City One' labor force has improved continuously since the unemployment rate reached a record of 7.2 percent in 1992. Table 4 portrays historic employment data for the years 1990 to 1999.

TABLE 4
CITY ONE-CITY TWO EMPLOYMENT STATISTICS

Year	Period	Labor Force	Employment	Unemployment	Unemployment Rate %
1990	Annual	154,304	148,497	5,807	3.8
1991	Annual	156,092	146,730	9,362	6.0
1992	Annual	158,881	147,130	11,751	7.4
1993	Annual	161,459	152,202	9,257	5.7
1994	Annual	167,289	159,093	8,196	4.9
1995	Annual	169,940	162,866	7,074	4.2
1996	Annual	169,577	163,182	6,395	3.8
1997	Annual	171,334	165,545	5,789	3.4
1998	Annual	175,198	169,994	5,204	3.0
1999	Annual	178,931	174,342	4,589	2.6

Source: U.S. Bureau of Labor Statistics

8 *Economic Report of the President*, February 2000: 58.

9 U.S. Department of Labor, Bureau of Labor Statistics, *Local Area Unemployment Statistics*, 1993-1999.

Although initial unemployment claims rose to 280,000 from 275,000 during the first week of March, the four-week moving average, a wider gauge of unemployment trends, fell by 7,000 to 277,000. The gauge has been below 300,000 for seven consecutive months, providing analysts with an indication that the labor situation remains strong.[10]

While the U.S. work force enjoyed another year of solid growth with low unemployment and rising wages, soaring energy prices and the impact of higher interest rates depressed consumer confidence a bit during the month of February. The Conference Board's monthly index measuring the economic outlook of U.S. households fell to 141.7 in February from 144.7 in January. But despite the drop, February's reading is the third highest in the survey's 32-year history.[11]

Overall, the state of the economy both nationally and particularly in City One was good, and the outlook was optimistic. This has had a positive effect on the dental industry because when families' income rises, dental care expenditures increase also.

According to the data in Table 5, overall medical care prices grew at a rate of 3.3 percent in 1999. Although physician's prices rose by 3.1 percent in 1999, dental services' prices grew at a faster annual rate of 4.6 percent during the same period.[12]

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[10] *The Wall Street Journal*, "Unemployment Claims Increased to 280,000 in the Latest," March 10, 2002: A2.

[11] Yochi J. Dreazen, *The Wall Street Journal*, "Consumer Confidence Eases Just a Bit," March 1, 2000: A2.

[12] U.S. Department of Labor, Bureau of Labor Statistics, *Consumer Price Index and Average Annual Percent Change for All Items*, 1960-1999.

TABLE 5
CONSUMER PRICE INDEX
AVERAGE ANNUAL PERCENT CHANGE

	Consumer Price Index			Average Annual Percent Change		
	Medical Care	Physicians' Services	Dental Services	Medical Care	Physicians' Services	Dental Services
1970	34.0	34.5	39.2	4.3	4.6	3.8
1980	74.9	76.5	78.9	8.2	8.3	7.2
1990	162.8	160.8	155.8	8.1	7.7	7.0
1995	220.5	208.8	206.8	6.3	5.4	5.8
1999	250.6	236.0	247.2	3.3	3.1	4.6

Source: U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index.

Although dental services fees have grown over the years, patient traffic in 1999 continued to be approximately the same as in previous years. According to the "1999 Fee Survey" from *Dental Economics*, which included results from 587 dentists, high fees are not the main factor in making dentistry unaffordable, but rather the lack of convenient financial arrangements.[13]

As more people are forced to pay for a larger percentage of their own dental care, a smaller percentage of them go to the dentist. When they do, the tendency is toward emergency care only, nothing extra. Table 6 summarizes how patients have funded their personal health care expenditures in the past.

TABLE 6
PERSONAL HEALTH CARE EXPENDITURES
ACCORDING TO SOURCE OF FUND
(Percent Distribution)

	Out-of-Pocket Payments	Private Health Insurance	Other Private Funds	Government	
				Federal	State & Local
1970	39.7	22.3	2.8	22.9	12.3
1980	27.1	28.3	4.3	29.3	11.1
1990	22.5	33.4	5.0	28.6	10.5
1995	16.9	33.3	5.1	34.2	10.5
1998	17.4	33.8	5.4	33.2	10.2
1999	17.3	34.4	5.3	32.6	10.3

Source: Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group.

13 James R. Pride, DDS, *Dental Economics*, "The 1999 Fee Survey," December 1999.

The U.S. Census Bureau reported that the total population of City One is 48,208 people, with a median age of 32.4 years. Additionally, there are 7,794 people considered to be 62 years old or older in the city.[14] Continued increases in the elderly population will result in higher demand for medical and personal services into the twenty-first century. The rate of growth in the elderly population aged 65 and older eased slightly in the 1990s. However, the eldest subgroup, aged 85 and older, is growing more rapidly than any other group.[15]

The *Dental Economics* group reported an optimistic outlook for dental practices for the coming years. According to its findings, the group reported that the favorable current economic climate, together with an increasing number of patients per dentist lessen the competitive environment due to fewer dentists graduating, baby-boomer dentists retiring, and an increasing number of baby-boomer patients requiring oral care will have a positive effect on dental practices.[16]

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14 U.S. Census Bureau, Profile of General Demographic Characteristics: 2000, Geographic Area: City One City, Florida.

15 Cynthia Engel, Health Services Industry, *Monthly Labor Review*, "Health Services Industry: Still a Job Machine?" March 1999.

16 James R. Pride.

FINANCIAL ANALYSIS

A valuation is a "prophecy of the future." Although a willing buyer looks at the historical results of a business, he or she will be using these results to determine what the business prospects are in the future. In order to begin our analysis, we analyzed the historic financial statements presented as Schedules 1 and 2 at the back of this report. In addition, The Practice provided the valuation analyst with a balance sheet as of March 23, 2000, one of the valuation dates.

In order to assist in comparing ABC Dental Care to its industry peer group, we used the database maintained by Integra Information Inc. for Standard Industrial Classification Code 8021, Services-Offices and Clinics of Dentists. In order to have our comparison be as relevant as possible, we only reviewed data for practices with a revenue range from $1 million to $2.5 million. Included in this data was 2,558 practices.

Before a proper comparison can be performed to industry data, certain adjustments are required related to the historic financial statements of The Practice. These adjustments are intended to "normalize" the financial statements. The process of normalization involves restating the balance sheet and/or income statement to reflect the economic values included in these statements. The normalization of the balance sheet is reflected in Table 7.

TABLE 7
BALANCE SHEET NORMALIZATION

	December 1999	Adjustments	March 23, 2000
Current Assets			
Cash[1]	$ (20,834)	$ 6,339	$ (14,495)
Accounts Receivable[2]	688,022	(377,093)	310,929
Inventories[3]	-	16,155	16,155
Loan Receivable Costa Rica Lab[4]	32,175	(32,175)	-
Total Current Assets	$ 699,363	$ (386,774)	$ 312,589
Fixed Assets			
Machinery & Equipment	$ 23,286	$ -	$ 23,286
Office Equipment	61,910	-	61,910
Furniture & Fixtures	14,805	-	14,805
Vehicles	-	-	-
Leasehold Improvements	80,370	-	80,370
Other Fixed Assets[5]	-	(72,943)	(72,943)
Gross Fixed Assets	$ 180,371	$ (72,943)	$ 107,428
Accumulated Depreciation[6]	147,280	(147,280)	-
Net Fixed Assets	$ 33,091	$ 74,337	$ 107,428
Total Other Assets	$ 729	$ -	$ 729
TOTAL ASSETS	**$ 733,183**	**$ (312,437)**	**$ 420,746**
Current Liabilities			
Accounts Payable[7]	$ 5,269	$ 38,227	$ 43,496
Long-Term Debt - Current Portion	9,123		9,123
Payroll Taxes Payable[8]	7,052	(330)	6,722
Total Current Liabilities	$ 21,444	$ 37,897	$ 59,341
Long-Term Liabilities			
Notes Payable[9]	$ 180,587	$ (26,716)	$ 153,871
Loans from Stockholders[10]	64,136	(64,136)	-
Notes Payable (A. Brown)[11]	9,479	(9,479)	-
Total Long-Term Liabilities	$ 254,202	$ (100,331)	$ 153,871
Total Liabilities	$ 275,646	$ (62,434)	$ 213,212
Stockholder's Equity			
Common Stock	$ 1,000	$ -	$ 1,000
Paid - In Capital	27,712		27,712
Retained Earnings[12]	428,825	(250,003)	178,822
Total Stockholder's Equity	$ 457,537	$ (250,003)	$ 207,534
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	**$ 733,183**	**$ (312,437)**	**$ 420,746**

1. Cash was adjusted to reflect the overdraft in existence at March 23, 2000.

2. Several adjustments were made to accounts receivable. Since The Practice reports on a cash basis, it normally does not reflect patients' accounts receivable on its

balance sheet. The monies reflected were categorized as accounts receivable from Smith Sterling, an affiliated laboratory that is owned by Dr. Brown. In reality, these monies were a capital contribution made by Dr. Brown to this other venture and have nothing to do with the operations of ABC Dental Care. Therefore, we have removed these items as nonoperating. It is our understanding that this item would not be subject to equitable distribution, so removing it from the balance sheet provides a cleaner analysis relating to the value of ABC Dental Care. The amount removed at March 23, 2000 was $688,022.

At the valuation analyst's request we were provided with accounts receivable from the patients as of March 23, 2000. This amounted to $519,565. Included in this amount were various accounts receivable turned over to the Coast Collection Bureau in City Three, Florida. According to a historic analysis dated January 10, 2003, the amount of accounts receivable turned over to the collection agency amounted to $125,456. We performed an analysis of this report and determined that the amount of receivables turned over to the collection agency at March 2000 was $45,792. Based on collection history, we estimated that only 10 percent of this amount would be collected and deducted 90 percent of the outstanding amount ($41,213) from accounts receivable. The balance of collectable accounts receivable is $478,352.

One additional adjustment is required in order to reflect accounts receivable at its net realizable value. Because The Practice reports on a cash basis, it does not pay income taxes, nor would the shareholder pay income taxes on the receivables until these monies are collected. Therefore, in order to properly reflect the true value of these receivables, a provision for income taxes has been subtracted at 35 percent. Therefore, accounts receivable at March 23, 2000 is estimated to be $310,929.

3. An adjustment was made to reflect supply inventory, which is typically expensed as these items are paid for. At the valuation analyst's request, an inventory was provided to us, which amounts to $16,155 of supplies.

4. A loan receivable for a laboratory owned by Dr. Brown in Costa Rica has been removed from the balance sheet. This item is also considered to be a capital

contribution and does not have any bearing on the value of ABC Dental Care. Therefore, it has been removed.

5. Fixed assets have been adjusted to reflect straight line depreciation based on the class life depreciable lives as permitted under the Internal Revenue regulations. This adjustment is consistent with the normalization adjustment that was made to the income statement for depreciation expense. The value of the fixed assets has been estimated at $107,428.

6. Accumulated depreciation has been removed in its entirety since the fixed assets were estimated to reflect current value.

7. Similar to accounts receivable, accounts payable are normally not reflected on the balance sheet of The Practice since it reports using the cash method of accounting. In this instance, there was a small balance being carried on the books in the amount of $5,269. We were provided with an accounts payable aging detail schedule as of March 23, 2000, which reflected total accounts payable at the appraisal date of $56,917. Once again, to be consistent with our treatment of accounts receivable, there would be a tax benefit received when these items are paid. Therefore, we have reduced the accounts payable by the same 35 percent tax rate as before. Therefore, accounts payable is reflected as being $43,496 at the appraisal date.

8. Payroll taxes payable was adjusted to reflect the balance per the March 23, 2000 balance sheet.

9. Notes payable were adjusted to reflect the balance as of the March 23, 2000 balance sheet. These notes are all to various lending institutions.

10. Loans from stockholders have been removed from the balance sheet as we considered these items to be capital contributions.

11. There has been a note payable to “A. Brown” for a number of years. We have removed this item as not being applicable to the dental practice.

12. The net of the adjustments has been posted to retained earnings to reflect the market value of the net tangible assets of The Practice.

As a result of our analysis, the adjusted book value of the net assets of The Practice, excluding any intangible value amounts to $207,534. The next step in the valuation process is to normalize the income statement. Table 8 reflects this normalization.

TABLE 8
INCOME STATEMENT NORMALIZATION

	December 31,				
	1995	**1996**	**1997**	**1998**	**1999**
Historic Net Income (Schedule 2)	$ 134,906	$ 208,815	$ 338,175	$ 385,025	$ 330,466
Adjustments					
Depreciation/Amortization Expense[1]	10,392	3,592	4,308	16,043	13,655
Officers' Compensation - Addback[2]	110,000	125,467	78,436	51,820	33,328
Officers' Compensation - Reasonable[3]	(177,059)	(182,535)	(188,180)	(194,000)	(200,000)
ADJUSTED PRETAX NET INCOME	$ 78,239	$ 155,339	$ 232,739	$ 258,888	$ 177,449
Income Taxes[4]	17,787	49,044	81,827	92,902	58,409
ADJUSTED HISTORIC NET INCOME	**$ 60,452**	**$ 106,295**	**$ 150,912**	**$ 165,986**	**$ 119,040**

1. Depreciation expense has been adjusted to reflect the same useful lives as was used to calculate the estimate of fair market value of the fixed assets. Therefore, an add back was in order as the depreciation allowed was considered to be greater than the economic depreciation necessary to reflect the value of these assets.

2. Officers' compensation has been added back in its entirety as Dr. Brown does not always take salary, but rather sometimes takes distributions of profits which are not considered in the determination of the net income of The Practice. Reasonable compensation will be deducted in item number 3 below.

3. In order to estimate reasonable compensation, we consulted the *1999 Survey of Dental Practice*, published by the American Dental Association. We analyzed the average net income from primary practice several different ways in order to estimate reasonable compensation. First, we looked at general practitioners with 20 to 24 years of experience. The mean compensation was $159,760, while the median for

this group was $140,000. We also looked at specialists, as Dr. Brown performs endodonture, periodonture and some surgical and implant procedures. Therefore, we considered his compensation as possibly being comparable to specialists. Specialists with 20 to 24 years experience had a mean compensation of $262,470 and a median of $256,530. We considered the fact that Dr. Brown spends part of his time performing general dentistry and other times performing services that might be considered to be a specialty. Therefore, we weighted the median 50 percent each in estimating compensation based on this factor, at $198,265. This equates to the third quartile of general practitioners with 20 to 24 years of experience as the amount reflected in the survey is $200,500.

We then considered data by region. Using the South Atlantic Region, we found that general practitioners had a mean net income of $165,960 and a median of $120,000, with the third quartile being $180,000. Specialists in this area had a mean net income of $244,470 and a median of $206,000. Using the same weighting of the medians amounted to $163,000.

As an additional source for officers' compensation, we reviewed the information in the Integra Database. Using the 2,558 practices included in this data, having an average revenue in 1999 of $1,112,000, officers' compensation as a percent of revenue amounted to 20 percent. We considered using this amount, but as a practice gets larger, the percent of officers' compensation generally declines. Even if we reduced this amount to 15 percent of revenues, the 1999 compensation would equal an amount greater than $286,000. We believe that this amount was too high for a practice of this type.

Therefore, we have estimated reasonable compensation to be approximately $200,000, an amount similar to the average of the practitioners with Dr. Brown' experience. Prior years were deflated by a 3 percent cost of living factor.

4. Income taxes were estimated based on a graduated tax structure using C-corporation income tax rates. Although ABC Dental Care operates as an S-corporation, taxes must be considered due to the economic impact of this item. Whether the taxes are paid by the corporation, or the individual, enough profit must

be passed through to the shareholder to allow personal income taxes to be paid. Therefore, these monies would not be available for reinvestment by The Practice and can be considered to be the equivalent of a C-corporation income tax.

As a result of our analysis it appears that the adjusted historic net income rose from 1995 through 1998 and then declined in 1999.

The next portion of our analysis included a financial ratio analysis where we calculated the pertinent financial ratios for ABC Dental Care and compared it to the peer group from the Integra info database. This appears below.

TABLE 9
SELECT FINANCIAL RATIOS
(AS ADJUSTED)

	December 1999	INTEGRA
LIQUIDITY / SOLVENCY		
Quick Ratio	5.00	1.26
Current Ratio	5.27	1.50
Days Accounts Receivables Outstanding	29.68	13.33
Days Working Capital	48.35	11.02
TURNOVER		
Receivables Turnover	12.30	27.38
Cash Turnover	(279.29)	-
Working Capital Turnover	7.55	33.13
Total Asset Turnover	8.20	3.35
SG&A Expense to Cash	(188.79)	27.61
DEBT		
Times Interest Earned	7.99	4.87
Total Liabilities to Total Assets	0.51	0.51
Total Liabilities to Equity	1.03	1.76
Short-Term Debt to Equity	0.04	0.21
Long-Term Debt to Equity	0.74	1.08
Total Assets to Equity	2.03	2.76
PROFITABILITY		
Pretax Return on Assets	42.17%	15.70%
Aftertax Return on Assets	28.29%	9.70%
PROFITABILITY		
Pretax Return on Equity	85.50%	43.10%
Aftertax Return on Equity	57.36%	26.80%
Pretax Return on Net Sales	9.28%	4.80%
Aftertax Return on Net Sales	6.23%	0.00%
INDUSTRY GROWTH		
Revenue	0.57%	6.11%
Net Income	-28.28%	6.45%

The financial ratios presented above reflect the fact that on an adjusted basis, ABC Dental Care's quick and current ratios were stronger than the peer group. This is despite the fact that ABC Dental Care is turning over its accounts receivable at a rate of approximately one third of the peer group. This is a risk to The Practice as it must stay on top of its accounts receivable in order to meet its cash flow requirements. The cash balance has been negative several times in the past few years as reflected in Schedule 1, and at March 23, 2000, it was again negative.

SG&A expense to cash is negative due to the poor cash position of The Practice and this does not bode well when comparing The Practice to the industry peer group. The debt ratios reflect some strength primarily due to The Practice's ability to meet its interest obligations. The pretax return on assets is more than twice that of the industry peer group and the aftertax return is almost three times. Profitability ratios for The Practice on an adjusted basis appear reasonably good.

Revenue growth, however, is another story. The industry is experiencing revenue growth of approximately 6.11 percent, while The Practice in the latest year is experiencing a fraction of 1 percent growth. Net income also dropped in the current year reflecting negative net income growth as compared to industry growth of about 6.5 percent.

Overall, the financial ratios send mixed signals as to the financial health of The Practice as The Practice requires a greater number of dental hygienists and dental assistants per doctor than would be expected in a typical practice. While the volume of The Practice remains strong, it is obvious that the fee pressures relating to the patient base will erode profits in order to maintain the same quality of care. This could be problematic in the future.

VALUATION CALCULATIONS

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

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

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

THE MARKET APPROACH

TRANSACTION METHOD

In order to determine the value of ABC Dental Care using the market approach, an attempt was made by the valuation analyst to gather information regarding guideline practices bought and sold in the open market. In order to accomplish this, we researched several sources including the IBA, BizComps, Pratt's Stats, and Done Deals databases to obtain information regarding comparable transactions.

IBA DATABASE

The information located is maintained in a market data file compiled by The Institute of Business Appraisers, Inc., a professional appraisal organization, which maintains a proprietary database of actual transactions of closely held businesses and professional practices all over the United States. As a result of our search, 2,426 such transactions were located under Standard Industrial Classification Code 8021, Offices and Clinics of Dentists. Of these 2,426 transactions, 2,014 were eliminated. A portion of these were eliminated based on the description of The Practice as they appeared to be something other than a general practice of dentistry; for example, some were engaged in oral surgery and others in orthodontics. All transactions which took place prior to 1996 were also eliminated since financial, as well as technological changes, have affected the practice of dentistry. The remaining transactions more adequately reflect ABC Dental Care's practice. They are presented in Table 10.

TABLE 10
IBA DATA FOR MARKET COMPARISON

Business Type	Annual Gross $000's	Discret. Earnings $000's	Owner's Comp. $000's	Sales Price $000's	Price/ Gross	Price/ Earnings	Geographic	Yr/Mo of Sale
Dentistry	300			210	0.70		FL	95/01
Dentistry	300			175	0.58		VT	96/01
Dentistry	300			52	0.17		FL	96/01
Dentistry	300			70	0.23		LA	97/01
Dentistry	300			130	0.43		FL	98/01
Dentistry	300			210	0.70		MI	98/01
Dentistry	301			260	0.86		FL	98/01
Dentistry	301			210	0.70		FL	98/01
Dentistry	302			197	0.65		FL	97/01
Dentistry	302			165	0.55		NH	98/01
Dentistry	303			120	0.40		CA	95/01
Dentistry	303			200	0.66		FL	96/01
Dentistry	303			160	0.53		VT	98/01
Dentist	304	142	142	210	0.69	1.48		98/01
Dentistry	304			185	0.61		FL	95/01
Dentistry	304			175	0.58		NC	97/01
Dentistry	304			210	0.69		KS	98/01
Dentistry	305			210	0.69		AK	97/01
Dentistry	305			100	0.33		CA	97/01
Dentistry	306			230	0.75		CA	95/01
Dentistry	306			200	0.65		IL	96/01
Dentistry	306			145	0.47		MS	96/01
Gen. Dental Practice	306	118	104	180	0.59	1.53	NJ	99/08
Dentistry	307			245	0.80		OH	96/01
Dentistry	309			170	0.55		NC	97/01
Dentistry	310			210	0.68		UT	95/01
Dentistry	310			210	0.68		FL	98/01
Dentistry	311			192	0.62		CA	97/01
Dentistry	312			160	0.51		ME	96/01
Dentistry	313			150	0.48		MI	96/01
Dentistry	313			175	0.56		MI	96/01
Dentistry	314			165	0.53		NC	95/01
Dentistry	317			210	0.66		MO	99/01
Dentistry	320			265	0.83		FL	96/01

TABLE 10
IBA DATA FOR MARKET COMPARISON

Business Type	Annual Gross $000's	Discret. Earnings $000's	Owner's Comp. $000's	Sales Price $000's	Price/ Gross	Price/ Earnings	Geographic	Yr/Mo of Sale
Dentistry	320			183	0.57		NH	96/01
Dentistry	321			192	0.60		NC	95/01
Dentistry	321			180	0.56		CA	95/01
Gen. Dental Practice	321	150	120	240	0.75	1.60	NJ	95/11
Dentistry	322			140	0.43		IN	96/01
Dentistry	322			200	0.62		AZ	98/01
Dentistry	323			249	0.77		GA	95/01
Dentistry	324			240	0.74		CA	95/01
Dentistry	324			175	0.54		LA	95/01
Dentist	325	120	120	224	0.69	1.87		98/04
Dentistry	325			230	0.71		UT	95/01
Dentistry	325			225	0.69		FL	97/01
Dentistry	325			224	0.69		KS	98/01
Dentistry	325			186	0.57		SC	99/01
General Dentist	325	109	109	278	0.86	2.55	CA	96/02
Gen. Dental Practice	328	131	100	160	0.49	1.22	NJ	96/09
Dentistry	330			205	0.62		RI	98/01
General Dentistry	330	156	174	215	0.65	1.38	CO	96/12
Dentistry	332			199	0.60		LA	99/01
Dentistry	333			210	0.63		UT	96/01
Dentistry	334			175	0.52		MN	96/01
General Dentistry	334	129	135	217	0.65	1.68	CO	96/09
Dentistry	335			240	0.72		NH	96/01
Dentistry	335			248	0.74		WA	98/01
Dentistry	336			245	0.73		MI	96/01
Dentistry	338			175	0.52		MI	98/01
Dentistry	338			220	0.65		FL	98/01
Dentistry	339			212	0.63		GA	95/01
Dentistry	339			210	0.62		LA	99/01
General Dentistry	340	169		200	0.59	1.18	CA	99/08
Dentistry	342			200	0.58		MI	97/01
Dentistry	343			190	0.55		CA	96/01
Dentistry	343			270	0.79		CA	97/01
Dentistry - General	343	123	123	170	0.50	1.38	CO	98/10
Dentistry	344			215	0.63		LA	99/01
Dentistry	344			240	0.70		OH	99/01
Dentistry	344			210	0.61		OH	99/01
Dentist	345	166	166	240	0.70	1.45		98/05
Dentistry	345			240	0.70		MO	98/01
Dentistry	345			235	0.68		MA	98/01
Dentistry	346			185	0.53		CA	96/01
Dentistry	346			249	0.72		NC	97/01
Dentistry	347			200	0.58		FL	95/01
Dentistry	347			130	0.37		MI	97/01
General Dentistry	348	205	206	265	0.76	1.29	CO	96/05
Dental-General	350		120	220	0.63		CA	96/08
Dentistry	350			230	0.66		NH	96/01
Dentistry	350			300	0.86		FL	97/01
Dentistry	350			200	0.57		FL	98/01
Dentistry	350			245	0.70		KY	98/01
Dentistry	351			210	0.60		MI	99/01
Dentistry	352			229	0.65		GA	95/01

TABLE 10
IBA DATA FOR MARKET COMPARISON

Business Type	Annual Gross $000's	Discret. Earnings $000's	Owner's Comp. $000's	Sales Price $000's	Price/ Gross	Price/ Earnings	Geographic	Yr/Mo of Sale
Dentistry	352			180	0.51		NC	98/01
Dentistry	354			216	0.61		CA	96/01
Dentistry	354			222	0.63		WA	96/01
Dentistry	354			297	0.84		CO	97/01
Dentistry	355			130	0.37		NC	97/01
Dentistry	357			220	0.62		CA	96/01
Dentistry	358			155	0.43		MN	96/01
Dentistry	358			175	0.49		VT	96/01
Dentistry	359			130	0.36		NC	96/01
Dentistry	359			405	1.13		CA	97/01
Dentistry	360			130	0.36		FL	95/01
Dentistry	360			191	0.53		FL	96/01
Dentistry	360			104	0.29		CO	97/01
Dentistry	360			240	0.67		MI	98/01
Gen. Dental Practice	360	196	120	190	0.53	0.97	NJ	98/05
Dentistry	361			259	0.72		GA	96/01
Dentistry	363			255	0.70		UT	97/01
Dentistry	363			216	0.60		NI	98/01
Dentistry	365			230	0.63		CA	95/01
Dentistry	366			280	0.77		OH	99/01
Dentistry	367			260	0.71		CA	96/01
Gen. Dental Practice	368	142	112	268	0.73	1.89	NJ	97/10
Dentistry	369			275	0.75		MI	98/01
Dentistry	370			245	0.66		CA	95/01
Dentistry	371			287	0.77		GA	95/01
Dentistry	374			260	0.70		OH	98/01
Dentistry	375			260	0.69		CA	97/01
Dentistry	375			240	0.64		FL	98/01
Dentistry	376			255	0.68		CA	95/01
Dentistry	376			172	0.46		OR	96/01
Dentistry	378			160	0.42		MI	97/01
Dentistry	378			211	0.56		NY	98/01
Dentistry	380			258	0.68		OH	95/01
Dentistry	381			225	0.59		MO	97/01
Dentistry	382			236	0.62		FL	95/01
Dentistry	382			225	0.59		MI	97/01
Dentist	385	162	162	230	0.60	1.42		96/02
Dentistry	385			200	0.52		IL	95/01
Dentistry	385			230	0.60		KS	96/01
Dentist	388	146	146	214	0.55	1.47		99/08
Dentistry	388			214	0.55		MO	98/01
Dentist	389	109	109	250	0.64	2.29		96/01
Dentistry	389			250	0.64		MO	95/01
Dentistry	389			248	0.64		OR	96/01
Dentistry	389			250	0.64		MO	96/01
Dentistry	391			280	0.72		MI	99/01
Dentistry	391			260	0.66		GA	99/01
Dentistry	392			251	0.64		OR	96/01
Dentistry	394			229	0.58		NC	98/01
Dentist, General	395	182		368	0.93	2.02	MS	98/06
Dentistry	396			253	0.64		AZ	95/01
Dentistry	396			265	0.67		OH	96/01

TABLE 10
IBA DATA FOR MARKET COMPARISON

Business Type	Annual Gross $000's	Discret. Earnings $000's	Owner's Comp. $000's	Sales Price $000's	Price/ Gross	Price/ Earnings	Geographic	Yr/Mo of Sale
Dentistry	396			228	0.58		FL	96/01
Dentistry	396			184	0.46		AK	98/01
Dentistry	396			190	0.48		FL	98/01
Dentistry	397			264	0.66		NV	97/01
GENERAL	397	170		298	0.75	1.75	CA	95/01
General Dentistry	397	177	158	225	0.57	1.27	CO	96/11
Dentistry	398			298	0.75		CA	95/01
Dentistry	398			300	0.75		OH	96/01
Dentistry	398			210	0.53		CA	96/01
Dentistry	399			212	0.53		NC	97/01
Dentistry	400			355	0.89		CA	95/01
Dentistry	400			465	1.16		FL	96/01
Dentistry	400			240	0.60		NV	97/01
Dentistry - General	400	206	206	229	0.57	1.11	CO	98/06
Dentistry, general	400	114	109	365	0.91	3.20	IL	96/03
Dentistry	402			212	0.53		VA	97/01
Dentistry	402			250	0.62		MO	97/01
Dentistry - General	402	183	132	250	0.62	1.37	CO	98/02
Dentistry	403			300	0.74		FL	95/01
Dentistry	403			215	0.53		NC	97/01
Dentistry	405			260	0.64		MI	97/01
Dentistry	405			280	0.69		MO	98/01
Dentistry	406			275	0.68		OH	95/01
Dentistry	407			328	0.81		MI	98/01
Dentistry	408			232	0.57		IL	95/01
Dentistry	408			327	0.80		CO	97/01
Dentistry	410			330	0.80		WA	98/01
Dentistry	411			240	0.58		FL	97/01
Dentistry	412			275	0.67		NY	96/01
Dentistry	412			258	0.63		OR	96/01
Dentistry	413			220	0.53		MI	98/01
Dentistry	415			275	0.66		NY	96/01
Dentistry	415			289	0.70		GA	99/01
Dentist	416	174	174	255	0.61	1.47		95/06
Dentistry	416			255	0.61		KS	95/01
Dentistry	416			222	0.53		MO	96/01
Dentistry, general	416	174		255	0.61	1.47	KS	95/06
Dentistry	417			325	0.78		CA	95/01
Dentistry	417			240	0.58		OH	99/01
Dentistry	419			254	0.61		LA	97/01
Dentistry	419			155	0.37		IN	98/01
Dentistry	419			309	0.74		NC	98/01
Dental - General Practice	420	16	173	226	0.54	14.13	CO	99/12
Dentistry	420			202	0.48		NC	96/01
Dentistry	420			300	0.71		UT	96/01
Dentistry	420			150	0.36		MA	96/01
Dentistry	420			250	0.60		CA	96/01
Dentistry	420			350	0.83		FL	97/01
GP Dentistry	420			226	0.54		CO	99/01
Dentistry - General	422	229	229	303	0.72	1.32	CO	98/03
Dentistry	423			205	0.48		CA	96/01
Dentistry	424			177	0.42		ME	98/01

TABLE 10
IBA DATA FOR MARKET COMPARISON

Business Type	Annual Gross $000's	Discret. Earnings $000's	Owner's Comp. $000's	Sales Price $000's	Price/ Gross	Price/ Earnings	Geographic	Yr/Mo of Sale
Dentistry	425			310	0.73		UT	95/01
Dentistry	425			240	0.56		CA	96/01
Dentistry	425			275	0.65		FL	98/01
Dentistry	425			175	0.41		UT	98/01
Dentistry	426			135	0.32		NM	95/01
Dentistry	427			305	0.71		NC	96/01
Dentistry	428			235	0.55		CA	95/01
Dentistry	430			260	0.60		OR	95/01
Dentistry	430			300	0.70		NC	96/01
Dentistry	430			280	0.65		VA	97/01
Dentistry	431			262	0.61		SC	96/01
Dentistry	431			310	0.72		IL	99/01
Dentistry	432			248	0.57		CA	96/01
Dentistry	432			250	0.58		IL	97/01
General Dentistry	432		194	250	0.58		PA	99/04
Dentistry	433			200	0.46		NC	96/01
General Dentistry	433		140	200	0.46		PA	98/11
Dentistry	434			351	0.81		CA	95/01
Dentistry	434			255	0.59		OH	98/01
Gen. Dental Practice	434	208	175	250	0.58	1.20	NJ	98/01
Dentistry	436			250	0.57		OH	96/01
Dentistry	436			215	0.49		CA	96/01
Dentistry	437			190	0.43		TN	96/01
Dentistry	441			256	0.58		CA	97/01
Dentistry	441			275	0.62		TN	97/01
Dentistry	443			200	0.45		CA	95/01
Dentistry	446			335	0.75		MI	97/01
Dentistry - General	446	226	139	353	0.79	1.56	CO	98/12
Dentistry	447			325	0.73		MN	96/01
Dentistry	450			300	0.67		FL	98/01
Dentistry	452			235	0.52		GA	99/01
Dentistry - General	454	247	235	331	0.73	1.34	CO	98/06
Dentistry	456			270	0.59		MI	96/01
Dentistry	456			320	0.70		FL	98/01
Dentistry	460			269	0.58		MO	98/01
Dentistry	466			235	0.50		CA	96/01
Dentistry	468			235	0.50		MI	98/01
Dentistry	472			285	0.60		OR	95/01
Dentistry	474			260	0.55		CA	97/01
Dental Practice	478	245		325	0.68	1.33	FL	95/01
Dentistry	478			230	0.48		CA	96/01
Dentistry	480			372	0.78		WA	98/01
Dentistry - General	480	194	194	285	0.59	1.47	CO	98/07
Dentistry	483			329	0.68		MI	99/01
Gen. Dental Practice	485	284	200	310	0.64	1.09	NJ	99/01
Dentistry	487			212	0.44		NC	97/01
Dentistry	487			290	0.60		CA	97/01
Dentistry	491			475	0.97		FL	96/01
Gen. Dental Practice	491	146	100	150	0.31	1.03	NJ	97/06
Dentistry	492			360	0.73		MI	98/01
Dentistry	493			205	0.42		CA	95/01
Dentistry	493			375	0.76		WA	98/01

TABLE 10
IBA DATA FOR MARKET COMPARISON

Business Type	Annual Gross $000's	Discret. Earnings $000's	Owner's Comp. $000's	Sales Price $000's	Price/ Gross	Price/ Earnings	Geographic	Yr/Mo of Sale
Dentistry	494			370	0.75		OH	95/01
Dentistry	495			295	0.60		CA	97/01
General Dentistry	496		182	300	0.60		PA	99/06
Dentistry	498			245	0.49		ME	98/01
Dentistry	498			305	0.61		NY	98/01
Dentistry	499			375	0.75		NY	96/01
Dentistry	500			210	0.42		FL	98/01
Dentistry	503			345	0.69		IA	99/01
Dentistry	505			310	0.61		MI	99/01
Dentistry	506			340	0.67		TN	96/01
Dentistry	507			370	0.73		CA	97/01
Dental-General	510	207		360	0.71	1.74	CA	96/08
Dentistry	510			360	0.71		CA	96/01
Dentistry	510			315	0.62		OH	99/01
Dentistry	514			330	0.64		CA	95/01
Dentistry	514			325	0.63		CA	97/01
Dentistry	515			302	0.59		CA	95/01
Dentistry	517			275	0.53		MI	95/01
Dentistry	517			300	0.58		OR	96/01
Dentistry	519			300	0.58		MI	95/01
Dentistry	519			300	0.58		CA	97/01
Dentistry	520			300	0.58		OR	96/01
Dentistry	520			350	0.67		CO	97/01
Dentistry	520			280	0.54		IN	98/01
Dentistry	520			425	0.82		IN	99/01
Dentistry	524			295	0.56		NC	96/01
Dentistry	525			360	0.69		UT	96/01
Dentistry	525			380	0.72		NH	98/01
Dental Practice	526	257		330	0.63	1.28		96/04
Dentistry	526			287	0.55		OR	95/01
Dentistry	526			325	0.62		OH	98/01
Dentistry	531			225	0.42		CA	96/01
Dentistry	531			222	0.42		CA	97/01
Dentistry	533			280	0.53		FL	95/01
Dentistry	535			225	0.42		CO	97/01
General Dentistry	535		246	325	0.61		PA	99/05
Dentist	540	135	135	395	0.73	2.93		98/10
Dentistry	540			395	0.73		MO	98/01
Dentistry	541			375	0.69		FL	95/01
Dentistry	541			385	0.71		VA	97/01
Gen. Dental Practice	542	265	241	342	0.63	1.29	NJ	99/04
Dentistry	543			378	0.70		MA	98/01
Dentistry	550			315	0.57		OR	96/01
Dentistry	550			325	0.59		CA	96/01
Dentistry	550			435	0.79		FL	98/01
Dentistry	550			420	0.76		FL	98/01
Dentistry	553			336	0.61		CA	97/01
Dentistry	554			368	0.66		CA	95/01
Dentistry	554			350	0.63		OH	99/01
Dentistry	560			475	0.85		OH	95/01
Dental - General Practice	562	110	156	370	0.66	3.36	CO	99/09
GP Dentistry	562			370	0.66		CO	99/01

TABLE 10
IBA DATA FOR MARKET COMPARISON

Business Type	Annual Gross $000's	Discret. Earnings $000's	Owner's Comp. $000's	Sales Price $000's	Price/ Gross	Price/ Earnings	Geographic	Yr/Mo of Sale
Dentistry	564			430	0.76		TN	95/01
Dentistry	564			350	0.62		CA	95/01
Dentistry	564			389	0.69		NC	98/01
Dentistry	564			400	0.71		MI	99/01
Dentistry	567			330	0.58		OH	99/01
Dentistry	568			287	0.51		NC	97/01
Dentistry	569			375	0.66		FL	96/01
Dentistry	570			371	0.65		OR	96/01
Dentistry	575			359	0.62		OR	95/01
Dentistry	575			311	0.54		MO	97/01
Dentist	579	266	266	405	0.70	1.52		98/07
Dentistry	579			315	0.54		IN	96/01
Dentistry	579			405	0.70		MO	98/01
Dentist	580	261	281	345	0.59	1.32		99/05
Dentistry	580			400	0.69		OH	99/01
Dentistry	585			414	0.71		CA	97/01
Dentistry	586			445	0.76		WA	98/01
Dentistry	588			270	0.46		CA	95/01
Dentistry	589			435	0.74		OH	99/01
Dentistry	590			399	0.68		UT	97/01
Gen. Dental Practice	594	299	173	375	0.63	1.25	NJ	99/05
Dentistry	595			423	0.71		CA	97/01
GENERAL	596	177		285	0.48	1.61	CA	95/01
Dentistry	597			285	0.48		CA	95/01
Dentistry	597			265	0.44		MI	99/01
Dentistry	598			360	0.60		MA	96/01
Dentistry	598			350	0.59		NC	97/01
Dentistry	599			350	0.58		IN	98/01
Dentist-General	600	234		385	0.64	1.65	CA	96/08
Dentistry	600			385	0.64		CA	96/01
Dentistry	601			425	0.71		LA	96/01
Dentistry	601			456	0.76		WA	98/01
Dentistry	602			320	0.53		FL	96/01
Dentistry	604			170	0.28		MO	96/01
Dental - General Practice	608	5	279	365	0.60	73.00	CO	99/12
GP Dentistry	608			365	0.60		CO	99/01
Dental-General	609	226	184	330	0.54	1.46	CA	96/04
Dentistry	609			33	0.05		CA	96/01
Dentistry	609			378	0.62		IL	98/01
Dentistry	611			425	0.70		MI	97/01
Dentistry	611			375	0.61		CA	97/01
Dentistry	614			400	0.65		CA	95/01
Dentistry	614			390	0.64		AZ	98/01
Dentistry	616			495	0.80		CA	95/01
Dentistry	618			429	0.69		NC	98/01
Dentistry	621			389	0.63		TN	96/01
Dentistry	624			490	0.79		WA	98/01
Dentistry	625			350	0.56		MI	97/01
Dentistry	629			410	0.65		NH	96/01
Dentistry	638			310	0.49		CA	96/01
Dentistry	638			260	0.41		CA	96/01
Dentistry	638			475	0.74		NY	98/01

TABLE 10
IBA DATA FOR MARKET COMPARISON

Business Type	Annual Gross $000's	Discret. Earnings $000's	Owner's Comp. $000's	Sales Price $000's	Price/ Gross	Price/ Earnings	Geographic	Yr/Mo of Sale
GP/ENDO Dentistry	638			342	0.54		CA	97/01
Dentistry	646			285	0.44		VA	97/01
Dentistry	647			360	0.56		OH	98/01
Dentistry	648			340	0.52		MI	97/01
GENERAL	648	164		490	0.76	2.99	CA	95/01
Dentistry	649			490	0.76		CA	95/01
Dentistry	650			350	0.54		CA	97/01
Dentistry	663			555	0.84		CA	95/01
General Dentistry	664	403		490	0.74	1.22	CA	99/11
Dentistry	667			384	0.58		CA	96/01
Dental-General	668		267	313	0.47		CA	96/11
Dentistry	668			498	0.75		CA	96/01
Dentistry	672			400	0.60		NY	98/01
Dentistry	677			335	0.49		MI	99/01
Dentistry	684			479	0.70		TN	95/01
Gen. Dental Practice	688	271	230	475	0.69	1.75	NJ	96/10
Dentistry	694			560	0.81		WA	98/01
Dentistry	695			410	0.59		NV	97/01
Dentistry	695			450	0.65		OH	98/01
Dentistry	695			300	0.43		TN	99/01
Dentistry	700			550	0.79		FL	95/01
Dentistry	707			450	0.64		MA	98/01
Dentistry	714			450	0.63		GA	99/01
Dentistry	715			325	0.45		CA	97/01
Dentistry	725			450	0.62		NV	97/01
Dentistry	725			475	0.66		MI	98/01
Dentist, General	732		258	400	0.55		PA	97/02
Dentistry	733			500	0.68		FL	98/01
Dentistry	736			300	0.41		VA	96/01
Dentistry	737			495	0.67		NC	99/01
Dentistry	749			500	0.67		CA	96/01
Dentist	754	362	362	525	0.70	1.45		97/07
Dentistry	754			525	0.70		MO	97/01
Dentistry	762			545	0.72		MI	99/01
Dentistry	766			410	0.54		MO	96/01
Dentistry	783			400	0.51		CA	95/01
Dentistry	790			240	0.30		MI	95/01
Dentistry	801			410	0.51		CA	96/01
Dentistry	811			250	0.31		MA	96/01
Dentistry	815			575	0.71		GA	97/01
Dental Practice	817	201		340	0.42	1.69		97/09
Dentistry	845			290	0.34		OH	96/01
Dentistry	850			519	0.61		FL	98/01
Dentist	851	357	357	475	0.56	1.33		99/06
Dentistry	868			570	0.66		MO	98/01
Dentistry	875			575	0.66		FL	98/01
Dentistry	876			165	0.19		CA	96/01
Dentistry	916			520	0.57		FL	96/01
Dentistry	920			200	0.22		CO	97/01
General Dentistry	940		334	550	0.59		PA	99/06
Dentistry	960			650	0.68		NC	98/01
Dentistry	988			695	0.70		NC	99/01

TABLE 10
IBA DATA FOR MARKET COMPARISON

Business Type	Annual Gross $000's	Discret. Earnings $000's	Owner's Comp. $000's	Sales Price $000's	Price/ Gross	Price/ Earnings	Geographic	Yr/Mo of Sale
Dentistry	989			600	0.61		NH	98/01
Dentistry	997			795	0.80		GA	98/01
General Dentist	1023	237	231	735	0.72	3.10	CA	96/10
General Dentistry	1040	500	241	705	0.68	1.41	CO	96/12
Dentistry	1048			705	0.67		MI	97/01
Dentistry	1139			565	0.50		CA	96/01
Dentistry	1180			790	0.67		WA	98/01
Dentistry	1300			1025	0.79		FL	98/01
Dentistry	1319			760	0.58		OH	98/01
Dental	1416	285	157	1200	0.85	4.21	FL	99/08
Dentistry	1428			1250	0.88		NC	99/01
Dentistry	1607			1000	0.62		NC	95/01
Dental Practice	1659			1500	0.90			98/04
General Dentistry	3534	186	58	297	0.08	1.60	CO	97/08

An analysis of the data was performed to see if there was any statistical significance inside this data set. The selected IBA data reflects the following:

TABLE 11
IBA MARKET DATA BASE TRANSACTION ANALYSIS

	Price to Revenues					Price to Earnings				
		Size of Revenues					Size of Revenues			
		$250k to $500k	$500k to $750k	$750k to $1M	$1M <		$250k to $500k	$500k to $750k	$750k to $1M	$1M <
Count	412	248	129	23	12	56	34	15	3	4
Mean	0.62	0.62	0.62	0.55	0.66	3.18	1.91	6.56	1.49	2.58
Standard Deviation	0.13	0.13	0.12	0.17	0.22	9.67	2.21	18.39	0.18	1.32
Coefficient of Variation	0.22	0.21	0.19	0.32	0.33	3.04	1.16	2.80	0.12	0.51
90th Percentile	0.76	0.76	0.76	0.71	0.88	3.05	2.21	3.21	1.64	3.88
75th Percentile	0.70	0.70	0.70	0.69	0.81	1.75	1.66	2.34	1.57	3.38
Median	0.62	0.62	0.63	0.59	0.68	1.47	1.46	1.61	1.45	2.35
25th Percentile	0.55	0.55	0.56	0.47	0.61	1.32	1.30	1.31	1.39	1.55
10th Percentile	0.45	0.46	0.47	0.30	0.51	1.21	1.13	1.26	1.35	1.47

A statistical analysis indicated an R^2 of 0.48 and 0.30 for the price to revenues and price to earnings multiples, respectively. A linear regression with an R^2 below 0.50 reflects poor correlation of the data. However, the standard deviation for the price to revenue multiple was only 0.13 with a coefficient of variation of 0.22. This means that some degree of confidence can be had in using this data, as long as it is not used alone. The earnings multiples have poor statistical representations and cannot be used.

PRATT'S STATS

The next database used in our analysis was Pratt's Stats. This database recorded 97 transactions. From this amount, we eliminated 48 transactions for the same reasons as explained previously.

Table 12 reflects the transactions considered.

TABLE 12
PRATT'S STATS ASSET TRANSACTIONS

Business Name	Revenues	Sale Date	Selling Price	Deal Price	Discretionary Earnings	Equity Price to Revenues	Equity Price to Discretionary Earnings
Brown DDS & Kolwaite DDS	540,912	1/22/1999	619,433	619,433	271,386	1.15	2.28
Dental Centers of Indiana, Inc.	3,572,107	8/1/1997	4,249,020	4,249,020		1.19	
	61,263	11/2/1999	25,000	25,000		0.41	
Elwood C. O'Dell, DDS	399,960	9/7/1999	324,262	324,262	186,387	0.81	1.74
H. Dennis Dray, DMD	195,235	10/5/1999	232,500	232,500	123,568	1.19	1.88
Richard Sebastian, DDS, LTD	358,741	10/24/1997	288,000	288,000	144,245	0.80	2.00
	542,000	5/1/1997	515,000	515,000		0.95	
	228,000	4/1/1998	165,000	165,000	113,000	0.72	1.46
	255,000	4/1/1998	140,000	140,000	98,000	0.55	1.43
	276,000	1/1/1998	230,000	230,000		0.83	
	287,500	2/1/1998	250,000	250,000	102,900	0.87	2.43
	240,000	4/1/1997	193,000	193,000		0.80	
Dentist, General	201,000	1/1/1998	147,000	147,000		0.73	
	227,000	10/1/1997	159,000	159,000		0.70	
	95,000	2/1/1998	80,000	80,000		0.84	
	137,000	10/1/1997	31,000	31,000		0.23	
Harvey Schor, DDS	271,819	5/28/1998	181,677	181,677		0.67	
Joel Kantor DDS	171,074	9/15/1998	115,500	115,500		0.68	
Greenberg DDS PC & Stevens DDS	805,027	5/1/1998	802,000	802,000	396,482	1.00	2.02
	199,000	8/15/1998	143,000	143,000		0.72	
	454,000	6/15/1999	380,000	380,000		0.84	
	190,000	6/15/1999	140,000	140,000		0.74	
	131,000	7/15/1999	61,000	61,000		0.47	
	188,000	5/15/1999	83,000	83,000		0.44	
	370,000	2/15/1999	312,000	312,000		0.84	
	91,000	7/15/1999	74,000	74,000		0.81	
	379,000	3/15/1999	302,000	302,000		0.80	
	242,000	1/15/1999	222,000	222,000		0.92	
	287,300	12/1/1997	75,000	75,000		0.26	
	215,000	12/1/1998	125,001	125,001	88,400	0.58	1.41
	495,000	6/15/1999	335,000	335,000		0.68	
Ted Byers, DDS, PC	428,648	6/1/1997	327,000	327,000	191,061	0.76	1.71
	200,500	12/1/1998	100,000	100,000		0.50	
Robert D. Sundberg DDS, PC	515,950	10/13/1997	459,369	459,369	212,237	0.89	2.16
	265,500	4/1/1998	155,000	155,000	98,000	0.58	1.58
	220,000	4/1/1999	125,000	125,000	71,500	0.57	1.75
	432,000	4/15/1999	270,000	270,000		0.63	
	227,000	5/15/1999	110,000	110,000		0.48	
	530,000	5/15/1999	555,000	555,000	252,400	1.05	2.20
	430,000	4/1/1999	270,000	270,000	202,300	0.63	1.33
Denning, DDS, PC and Prost, DDS	339,633	11/24/1998	383,357	383,357	171,811	1.13	2.23
Jeffrey M. Benson	446,406	6/14/1999	359,782	359,782	236,965	0.81	1.52
Frank King, DDS	376,792	7/26/1999	206,366	206,366	171,945	0.55	1.20
Gary Provost, DDS	424,208	9/8/1999	296,000	296,000	202,429	0.70	1.46

TABLE 12
PRATT'S STATS ASSET TRANSACTIONS

Business Name	Revenues	Sale Date	Selling Price	Deal Price	Discretionary Earnings	Equity Price to Revenues	Equity Price to Discretionary Earnings
Kent C. Loo, DDS	393,619	4/12/1999	245,000	245,000	180,296	0.62	1.36
Maryvale Dental Assoc., P.C.	226,961	3/18/1999	200,000	200,000		0.88	
Prime Dental Care, PC	246,366	7/9/1999	250,180	250,180		1.02	
Douglas Mougey DDS, Ltd.	486,866	1/26/1999	646,031	646,031		1.33	
Peter E. Labadie, DDS	182,390	10/22/1999	169,600	169,600	102,355	0.93	1.66

A more detailed statistical analysis was performed on the data included in the results (including data not presented in Table 12). It is reflected in Table 13.

TABLE 13
PRATT'S STATS
STATISTICAL ANALYSIS

	Equity Price to						Deal Price to			
	Revenues	Gross Cash Flow	Earnings Before Taxes	Net Income	Total Assets	Discretionary Earnings	Revenues	EBITDA	EBIT	Total Assets
Statistical Analysis:										
Count										
	49	29	29	29	49	21	49	33	33	49
Mean	0.76	4.93	4.91	5.17	1.76	1.75	0.76	5.76	7.35	1.76
Standard Deviation	0.23	3.65	3.76	4.40	1.29	0.36	0.23	7.24	14.37	1.29
Coefficient of Variation	0.31	0.74	0.77	0.85	0.73	0.21	0.31	1.26	1.95	0.73
90th Percentile	1.06	10.21	10.09	10.21	3.37	2.23	1.06	11.20	12.32	3.37
75th Percentile	0.88	6.31	6.07	6.31	1.67	2.02	0.88	6.30	6.30	1.67
Median	0.76	3.91	3.86	4.03	1.19	1.71	0.76	3.82	3.82	1.19
25th Percentile	0.62	2.11	2.11	2.11	1.10	1.46	0.62	1.92	1.92	1.10
10th Percentile	0.48	1.51	1.51	1.51	1.06	1.36	0.48	1.49	1.49	1.06
Linear Regression:										
Slope	1.21	9.40	9.27	8.33	2.67	2.12	1.21	7.08	6.47	2.67
Intercept	(126,975)	(328,400)	(319,509)	(219,947)	(165,935)	(56,499)	(126,975)	(197,219)	(126,316)	(165,935)
R^2	0.99	0.49	0.43	0.28	0.42	0.87	0.99	0.46	0.30	0.42

Based on these results, only two multiples can be used with any degree of confidence: Equity Price to Revenues, Equity Price to Discretionary Earnings.[17]

OTHER DATABASES

Although we looked for transactions in the other databases, an insufficient amount of data was located.

VALUE ESTIMATES - TRANSACTION METHOD

Once the pricing multiples have been chosen, the next step is to choose the appropriate multiple to value ABC Dental Care. Using the available data, we further analyzed these transactions against the performance of ABC Dental Care.

First we looked at the geographic region. Of the 412 transactions in the IBA data, 27 transactions were specifically in Florida. Seventy-six transactions were in the Southeast. The median of these transactions were 0.65 and 0.66, respectively.

Additionally, we performed a ratio analysis from the data included in the Pratt's Stats database which is reflected in Table 14.

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[17] Deal price to revenues and equity price to revenues are the same and therefore only equity price to revenues was utilized.

TABLE 14
PRATT'S STATS ASSET TRANSACTION
RATIO ANALYSIS

	Net Profit Margin	Operating Profit Margin
Count	29	33
Mean	24.04%	24.47%
Standard Deviation	13.96%	14.42%
Coefficient of Variation	58.06%	58.94%
90th Percentile	44.20%	45.20%
75th Percentile	37.99%	37.99%
Median	18.74%	21.08%
25th Percentile	13.41%	13.64%
10th Percentile	9.79%	7.52%
ABC Dental	**6.23%**	**10.61%**

The table indicates that ABC Dental Care underperformed compared to the lowest 10th percentile with respect to net profit and between the 10th and 25th percentile for operating profit. This means that ABC Dental Care would not sell as favorably as many of the practices included in the transaction data.

Therefore, for those multiples used, we have chosen the equivalent of the 10th percentile. Our value indications are as follows:

TABLE 15
IBA DATABASE
VALUE ESTIMATE

	Price to Revenues
Selected Multiple	0.45
Subject Company Earnings Stream	$ 1,911,743
Indication of Value	$ 860,284
Calculation of Retained Assets	
Cash	(14,495)
Accounts Receivable	310,929
Inventories	16,155
Other Assets	729
Total Liabilities	(213,212)
Add: Net Retained Assets	$ 100,106
Indication of Value - Control, Non Marketable	$ 960,390
Rounded	$ 960,000

TABLE 16
PRATT'S STATS
VALUE ESTIMATE

	Equity Price to Revenues	Equity Price to Discretionary Earnings
Selected Multiple	0.48	1.36
Subject Company Earnings Stream	$ 1,911,743	$ 422,062
Indication of Value	$ 917,637	$ 574,004
Calculation of Retained Assets		
Cash	$ (14,495)	$ (14,495)
Accounts Receivable	310,929	310,929
Other Assets	729	729
Total Liabilities	(213,212)	(213,212)
Plus Net Retained Assets	$ 83,951	$ 83,951
Estimate of Value (Equity or Invested Capital)	$ 1,001,587	$ 657,955
Less: Interest Bearing Debt	-	-
Indication of Value - Control, Non-Marketable	$ 1,001,587	$ 657,995
Rounded	$ 1,000,000	$ 658,000

One further explanation is required of the data included in Tables 15 and 16. The data presented in the IBA database, as well as the data used from the Pratt's Stats database are asset sales. This means only those assets that are typically sold as part of a transaction would be included in the estimate of value. Therefore, additional assets and liabilities must be taken into consideration. In this report, we call them retained assets. These would be the items that would typically be retained by the seller, or paid for above and beyond the estimate of value that is calculated from the various transactions.

Based on the IBA database, the estimate of ABC Dental Care as of March 23, 2000 would be approximately $960,000. Based on the data included in Pratt's Stats, the equity price to revenues results in an estimate of approximately $1 million, while the equity price to discretionary earnings reflects only a value of $658,000.

INCOME APPROACH

CAPITALIZATION OF EARNINGS METHOD

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

$$V = I \div R$$

Where

V = Value
I = Income Stream
R = Capitalization Rate

The use of this formula requires an estimate of income to be made for the subject practice. The next portion of the application of this method requires the determination of the appropriate capitalization rate to be used for this level of income.

ABC Dental Care is a mature practice that has reached its maximum capacity at its present location. Revenues have grown marginally from $1.8 million to $1.9 million from 1997 to 1999. A review of the adjusted profitability during this period reflects an up and down scenario. Therefore, we believe that a simple average of the past three years is most representative of the future earnings of The Practice.

Applying an inflationary growth rate to the earnings and capitalizing the result by 24 percent (see discussion of discount and capitalization rates) yields the following estimate of value:

TABLE 17
CAPITALIZATION OF 3 YEAR AVERAGE
NET INCOME

	1997	1998	1999
Total Revenues	$ 1,832,504	$ 1,900,917	$ 1,911,743
Total Cost of Sales	353,114	331,146	416,615
Gross Profit	$ 1,479,390	$ 1,569,771	$ 1,495,128
Total Operating Expenses	1,229,936	1,296,850	1,292,300
Operating Income (Loss)	$ 249,454	$ 272,921	$ 202,828
Interest Expense	16,715	14,033	25,379
Income (Loss) Before Taxes	$ 232,739	$ 258,888	$ 177,449
Income Taxes	81,827	92,902	58,409
Net Income (Loss)	$ 150,912	$ 165,986	$ 119,040
3 Year Average Net Income			$ 145,313
One Plus the Long-Term Rate of Growth		x	1.03
Net Income for Capitalization			$ 149,672
Capitalization Rate		÷	24.00%
Indication of Value - Control, Marketable			$ 623,633
Less: Discount for Lack of Marketability		10.00%	(62,363)
INDICATION OF VALUE - CONTROL, NON-MARKETABLE			**$ 561,270**
ROUNDED			**$ 561,000**

In estimating the value of ABC Dental Care using the income approach, a 10 percent discount for lack of marketability has been subtracted. The discount, explained further later in this report, is intended to reflect the closely held nature of The Practice after applying a capitalization rate that was derived from the public market.

This method results in an estimate of value of $561,000.

THE ASSET BASED APPROACH

EXCESS EARNING METHOD

The adjusted book value of ABC Dental Care, without intangible value, was previously determined to be $207,534 (see balance sheet normalization).

In addition to the value of the tangible assets of ABC Dental Care, it is necessary to determine whether any goodwill exists and if so, what value to place on that goodwill.

Revenue Ruling 59-60, the Internal Revenue Service training manual, and Revenue Ruling 68-609, which the Internal Revenue Service has been using in conjunction with Revenue Ruling 59-60 concerning earnings of an entity to be valued, all stress that potential future income is a major factor in valuing an entity. These sources further state that a review of prior earnings is necessary to predict the future. This is known as the “formula approach.”

This approach is described in Revenue Ruling 68-609 as follows:

> The percentage return on the average annual value of the tangible assets used in the business is determined using a period of years (preferably not less than five) immediately prior to the valuation date. The amount of the percentage return on tangible assets thus determined is deducted from the average earnings of the business for such period and the remainder, if any, is considered to be the amount of the average annual earnings from the intangible assets of the business for the period. This amount (considered as the average annual earnings from intangibles) capitalized at a percentage of say fifteen percent to twenty percent is the value of the intangible assets of the business determined under the ‘formula approach.’

Revenue Ruling 59-60 also suggests that comparative income statements for a period of five or more years should be used in valuing a closely held business.

The average annual earnings of ABC Dental Care should be reduced by a reasonable return on the net tangible assets of the practice, which, if placed in the bank or in a different investment, would generate revenue. This return on investment should be subtracted from the average annual earnings of the practice.

The sources previously mentioned indicate that the formula approach should be used only if no other valuation approach for measuring intangibles can be determined. Caution must be exercised when this approach is utilized. It cannot be employed without taking into account outside influences, such as the general economic condition of the industry and whether earnings are increasing or decreasing.

The growth adjusted, normalized net income of The Practice has previously been determined to be $149,672. A weighted average return on tangible assets of 6.92 percent has been calculated based on the composition of the balance sheet yielding a return on tangible assets of $14,358. Capitalizing the excess earnings by a capitalization rate of 33 percent (see discussion entitled Discount and Capitalization Rates) results in an estimate of value using this methodology as follows:

TABLE 18
EXCESS EARNING METHOD
3 YEAR AVERAGE NET INCOME

Normalized Net Income	$	149,672
Less: Return on Tangible Assets		(14,358)
Excess Earnings	$	135,314
Capitalization Rate	÷	33.0%
Value of Intangibles	$	410,042
Adjusted Tangible Book Value		207,534
Indication of Value - Control, Marketable	$	617,576
Less: Discount for Lack of Marketability (10%)		(61,758)
Indication of Value - Control, Non-Marketable	$	555,818
Rounded	$	556,000

Once again, a 10 percent discount for lack of marketability has been subtracted to take into consideration the fact that ABC Dental Care is a closely held dental practice. As a result of our computations, the value using this method is approximately $556,000.

RECONCILIATION OF VALUES

During the appraisal, several methods were used to determine the value of the equity of ABC Dental Care. The values derived in this appraisal are as follows:

Market Approach		
Transaction Method		
IBA Database		
Price to Revenues	$	960,000
Pratt's Stats		
Equity Price to Revenues		1,000,000
Equity Price to Discretionary Earnings		658,000
Income Approach		
Capitalization of Income		561,000
Asset Approach		
Excess Earnings		556,000

The market approach is normally afforded the greatest amount of weight for a going concern since fair market value is determined by the market and it is the Valuation analyst's role to interpret the market. In this instance, the transaction method was used providing three indications of value. Those indications that utilized a multiple of revenue resulted in a considerably higher value than the method that utilized a multiple that relied on ABC Dental Care's earnings. The fact is that ABC Dental Care's earnings were inferior to the target practices based on our analysis of the data included in the Pratt's Stats database. Therefore, we put slightly more weight on the multiple involving earnings than those that involved revenues. Forty-five percent of the total weight in this appraisal has been applied to the market approach.

The income approach utilizes the earnings of the company to arrive at a value. This value is based on the earnings of the practice and looks at the practice from an investment point of view for an owner/operator purchasing the entire operation. Once again, because of low earnings, the result is a lower indication than the market approach. In this instance, we assigned a 30 percent weight to the income approach because it truly values the practice and does not subject the Valuation analyst to as many assumptions as those based on the limited data included in the transaction method.

The asset based approach was utilized using the excess earnings method, which is a commonly used method for valuing professional practices. In this instance, the results are very similar to the income approach, and we have weighted 25 percent of the value using this approach.

Revenue Ruling 59-60 suggests that an Valuation analyst not arbitrarily weight different methodologies, but the true intent of the revenue ruling is for the Valuation analyst to consider the advantages and disadvantages of each of the methodologies and to develop an informed opinion using judgment, common sense and the facts and circumstances available to determine how each method should be weighted in the process. As a result of the various weightings, an opinion of value for ABC Dental Care which is predicated on Dr. Brown' issuing a restrictive covenant to a purchaser of ABC Dental Care is as follows:

Approach	Value	Weight	Weighted Value
Market Approach			
Transaction Method			
IBA Price to Revenue	$ 960,000	10%	$ 96,000
Pratt's Stats Equity Price to Revenue	1,000,000	20%	200,000
Pratt's Stats Equity Price to Discretionary Earnings	658,000	15%	98,700
Income Approach			
Capitalization of Income	561,000	30%	168,300
Asset Approach			
Excess Earnings	556,000	25%	139,000
Estimated Value of ABC Dental Care		100%	$ 702,000

JUSTIFICATION FOR PURCHASE TEST

Valuation is not the process of developing capitalization rates or multiples. It is, however, the process of providing the user of the appraisal with an estimate of value within a reasonable range. Recognizing that valuation is not an exact science, a test was performed to substantiate the amount of indebtedness that could be undertaken, using a four year payback period, based on the normalized economic income that would be available to a “willing buyer.”

Assuming typical terms for a business transaction of this kind, a purchaser would use approximately 33.33 percent equity, with the balance being debt, to acquire a business of this type. This means that the pretax income would have to carry debt service and taxes. The Valuation analyst used the average adjusted pretax income from 1997 to 1999 as indicative of future pretax income that would be available to service the debt incurred by the prospective buyer when purchasing The Practice. This is the same income stream that was used to value The Practice. The tax rate has been assumed at 35 percent. Using an 11.0 percent interest rate (prime rate as of the valuation date plus 2 percent), and a $702,000 purchase price results in the following:

	Year 1	Year 2	Year 3	Year 4
Annual Payments	$ 145,156	$ 145,156	$ 145,156	$ 145,156
Interest	46,612	35,207	22,485	8,292
Principal	$ 98,544	$ 109,949	$ 122,671	$ 136,864
Cash Flow				
Pretax Income	$ 229,716	$ 236,607	$ 243,706	$ 251,017
Interest Expense	46,612	35,207	22,485	8,292
Taxable Income	$ 183,104	$ 201,400	$ 221,221	$ 242,725
Tax	64,086	70,490	77,427	84,954
Net Income	$ 119,018	$ 130,910	$ 143,794	$ 157,771
Principal Payments	98,544	109,949	122,671	136,864
Cash Flow	$ 20,474	$ 20,961	$ 21,123	$ 20,907
Return on Down Payment	8.75%	8.96%	9.03%	8.94%

The above calculations indicate that a purchaser of this practice could pay $702,000 and satisfy the debt obligations that would result from the acquisition.

PERSONAL GOODWILL

The majority of states have ruled that goodwill should be factored into determining a professional practice's value for the purposes of equitable distribution. The courts that choose to include goodwill do so because they consider it to be an asset, while the courts that choose not to include it state that it is because it is too speculative. Trugman Valuation Associates, Inc. has been requested to address the issue of personal goodwill as it relates to ABC Dental Care. Before attempting to quantify the issue of personal goodwill, it is important to understand what this concept means.

PROFESSIONAL VERSUS PRACTICE GOODWILL

The distinction between *professional goodwill* (sometimes called *personal goodwill)* and *practice goodwill* (sometimes called *business or commercial goodwill)* is that professional goodwill is the goodwill that is associated primarily with the individual, versus practice goodwill, which is the goodwill associated primarily with the entity. This can be demonstrated by assuming John Smith CPA is a partner at PricewaterhouseCoopers. If a new client calls the firm specifically requesting John Smith, then there may be personal goodwill associated with the individual. However, if the client wants a "big four" name on the financial statements and contacts PricewaterhouseCoopers, and ends up with John Smith, there is probably practice goodwill. Sometimes, the two types of goodwill will overlap.

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

GOODWILL IN A PROFESSIONAL PRACTICE

The issue of personal versus professional goodwill arises most often during the divorce valuation of professional practices. In most instances, there is little reason to separate the two concepts. However, some courts have determined that sole practitioners in any profession can only have personal goodwill since he or she is the practice. A sole practitioner's practice can easily have both forms of goodwill.

To illustrate this point, let's assume that Sarah Jackson, attorney at law, is a personal injury specialist. Her trial skills have allowed her clients to get jury verdicts that begin at $1,000,000. Her law practice has a book value of $85,000 and contingent work in progress of $700,000. Gross revenues for the firm are $8,000,000. Ms. Jackson draws a salary of $3,000,000 annually. The question becomes whether Ms. Jackson's goodwill -- her reputation and trial skills -- can be transferred to another lawyer. If so, we might have many lawyers earning a lot of money. This illustrates personal goodwill.

Let's illustrate practice goodwill. Now assume that Mary Brown, attorney at law, belongs to a prepaid legal services plan, from which she gets client referrals. The fact that the law firm is signed up with the legal services plan, referrals come to the practice regardless of her reputation and skills. This is practice goodwill. However, assuming that Ms. Brown does a good job for these clients, referrals may come to her in the future, which would be an element of personal goodwill.

Most courts have found that goodwill is an asset to be included in the marital estate of a professional for divorce purposes. In many states, professional goodwill is considered to be marital property even though it is not transferable. In such cases, the standard of value is not truly fair market value, but rather intrinsic value to the owner. Several states have taken the position that professional goodwill is not a marital asset subject to division, but practice goodwill is.[18]

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18 Some of the cases dealing with personal goodwill around the country include *Nail v. Nail*, 486 S.W. 2d 761 (Texas Supreme Court 1972); *Geesbreght v. Geesbreght*, 570 S.W. 2d 427 (Texas Civil Appeals Court 1978); *Prahinsky v. Prahinsky*, 540 A.2d 833 (Md. App. 1988) and 582 A.2d 784 (Md. 1990); *Thompson v. Thompson*, 546 So.2d 99 (Fla. App. 4 Dist. 1989); *Hollbrook v. Hollbrook*, 103 Wis. 2d 327, 309 N.W. 2d 343; *Zells v. Zells*, 157 Ill. Dec. 480,

One of the most widely cited cases detailing the factors to consider when valuing professional goodwill in a divorce is a California case, *Lopez v. Lopez*.[19] The factors listed in that case include the following:

- The age and health of the professional.
- The professional's demonstrated past earning power.
- The professional's reputation in the community for judgment, skill, and knowledge.
- The professional's comparative professional success.
- The nature and duration of the professional's practice, either as a sole proprietor or as a contributing member of a partnership or professional corporation.

As illustrated previously, it is frequently difficult to distinguish between professional goodwill and practice goodwill. In a Florida case, *Williams v. Willams,*[20] the trial court ruled that the value of Mr. Williams' accounting practice included $43,200 in practice goodwill. On appeal, the trial court's finding was reversed. In its opinion, the appellate court stated:

> ... the goodwill of [a] professional practice can be a marital asset subject to division in a dissolution proceeding, if it exists and if it was developed during the marriage .... However,... for goodwill to be a marital asset, it must exist separate and apart from the reputation or continued presence of the marital litigant .... When attempting to determine whether goodwill exists in a practice such as this, the evidence should show recent actual sales of a similarly situated practice, or expert testimony as to the existence of goodwill in a similar practice in the relevant market .... Moreover, the husband's expert, who testified the practice had no goodwill, stated that no one would buy the practice without a noncompete clause. This is telling evidence of a lack of goodwill.

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572 N.E. 2d 944 (111.1991); and *DeMasi v. DeMasi*, 366 Pa. Super. 19, 530 A. 2d 871,883.

19 In re Marriage of Lopez, 113 Cal. Rptr. 58 (38 Cal. App. 3d 1044 (1974))

20 *Williams v. Williams*, No. 95-00577, 1996 WL 47675 (Fla.App.2 Dist. Feb. 7, 1996).

Clearly, the noncompete clause was the issue in the court's strict interpretation of fair market value. The fact that the expert testified that without a covenant not to compete, no one would buy the practice is an indication that the goodwill was associated with the grantor of the covenant.

NONCOMPETE AGREEMENTS

Many valuation analysts believe that implicit in the definition of fair market value is a covenant not to compete. If the seller has a right to open up next door, why would a willing buyer ever purchase a business or professional practice? Separating the value of the intangible assets (goodwill) from the value of the noncompete agreement is frequently a difficult task. In *Monaghan v. Monaghan,*[21] the business under scrutiny was a dental practice. The court determined that if the practice was sold, the non-business owner spouse would receive 50 percent of the gross proceeds received in excess of $80,000.

The practice was subsequently sold for $160,000. The sales contract allocated the purchase price as follows:

Inventory and supplies	$	20,000
Patient list		15,000
Goodwill		16,000
Covenant not to compete		109,000
Total	$	160,000

A claim was made in this case that the practice actually sold for less than $80,000 and the non-business owner was not entitled to a share in the proceeds. The claim was based on the premise that the noncompete covenant was a personal asset and not part of the

[21] In re: *Delores A. Monaghan and Robert D. Monaghan* 78 Wash. App. 918, 899 P.2d 841 (Aug. 9, 1995).

practice. Obviously, the opposite position was that the covenant was part of the goodwill of the practice.

The Washington appellate court did not have case law of their own to use regarding the treatment of a noncompete covenant in a divorce case. Relying on other jurisdictions, the appellate court cited cases from other western states. In these jurisdictions, the covenant not to compete was considered personal property belonging to the professional. These other courts reviewed the relationship of the noncompete as compared to the other assets to rule whether or not it seemed fair. If the allocation was unreasonable in relation to the other assets, then a more fair and objective allocation would be required.

The appellate court remanded the case to the trial court to separate the value of the practice from the value of the covenant not to compete based on all of the evidence. Different jurisdictions treat noncompete agreements differently.

A covenant not-to-compete (non-compete agreement) is an intangible asset based on a contractual agreement. Typically, the seller of a business, the covenantor, agrees not-to-compete with the buyer of the business, the covenantee, in a defined industry or market for a specific period of time, in a geographically defined area. A non-compete agreement has value to the buyer to the degree that it protects the assets (tangible and intangible) from loss of value by restricting competitive actions of the seller. From an economic perspective, the value of a non-compete agreement is dependent on several factors, including the ability of the seller to compete, the derivation of the non-compete agreement, and the losses the company would suffer if the seller competed.

In the instance where the seller has the ability to compete, the relevant question becomes, what impact would competition from the seller have on the business? The answer to this question depends on a myriad of factors. Chief among them are: 1) the seller being in possession of relationships that could redirect business from the company to a new company established or invested into by the seller, and 2) the seller having either sufficient knowledge or technology to allow him or her to bring competitive services to market.

The value of non-compete agreements in the purchase and sale of a company has been the subject of numerous court cases involving the Internal Revenue Service ("IRS") and taxpayers. According to Neil C. Kelly, ASA, CFA, the IRS maintains a theory called the "mass asset" rule. Prior to tax reform, this theory held that certain intangible assets were "non-depreciable as a matter of law, because such intangible properties are part of a single mass asset, which, in the aggregate, has no determinable useful life and is either inextricably linked to goodwill or self regenerating." According to Mr. Kelly, for a non-compete agreement to not fall under the mass asset rule, it must have the following components:

1. A recital to the effect that it is the intent of the parties that the Covenant not-to-compete is separate and distinct from any goodwill the seller may be selling.

2. That the subject covenant is not merely for the purpose of protecting the purchase goodwill.

3. That the Covenant has an independent basis-value.

4. That the Covenant was expressly bargained for – separate and distinct from the goodwill of the seller.

5. That a specific monetary sum is being paid for the Covenant.

6. That the Covenant is for a specified period of time - which goes to the permissible amortized period.

7. That the Covenant to compete restrains a key individual from competing with the purchaser, and if same is not accomplished, that the purchaser will suffer an economic detriment because of the key person's ability and competitive activities.

8. That even in the event of the death of the grantor of the Covenant, such will not entitle the purchaser to depreciate or recover the cost of such Covenant over a period shorter than the term of such a Covenant.

9. The amount the purchaser is paying for the Covenant not-to-compete is depreciable over the life of the Covenant regardless of whether the purchaser makes payments for such Covenant over a period shorter than the life of the Covenant.

10. A recital to the effect that the value allocated to the Covenant has economic reality or substance.

In addition, guidance can be found in the four tests that the courts have historically applied to non-compete agreements in determining whether it could be amortized for federal income taxes. The four tests were summarized in *Forward Communications Corp. v. U.S.*, 78-2 USTC Para. 9542, as follows:

1. Whether the compensation paid for the covenant is severable from the price paid for the acquired goodwill.

2. Whether either party to the contract is attempting to repudiate an amount knowingly fixed by both the buyer and seller as allocable to the covenant.

3. Whether there is proof that both parties actually intended, when they signed the sale agreement, that some portion of the price be assigned to the covenant.

4. Whether the covenant is economically real and meaningful.

The first test was effectively established in *Marsh & McLennan, Inc. v. Commissioner*, 51 T.C. 56 (1968) aff'd on other grounds, 420 F.2d 667 (3d Cir. 1969). In this case, the court looked at whether the compensation paid for the covenant is separable from the price for goodwill. Where goodwill and the covenant not-to-compete are closely related, the benefits of the elimination of competition may be permanent or of indefinite duration and, hence, the value of the covenant is not exhaustible or a wasting asset to be amortized over a limited period.

In *Commissioner v. Danielson*, 378 F. 2d 771 (3d. Cir.) cert. Denied 389 US 358 (1967), the courts looked at whether either party was attempting to repudiate an amount knowingly fixed by both as allocable to the covenant, the calculable tax benefit of which may fairly be assumed to have been a factor in determining the final price.

In *Annabelle Candy Co. v. Commissioner*, the courts looked at whether the covenant played a real part in the negotiations.

Of particular importance, is whether the covenant was at issue in the negotiation process. This relates to the economic reality of the covenant and its economic significance. According to Kelly, the following are factors which are important in determining the economic reality of a non-compete agreement.

a. The presence of a grantor of the covenant not-to-compete having business expertise evidencing a formidable capability to compete;

b. Grantor's ownership of technology and machinery necessary to compete;

c. Grantor's possession of sufficient economic resources to compete;

d. Legal enforceability of the covenant for the term of the particular covenant under state law;

e. Grantor's legal capacity to compete;

f. Covenant having sufficient scope to assure non-competition without overreaching;

g. Not too advanced age of grantor;

h. Good health of grantor;

i. Payments for covenant that are not pro-rata to the grantor's stock ownership in the seller;

j. Purchaser's policing of the covenant not-to-compete;

k. Structuring payments under the covenant to occur over time and to cease upon breach of such covenant;

l. Vigorous negotiations over the covenant and negotiations over its value should be recited in the agreement;

m. A detailed, specific, and carefully drafted covenant not-to-compete;

n. Independent appraisal of the value of the covenant not-to-compete;

o. Some degree of reasonableness in the percentage of the considerations allocated to the covenant and other items.

The importance of the covenant not-to-compete having economic substance was further delineated by a Bureau of National Affairs' paper on the subject published in 1992. The paper stated:

> The most important factor is whether the covenant is economically real, that is, whether the covenant is the product of bona fide bargaining rather than a sham. The economic reality theory is primarily concerned with business realities which would cause reasonable persons, genuinely concerned with their economic future, to bargain for the covenant not-to-compete.

Among the facts to be considered are whether the seller could actually compete with the purchaser. Where the seller is, objectively, likely to be a competitor, the paper states that courts have also looked at the actual contract negotiations to determine if the parties' intentions were for the covenant not-to-compete to have value.

> In addition, the amount allocated to the covenant not-to-compete may not reflect economic reality. The taxpayer has the burden of proving that he is entitled to the deduction. Welch v. Helvering, 290 U.S. 111 (1933). Courts have frequently found that covenants have no value or, at least, substantially less value than the purchaser attributes to them. The same factors as above have been considered for this purpose. Further, courts have looked at the actual contract negotiations to determine if the parties intended the covenant to have any value. For example, if the parties agreed to pay a certain amount for the assets of the seller and the purchase price is not altered when a covenant not-to-compete is later added, the covenant has no or minimal value.

Other guidance on determining the value of a covenant not-to-compete is given in Revenue Ruling 77-403. The ruling states that the relevant factors for determining the value of a non-compete agreement include:

> 1) Whether in the absence of the covenant the covenantor would desire to compete with the covenantee; 2) the ability of the covenantor to compete effectively with the covenantee in the activity in question; and 3) the feasibility, in view of the activity and market in question, of effective competition by the covenantor within the time and area specified in the covenant.

Based on the issues presented by Kelly in regard to the mass asset rule, the covenant is a distinguishable asset that can be valued separately from goodwill.

In essence, a covenant not to compete is used to protect the goodwill that is associated with the practitioner that would allow that individual to compete with the purchaser of the practice. In the valuation performed in this matter, the indicated value of $702,000 can be broken down between tangible and intangible value as follows:

Tangible Value	$	208,000
Intangible Value		494,000
Total Value	$	702,000

The normalized balance sheet was used to derive the value of the net tangible assets. Therefore, by subtraction, any remaining value would be attributable to intangible assets. This would be the maximum amount that a willing buyer would be looking to protect in an acquisition of ABC Dental Care. In order to estimate the amount of personal goodwill associated with ABC Dental Care, the valuation analyst looked for two separate factors which would provide market evidence as to the value of a non-compete agreement.

CONTRACT FOR SALE BETWEEN DR. SCOTT BROWN AND DR. MARK KAPLAN (JULY 1989)

As indicated earlier in this report, the asset purchase agreement that involved Dr. Brown included a restrictive covenant. In fact, according to the allocation on page three of this agreement, the $366,000 purchase price was allocated between tangible and intangible assets as follows:

Tangible Assets	$	153,720
Intangible Assets		212,280
Total	$	366,000

The intangible assets were broken down between patient records and restrictive covenant as follows:

Patient Records	$	131,760
Restrictive Covenant		80,520
Total	$	212,280

This indicates that approximately 22 percent of the purchase price was allocated to a restrictive covenant ($80,520 ÷ $366,000).

MARKET EVIDENCE FROM THE PRATT'S STATS DATABASE

Included in the detail of the Pratt's Stats database is information relating to whether or not a covenant not compete was granted, and if so, how much of the sale price was allocable to this covenant. An analysis was performed of the transactions resulting in the information provided in Table 19.

TABLE 19
PRATT'S STATS TRANSACTIONS
WITH NON COMPETE INFORMATION

Business Description	Sale Date	Sell Price	Liabilities Assumed	Employ Agree Value	Price-Liabilities & Employment Agreement	Noncompete Value	NonCompete to Selling Price
Dental Practice	1/22/1999	443,500	0	0	443,500	175,933	39.67%
Dental Practice	11/2/1999	20,000			20,000	5,000	25.00%
Dental Practice - General Family	9/7/1999	314,262	0	0	314,262	10,000	3.18%
Dental Practice - General Family	10/5/1999	222,500	0	0	222,500	10,000	4.49%
Dentist	10/24/1997	287,000	0	0	287,000	1,000	0.35%
Dentist, General	5/1/1997	482,000	0	0	482,000	33,000	6.85%
Dentist, General	4/1/1998	150,000			150,000	15,000	10.00%
Dentist, General	4/1/1998	120,000			120,000	20,000	16.67%
Dentist, General	1/1/1998	210,000			210,000	20,000	9.52%
Dentist, General	2/1/1998	210,000			210,000	40,000	19.05%
Dentist, General	4/1/1997	173,000	0	0	173,000	20,000	11.56%
Dentist, General	1/1/1998	137,000	0	0	137,000	10,000	7.30%
Dentist, General	10/1/1997	147,000	0	0	147,000	12,000	8.16%
Dentist, General	2/1/1998	60,000			60,000	20,000	33.33%
Dentist, General	10/1/1997	28,000	0	0	28,000	3,000	10.71%
Dentist: Orthodontist	10/15/1998	119,000	0	0	119,000	10,000	8.40%
Dentist: Orthodontist	6/15/1999	342,000	0		342,000	11,000	3.22%
Family Dentistry	5/28/1998	176,677	0	0	176,677	5,000	2.83%
Family Dentistry	9/15/1998	105,500	0	0	105,500	10,000	9.48%
Family Dentistry and Implantology	5/1/1998	752,000	0	0	752,000	50,000	6.65%
General Dentist	8/15/1998	132,000	0	0	132,000	11,000	8.33%
General Dentist	6/15/1999	350,000			350,000	30,000	8.57%
General Dentist	6/15/1999	130,000			130,000	10,000	7.69%
General Dentist	5/15/1999	79,000			79,000	4,000	5.06%
General Dentist	2/15/1999	301,000			301,000	11,000	3.65%
General Dentist	7/15/1999	68,000	0	0	68,000	6,000	8.82%
General Dentist	3/15/1999	277,000			277,000	25,000	9.03%
General Dentist	1/15/1999	202,000	0		202,000	20,000	9.90%
General Dentistry	12/1/1998	115,001			115,001	10,000	8.70%
General Dentistry	6/15/1999	300,000			300,000	35,000	11.67%
General Dentistry	6/1/1997	277,000	0	0	277,000	50,000	18.05%
General Dentistry	12/1/1998	90,000			90,000	10,000	11.11%
General Dentistry	10/13/1997	399,369	0	0	399,369	60,000	15.02%
General Dentistry	4/1/1998	135,000	0	0	135,000	20,000	14.81%
General Dentistry	4/1/1999	115,000			115,000	10,000	8.70%
General Dentistry	4/15/1999	250,000	0		250,000	20,000	8.00%
General Dentistry	5/15/1999	100,000			100,000	10,000	10.00%
General Dentistry	6/15/1999	550,000			550,000	35,000	6.36%
General Dentistry	5/15/1999	325,000		200,000	125,000	30,000	24.00%
General Dentistry	4/1/1999	250,000			250,000	20,000	8.00%
General Dentistry- Family Practice	11/24/1998	229,357	0	0	229,357	154,000	67.14%
General Family Dentistry	6/14/1999	344,782	0	0	344,782	15,000	4.35%
General Family Dentistry	7/26/1999	196,366	0	0	196,366	10,000	5.09%
General Family Dentistry	9/8/1999	286,000	0	0	286,000	10,000	3.50%
General Family Dentistry	4/12/1999	240,000	0	0	240,000	5,000	2.08%
General Family Dentistry	3/18/1999	125,000	0	0	125,000	75,000	60.00%
General Family Dentistry	7/9/1999	157,180	0	0	157,180	93,000	59.17%
General Family Dentistry	1/26/1999	426,031	0	0	426,031	220,000	51.64%
General Family Dentistry	10/22/1999	152,800	0	0	152,800	16,800	10.99%
General Restorative / Rehabilitative Dentistry	7/18/1997	376,150	0	0	376,150	50,000	13.29%
Oral and Maxillofacial Surgery	12/1/1997	400,000	0	0	400,000	20,000	5.00%
Oral and Maxillofacial Surgery	3/1/1998	800,000	145,000		655,000	50,000	7.63%
Oral and Maxillofacial Surgery	2/1/1998	500,000			500,000	25,000	5.00%
Oral and Maxillofacial Surgery	5/15/1999	1,000,000			1,000,000	50,000	5.00%
Oral and Maxillofacial Surgery	5/15/1999	425,000		200,000	225,000	40,000	17.78%
Oral and Maxillofacial Surgery	5/15/1999	550,000	103,000		447,000	40,000	8.95%
Oral and Maxillofacial Surgery	1/15/1999	400,000		200,000	200,000	40,000	20.00%
Oral and Maxillofacial Surgery	1/15/1999	675,000		525,000	150,000	40,000	26.67%
Oral and Maxillofacial Surgery	12/31/1998	400,000		180,000	220,000	30,000	13.64%
Oral and Maxillofacial Surgery	1/15/1999	300,000		150,000	150,000	35,000	23.33%
Oral and Maxillofacial Surgery	2/15/1999	175,000			175,000	25,000	14.29%
Oral and Maxillofacial Surgery	4/15/1999	275,000		200,000	75,000	35,000	46.67%

TABLE 19
PRATT'S STATS TRANSACTIONS
WITH NON COMPETE INFORMATION

Business Description	Sale Date	Sell Price	Liabilities Assumed	Employ Agree Value	Price-Liabilities & Employment Agreement	Noncompete Value	NonCompete to Selling Price
Oral and Maxillofacial Surgery	6/15/1999	550,000			550,000	40,000	7.27%
Oral and Maxillofacial Surgery	4/1/1998	500,000			500,000	45,000	9.00%
Oral and Maxillofacial Surgery	3/15/1999	2,000,000			2,000,000	50,000	2.50%
Oral and Maxillofacial Surgery	4/1/1998	325,000			325,000	40,000	12.31%
Oral and Maxillofacial Surgery	6/15/1999	300,000			300,000	30,000	10.00%
Oral and Maxillofacial Surgery	12/1/1998	330,000			330,000	30,000	9.09%
Oral and Maxillofacial Surgery	1/15/1999	650,000	17,000	450,000	183,000	42,000	22.95%
Oral Surgery	11/15/1997	175,000			175,000	50,000	28.57%
Orthodontia	7/15/1999	200,000			200,000	20,000	10.00%
Orthodontist	4/1/1998	400,000			400,000	25,000	6.25%
Orthodontist	2/1/1998	175,000	0	0	175,000	20,000	11.43%
Pediatric Dentistry	3/1/1998	375,000			375,000	40,000	10.67%
Periodontal Practice	1/5/1998	265,000	0	0	265,000	50,000	18.87%
					Average		**14.29%**

Table 19 reflects the selling price of The Practice minus any liabilities assumed and employment agreement values that were specifically allocated as part of the selling price in order to determine the price of the practice, net of the liabilities and of the employment agreement. We then compared this amount to the result that was allocated to the value of the non-compete agreement. The average non-compete agreement value to the net selling price amounted to 14.29 percent. We further analyzed this data and removed all specialty practices to see what impact, if any, these had on the average. The average went up to 14.74 percent. Therefore, the market evidence indicates that of these transactions, between 14 and 15 percent is indicative of the non-compete values.

CONCLUSION

Clearly, the best indication of the value of a non-compete agreement would be using market data involving Dr. Brown himself. Although the transaction was from 1989, clearly, it is within the range of reasonableness (22 percent versus 14.74 percent) based on the other market evidence. Therefore, it appears that approximately 20 percent of the purchase price, or $140,400 ($702,000 x 20 percent) would be a reasonable indication of the value of the non-compete. Therefore, in our opinion the value of ABC Dental Care that should be subject to equitable distribution as of March 23, 2000 would be $561,600.

VALUE - DATE OF MARRIAGE NOVEMBER 28, 1987

Trugman Valuation Associates, Inc. was also asked to estimate the value of The Practice as of the date of the marriage, November 28, 1987. We requested financial statements and/or tax returns at around that date including prior years, but the only information that still exists are financial statements for 1989 and 1990. Not anticipating that these records would ever be needed, they were discarded and are no longer available. Therefore, we are attempting to estimate the value based on the information that we have.

For the year ended December 31, 1989, net professional revenues were $1,564,551 from The Practice. Included in this amount is income from not only the Main Avenue location, but also from City Two. That practice was sold under contract dated July 1989 and was effective October 3, 1989. Our review of the 1990 financial statements reflect net professional fees in the amount of $1,102,408. During this year, the City Two location was no longer in existence. Therefore, with the exception of any possible growth in The Practice, the difference between these years could be attributable to the portion of The Practice that was sold. The difference in revenue between 1989 and 1990 was $462,143. Annualizing this amount, one could estimate that the annual difference (again excluding growth) would be $616,191. Therefore, revenues for the entire 1989 year, including the equivalent full year for City Two, that would have existed in previous years, can be calculated as follows:

1989 Reported Revenues	$	1,564,551
Less: Difference from 1989 to 1990		462,143
Sub Total	$	1,102,408
Add: Annualized Difference		616,191
Total Restated Annualized Revenues for 1989	$	1,718,599

In order to estimate the 1987 revenues, we applied a deflation factor of 5 percent consisting of 3 percent inflation and 2 percent real growth to the restated 1989 revenues. This would approximate 1987 revenues as $1,551,036. This indicates that the entire practice was generating 81.13 percent of the annual revenues just prior to the divorce ($1,551,036 ÷ $1,911,743). Using the relationship of revenues as a proxy for the change in value, an estimate of the value of The Practice in 1987 can be performed as follows:

Value - March 23, 2000		$ 702,000
Revenue Relationship	x	81.13%
Value - 1987		$ 569,533
Rounded		$ 570,000

Based on these figures, we estimated that the value of The Practice at November 28, 1987 was approximately $570,000. In order to be consistent with the treatment of personal goodwill from the latter date, we estimated that 20 percent of this amount or $114,000 should be considered non-marital, personal goodwill. Therefore, the value that should be used as the base to calculate an incremental value would be $456,000.

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 percent to 20 percent were mentioned as an example. Many Valuation analysts 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		6.25%[1]
Equity Risk Premium -- Stocks over Bonds	+	7.13%[2]
Average Market Return	=	13.38%
Benchmark Premium for Size	+	6.06%[3]
Adjustments for Other Risk Factors	+	3.00%[4]
Discount Rate for Net Cash Flow	=	22.44%
Increment Specific to Net Earnings	+	5.00%[5]
Discount for Rate for Net Earnings	=	27.44%
Rounded		27.00%

CAPITALIZATION RATES

Discount Rate for Net Earnings		27.00%
Growth Rate	-	3.00%
Capitalization Rate for Net Earnings	=	24.00%
Excess Earnings Premium	+	9.00%
Capitalization Rate for Excess Earnings	=	**33.00%**

1. www.forecasts.org/data/index.htm for a 20-year U.S. Treasury Bond for March 23, 2000.

2. *Stocks, Bonds, Bills and Inflation 2000 Yearbook*, Ibbotson Associates, difference between the total returns on common stocks and long-term government bonds from 1926 to 1999.

3. *Stocks, Bonds, Bills and Inflation 2000 Yearbook*, Ibbotson Associates, difference between the total returns on small company stocks and large company stocks.

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

5. The additional risk factor relating to the need to reinvest the cash flow of the company, based on documented work as performed by Joseph Agiato, CPA, CBA, ASA, as part of a culminating project at Lindenwood College.

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

An equity risk premium is added to the safe rate which represents the premium that common stockholders received in the public marketplace over investors in long-term government bonds. This indicates that since equity securities are considered to be more risky by the investor, a higher rate of return has been required over the period of time indicated in the calculation of this premium.

Additional premia have been added to reflect size differentials relating to ABC Dental Care. An adjustment has also been made for other risk factors. In this instance, 3 percent has been added to reflect the additional level of risk.

Summing all of these items results in the derivation of a discount rate. The mathematical formula to distinguish between a discount rate and a capitalization rate is the subtraction of the present value of long-term sustainable growth from the discount rate. The present value of the long-term sustainable growth has been included at a rate of 3 percent for ABC Dental Care. This rate has been determined using an inflationary growth rate.

An additional 9 percent premium has been added to this capitalization rate in order to determine the capitalization rate for excess earnings. This is based on the Valuation analyst’s estimate of the amount of additional risk associated with the intangible assets of the practice. Since intangible assets by their nature are riskier than the entire business enterprise, which consists of tangible and intangible assets, a higher capitalization rate must be considered in the calculation of intangible value.

PREMIUMS AND DISCOUNTS

VALUATION PREMIUMS AND DISCOUNTS IN GENERAL

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

CONTROL PREMIUM

The prorata value of a controlling interest in a closely-held company is said to be worth more than the value of a minority interest, due to the prerogatives of control that generally follow the controlling shares. An investor will generally pay more (a premium) for the rights that are considered to be part of the controlling interest. 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.[22]

All valuation methods used in this report yield a control value. Therefore no premium is warranted.

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 result due to restricted stock, buy-sell

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

agreements, bank loan restrictions or other types of contracts that restrict the sale of the shares. Even when a 100 percent interest is the valuation subject, a DLOM may be appropriate if the owner cannot change the restrictions on the stock.

The most commonly used sources of data for determining an appropriate level of a DLOM are studies involving restricted stock purchases or initial public offerings. Revenue Ruling 77-287 references the Institutional Investor Study[23], which addresses restricted stock issues. Many studies have updated this one.

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

The registration exemption on restricted stocks is granted under Section 4(2) of the 1933 Securities Act. The intent of Section 4(2) is to allow "small" corporations the ability to raise capital without incurring the costs of a public offering. Regulation D, a safe harbor regulation, which became effective in 1982, falls under section 4(2) of the code and provides uniformity in federal and state securities laws regarding private placements of securities. Securities bought under Regulation D are subject to restrictions, the most important being that the securities cannot be resold without either registration under the Act, or an exemption.[24] The exemptions for these securities are granted under Rule 144.

> Rule 144 allows the limited resale of unregistered securities after a minimum holding period of two years. Resale is limited to the higher of 1 percent of outstanding stock or average weekly volume over a 4 week period prior to

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[23] 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, pp. 2444-2456.

[24] 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 Valuation analysts: *Valuation*, March 1991, pp. 22-23.

the sale, during any three month period. There is no quantity limitation after a four year holding period.[25]

Therefore, a holder of restricted stock must either register their securities with the SEC or qualify for a 144 exemption, in order to sell their stock on the public market. A holder of restricted stock can, however, trade the stock in a private transaction. Historically when traded privately, the restricted stock transaction was usually required to be registered with the SEC. However, in 1990, the SEC adopted Rule 144a which relaxed the SEC filing restrictions on private transactions. The rule allows qualified institutional investors to trade unregistered securities among themselves without filing registration statements.[26] Effective April 1997, the two year holding period was reduced to one year.

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

Table 20 is a summary of many of the more familiar studies regarding restricted stock.

TABLE 20
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

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25 *Ibid.*

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

Management Planning, Inc.[m]	1980-1996	27.1
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

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, pp. 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, pp. 353-354.

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

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

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

[f] From "Revenue Ruling 77-287 Revisited," *SRC Quarterly Reports*, Spring 1983, pp. 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, pp. 60-64.

[k] Lance S. Hall and Timothy C. Polacek, "Strategies for Obtaining the Largest Discount," *Estate Planning*, January/February 1994, pp. 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, pp. 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 (1980-1996)" 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, pp. 1-3. Also, "Quantitative Support for Discounts for Lack of Marketability," *Business Valuation Review*, December 1999, pp. 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, pp. 1-5. This study focuses on the change in discounts as a result of the holding period reduction from two years to one year.

Source: *Guide to Business Valuations*, Practitioners Publishing Co., Fort Worth, Texas, 2003.

SEC INSTITUTIONAL INVESTOR STUDY

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

> Restricted securities are usually sold at a discount from their coeval market price, if any, primarily because of the restrictions on their resale. With the information supplied by the respondents on the purchase prices of the common stock and the dates of transaction, the Study computed the implied discounts in all cases in which it was able to locate a market price for the respective security on the date of the transaction.[27]

Table 21 contains a reproduction of Table XIV-45 of the SEC Institutional Investor Study showing the size of discounts at which restricted stock transactions took place compared with the prices, as of the same date, of the freely traded but otherwise identical stocks.[28] The table shows that about half of the transactions, in terms of real dollars, took place at discounts ranging from 20 to 40 percent.

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27 "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, pp. 2444-2456.

28 *Ibid.*

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

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

TABLE 21
SEC INSTITUTIONAL INVESTOR STUDY

	Discount							
	-15.0% to 0.0%		0.1% to 10.0%		10.1% to 20.0%		20.1% to 30.0%	
Trading Market	**No. of Trans-actions**	**Value of Purchases**	**No. of Trans-actions**	**Value of Purchases**	**No. of Trans-actions**	**Value of Purchases**	**No. of Trans-actions**	**Value of Purchases**
Unknown	1	$ 1,500,000	2	$ 2,496,583	1	$ 205,000	0	$ 0
New York Stock Exchange	7	3,760,663	13	15,111,798	13	24,503,988	10	17,954,085
American Stock Exchange	2	7,263,060	4	15,850,000	11	14,548,750	20	46,200,677
Over-the-Counter (Reporting Companies)	11	13,828,757	39	13,613,676	35	38,585,259	30	35,479,946
Over-the-Counter (Non-Reporting Companies)	5	8,329,369	9	5,265,925	18	25,122,024	17	11,229,155
TOTAL	**26**	**$ 34,681,849**	**67**	**$ 52,337,982**	**78**	**$ 102,965,021**	**77**	**$ 110,863,863**

TABLE 21
SEC INSTITUTIONAL INVESTOR STUDY

	Discount							
	30.1% to 40.0%		40.1% to 50.0%		50.1% to 80.0%		Total	
Trading Market	No. of Trans-actions	Value of Purchases	No. of Trans-actions	Value of Purchases	No. of Trans-actions	Value of Purchases	No. of Trans-actions	Value of Purchases
Unknown	2	$ 3,332,000	0	$ 0	1	$ 1,259,995	7	$ 8,793,578
New York Stock Exchange	3	11,102,501	1	1,400,000	4	5,005,068	51	78,838,103
American Stock Exchange	7	21,074,298	1	44,250	4	4,802,404	49	109,783,439
Over-the-Counter (Reporting Companies)	30	58,689,328	13	9,284,047	21	8,996,406	179	178,477,419
Over-the-Counter (Non-Reporting Companies)	25	29,423,584	20	11,377,431	18	13,505,545	112	104,253,033
TOTAL	**67**	**$ 123,621,711**	**35**	**$ 22,105,728**	**48**	**$ 33,569,418**	**398**	**$ 480,145,572**

GELMAN STUDY

In 1972, Milton Gelman, with National Economic Research Associates, Inc., published the results of his study of prices paid for restricted securities by four closed-end investment companies specializing in restricted securities investments.[29] 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*,[30] authored by Robert E. Moroney of the investment banking firm Moroney, Beissner & Co., contained the results of a study of the prices paid for restricted securities by 10 registered investment companies. The study included 146 purchases at discounts ranging from 3 to 90 percent. The average discount was approximately 33 percent. Despite the pretty broad range, the average discount was, once again in line with the other studies.

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

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

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

> 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 Valuation analysts 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 Valuation analysts need not stop at 35 percent merely because it's perhaps the largest discount clearly approved in a court decision. Valuation analysts can now cite a number of known arm's-length transactions in which the discount ranged up to 90 percent.[31]

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 Untied 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![32]

MAHER STUDY

J. Michael Maher, with Connecticut General Life Insurance Co., conducted another interesting study on lack of marketability discounts for closely-held business interests. The results of this well documented study were published in the September 1976 issue of *Taxes*.[33] 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

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31 *Ibid*., p. 151.

32 Robert E. Moroney, "Why 25 Percent Discount for Nonmarketability in One Valuation, 100 Percent in Another?" *Taxes*, May 1977, p. 320.

33 J. Michael Maher, "Discounts for Lack of Marketability for Closely-Held Business Interests," *Taxes*, September 1976, pp. 562-71.

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

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

> The result I have reached is that most Valuation analysts 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, Valuation analysts should also consider a discount for a minority interest in those closely-held corporations where a discount is applicable.[35]

TROUT STUDY

The next study was performed by Robert R. Trout. Trout was with the Graduate School of Administration, University of California, Irvine and Trout, Shulman & Associates. Trout's study of restricted stocks covered the period 1968 to 1972 and addressed purchases of these securities by mutual funds. Trout attempted to construct a financial model which would provide an estimate of the discount appropriate for a private company's stock.[36]

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34 *Ibid*., p. 571.

35 *Ibid*.

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

Creating a multiple regression model involving 60 purchases, Trout measured an average discount of 33.45 percent for restricted stock from freely traded stock.

STANDARD RESEARCH CONSULTANTS STUDY

In 1983, Standard Research Consultants analyzed private placements of common stock to test the current applicability of the SEC Institutional Study.[37] Standard Research studied 28 private placements of restricted common stock from October 1978 through June 1982. Discounts ranged from 7 percent to 91 percent, with a median of 45 percent, a bit higher than seen in the other studies.

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

WILLAMETTE MANAGEMENT ASSOCIATES, INC. STUDY

Willamette Management Associates analyzed private placements of restricted stocks for the period January 1, 1981 through May 31, 1984.[38] In discussing the study, Willamette states that the early part of this unpublished study overlapped the last part of the Standard Research study, but there were very few transactions that took place during the period of overlap. According to the discussion of the study in *Valuing a Business*, most of the transactions in the study took place in 1983.

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

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

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.[39] Silber identified 69 private placements involving common stock of publicly traded companies. The restricted stock in this study could be sold under Rule 144 after a two-year holding period. Silber, similar to Trout, tried to develop a statistical model to explain the price differences between securities that differ in resale provisions. Silber concluded that the discount on restricted stock varies directly with the size of the block of restricted stock relative to the amount of publicly traded stock issued by the company. He found that the discounts were larger when the block of restricted stock was large compared to the total number of shares outstanding. Silber also noted that the size of the discount was inversely related to the credit-worthiness of the issuing company.

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

FMV STUDY

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

MANAGEMENT PLANNING INC. STUDY

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

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.[40]

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.

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

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

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

BRUCE JOHNSON STUDY

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

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

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

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

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

REVENUE RULING 77-287

In 1977, in Revenue Ruling 77-287, the Internal Revenue Service specifically recognized the relevance of the data on discounts for restricted stocks. The purpose of the ruling was "to provide information and guidance to taxpayers, Internal Revenue Service personnel and others concerned with the valuation, for Federal tax purposes, of securities that cannot be immediately resold because they are restricted from resale pursuant to Federal security laws."[41] The ruling specifically acknowledges the conclusions of the SEC Institutional Investor Study and the values of restricted securities purchased by investment companies

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

as part of the "relevant facts and circumstances that bear upon the worth of restricted stock."

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

INITIAL PUBLIC OFFERING STUDIES

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

Robert W. Baird & Co., a regional investment banking firm has conducted seven studies over time periods ranging from 1980 through June 1997, comparing the prices in closely-held stock transactions, when no public market existed, with the prices of subsequent IPOs in the same stocks. The results are presented in Table 22.

TABLE 22
THE VALUE OF MARKETABILITY AS ILLUSTRATED IN INITIAL PUBLIC OFFERINGS OF COMMON STOCK

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

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

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

A similar private, unpublished study has been performed by Willamette Management Associates. Their results are in the data presented in Table 23.

TABLE 23
SUMMARY OF DISCOUNTS FOR PRIVATE TRANSACTION
P/E RATIOS COMPARED TO PUBLIC OFFERING
P/E RATIOS ADJUSTED FOR CHANGES IN INDUSTRY P/E RATIOS

Time Period	Number of Companies Analyzed	Number of Transactions Analyzed	Median Discount (%)
1975-1978	17	31	54.7
1979	9	17	62.9
1980-1982	58	113	55.5
1984	20	33	74.4
1985	18	25	43.2
1986	47	74	47.5
1987	25	40	43.8
1988	13	19	51.8
1989	9	19	50.4
1990	17	23	48.5
1991	27	34	31.8
1992	36	75	52.4

Source: Willamette Management Associates, as appearing in *Valuing a Business*, Shannon P. Pratt, Robert F. Reilly and Robert P. Schweihs, Third Edition

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

All of the studies discussed involve minority interests. A controlling interest is generally easier to sell. In this instance, dental practices are actively sold in the market. To gain liquidity, the practitioner will generally list the practice for sale with a business broker.

Therefore, a 10 percent discount has been applied to the income and asset approaches as the rate of return estimated from the public market assumes liquidity. The transaction method considers sales of closely held practices so any discount is already reflected through the holding period of the practice.

ABC DENTAL CARE
BALANCE SHEET
AS OF DECEMBER 31,

	1995	1996	1997	1998	1999
Current Assets					
Cash	$ 2,051	$ (651)	$ (2,960)	$ 805	$ (20,834)
Accounts Receivable	195,920	205,920	209,917	471,522	688,022
Loan Receivable Costa Rica Lab	28,324	28,324	28,324	32,175	32,175
Employee advances	23	-	360	360	-
Loan to Shareholder	-	151,365	563,694	-	-
Total Current Assets	$ 226,318	$ 384,958	$ 799,335	$ 504,862	$ 699,363
Fixed Assets					
Machinery & Equipment	$ 14,332	$ 14,713	$ 14,713	$ 22,011	$ 23,286
Office Equipment	-	-	-	41,100	61,910
Furniture & Fixtures	78,276	83,431	82,403	14,805	14,805
Leasehold Improvements	10,220	27,690	20,431	80,370	80,370
Gross Fixed Assets	$ 102,828	$ 125,834	$ 117,547	$ 158,286	$ 180,371
Accumulated Depreciation	31,183	62,557	87,244	114,391	147,280
Net Fixed Assets	$ 71,645	$ 63,277	$ 30,303	$ 43,895	$ 33,091
Total Other Assets	$ 1,300	$ 1,300	$ 597	$ 597	$ 729
TOTAL ASSETS	**$ 299,263**	**$ 449,535**	**$ 830,235**	**$ 549,354**	**$ 733,183**
Current Liabilities					
Accounts Payable	$ -	$ -	$ -	$ 7,615	$ 5,269
Long-Term Debt - Current Portion	9,123	9,123	9,123	9,123	9,123
Payroll Taxes Payable	493	4,682	2,268	2,747	7,052
Due to Employee	-	329	329	-	-
Total Current Liabilities	$ 9,616	$ 14,134	$ 11,720	$ 19,485	$ 21,444
Long-Term Liabilities					
Notes Payable	$ 151,145	$ 114,013	$ 178,249	$ 179,441	$ 180,587
Loans from Stockholder	4,570	(1,615)	-	88,012	64,136
Notes Payable (A. Brown)	27,820	20,743	20,865	20,279	9,479
Total Long-Term Liabilities	$ 183,535	$ 133,141	$ 199,114	$ 287,732	$ 254,202
Total Liabilities	$ 193,151	$ 147,275	$ 210,834	$ 307,217	$ 275,646
Stockholder's' Equity					
Common Stock	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000
Paid - In Capital	27,712	27,712	27,712	27,712	27,712
Retained Earnings	77,400	273,548	590,689	213,425	428,825
Total Stockholder's Equity	$ 106,112	$ 302,260	$ 619,401	$ 242,137	$ 457,537
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	**$ 299,263**	**$ 449,535**	**$ 830,235**	**$ 549,354**	**$ 733,183**

ABC DENTAL CARE
INCOME STATEMENT
FOR THE YEARS ENDED DECEMBER 31,

	1995	1996	1997	1998	1999
Revenues	$ 1,485,947	$ 1,683,561	$ 1,832,504	$ 1,900,917	$ 1,911,743
Cost of Sales					
Purchases	$ 141,832	$ 182,046	$ 170,608	$ 163,826	$ 222,148
Freight	634	1,589	877	164	1,166
Lab - Fees	158,618	161,564	166,394	165,895	190,346
Shots	-	-	-	1,261	2,955
Collection cost	3,973	10,448	14,879	-	-
Contract services	4,325	-	241	-	-
Other Costs	-	-	115	-	-
Total Cost of Sales	$ 309,382	$ 355,647	$ 353,114	$ 331,146	$ 416,615
Gross Profit	$ 1,176,565	$ 1,327,914	$ 1,479,390	$ 1,569,771	$ 1,495,128
Operating Expenses					
Advertising	$ 41,732	$ 50,492	$ 40,836	$ 20,432	$ 17,316
Auto Expense	5,565	6,995	6,290	3,195	5,929
Bank Charges	7,538	2,504	1,779	18,057	11,299
Depreciation	20,113	14,986	16,691	31,736	32,889
Entertainment	1,622	278	814	1,587	1,100
Officer's Compensation	110,000	125,467	78,436	51,820	33,328
Insurance - General	41,101	28,840	37,383	48,460	46,559
Licenses & Fees	8,862	5,564	5,396	6,720	2,238
Miscellaneous	(976)	82	4,489	2,979	(294)
Office Expenses	19,042	20,923	16,578	18,233	9,492
Outside Services	-	3,700	5,000	1,328	-
Professional Fees	5,462	6,869	7,694	6,488	10,038
Rents	37,133	38,615	38,689	41,151	35,657
Repairs and Maintenance	20,666	43,187	29,762	35,606	29,245
Equipment Rental	1,603	1,676	1,287	3,136	1,253
Salaries & Wages	612,797	670,554	733,293	766,812	796,004
Taxes - Payroll	49,843	52,113	62,209	56,431	61,046
Telephone	13,688	6,506	12,477	29,169	20,251
Travel	287	-	702	3,131	4,740
Utilities	22,284	18,379	18,137	18,722	13,343
Dues and subscriptions	1,137	1,050	1,073	1,422	748
Education	2,561	587	1,929	924	2,705
Uniform and Laundry	2,492	3,786	3,556	3,174	4,397
Total Operating Expenses	$ 1,024,552	$ 1,103,153	$ 1,124,500	$ 1,170,713	$ 1,139,283
Operating Income	$ 152,013	$ 224,761	$ 354,890	$ 399,058	$ 355,845
Total Other Expenses	17,107	15,946	16,715	14,033	25,379
NET INCOME	**$ 134,906**	**$ 208,815**	**$ 338,175**	**$ 385,025**	**$ 330,466**

SOURCES OF INFORMATION UTILIZED

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

1. Form 1120S, U.S. Income Tax Return for an S Corporation for 1999.
2. Form 1120S, U.S. Income Tax Return for an S Corporation for 1998.
3. Form 1120S, U.S. Income Tax Return for an S Corporation for 1997.
4. Form 1120S, U.S. Income Tax Return for an S Corporation for 1996.
5. Form 1120S, U.S. Income Tax Return for an S Corporation for 1995.
6. Financial statements prepared by ABC Dental Care as of March 23, 2000.
7. Financial statements prepared by ABC Dental Care as of February 29, 2000.
8. Financial statements prepared by ABC Dental Care as of December 31, 1999.
9. Financial statements prepared by ABC Dental Care as of December 31, 1998.
10. Financial statements compiled by I Do Numbers, P.A. for the year ended December 31, 1997.
11. Financial statements compiled by I Do Numbers, P.A. for the year ended December 31, 1996.
12. Financial statements compiled by I Do Numbers, P.A. for the year ended December 31, 1995.
13. Accounts receivable summary for the month of March 2000.
14. History analysis dated January 10, 2003 from Coast Collection Bureau.
15. A supply inventory provided by ABC Dental Care.
16. An accounts payable aging detail as of March 31, 2000 provided by ABC Dental Care.
17. Financial statements for the year ended December 31, 1989 compiled by Number Crunchers, Inc.
18. Financial statements for the year ended December 31, 1990 compiled by Number Crunchers, Inc.

SOURCES OF INFORMATION UTILIZED

19. Contract for sale between Dr. Scott Brown and Dr. Mark Kaplan dated July 1989 for the City Two practice.

20. Lease Agreement between 8 Cousins, LLC and ABC Dental Care effective January 1, 2004 for the rental of the property at 1234 Main Avenue, City One, Florida.

21. Various insurance contracts with DMOs and PPOs.

22. Production information by doctor.

23. The ABC County telephone directory.

24. Other items referenced throughout this report.

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

CONTINGENT AND LIMITING CONDITIONS

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

1. Information, estimates, and opinions contained in this report are obtained from sources considered reliable; however, Trugman Valuation Associates, Inc. has not independently verified such information and no liability for such sources is assumed by this valuation analyst.

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

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

4. None of the contents of this valuation report shall be conveyed to any third party or to the public through any means without the express written consent of Trugman Valuation Associates, Inc.

5. No investigation of titles to property or any claims on ownership of the property by any individuals or company has been undertaken. Unless otherwise stated in our report, title is assumed to be clear and free of encumbrances and as provided to the valuation analyst.

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

7. The various estimates of value presented in this report apply to this appraisal only and may not be used out of the context presented herein. Any other use of this report may lead the user to an incorrect conclusion for which Trugman Valuation Associates, Inc. assumes no responsibility.

CONTINGENT AND LIMITING CONDITIONS

8. The appraisal estimate of fair market value reached in this report is necessarily based on the definition of fair market value as stated in the Introduction Section. An actual transaction in the shares may be concluded at a higher value or lower value, depending on the circumstances surrounding the company, the appraised business interest and/or the motivations and knowledge of both the buyers and sellers at that time. Trugman Valuation Associates, Inc. makes no guarantees as to what values individual buyers and sellers may reach in an actual transaction.

9. It should be specifically noted that the valuation assumes the business will be competently managed and maintained by financially sound owners, over the expected period of ownership. This appraisal engagement does not entail an evaluation of management's effectiveness, nor are we responsible for future marketing efforts and other management or ownership actions upon which actual results will depend.

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

11. It is assumed that there are no regulations of any government entity to control or restrict the use of the underlying assets, unless specifically referred to in the report and that the underlying assets will not operate in violation of any applicable government regulations, codes, ordinances or statutes.

12. Valuation reports may contain prospective financial information, estimates or opinions that represent the view of the valuation analyst about reasonable expectations at a particular point in time, but such information, estimates or opinions are not offered as predictions or as assurances that a particular level of income or profit will be achieved, or that specific events will occur.

13. We assume that there are no hidden or unexpected conditions of the business that would adversely affect value, other than as indicated in this report.

VALUATION ANALYST'S REPRESENTATION

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

- the statements of fact contained in this report are true and correct to the best of our knowledge and belief, subject to the assumptions and conditions stated.

- the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, 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 or bias with respect to the parties involved.

- our compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report.

- no one provided significant professional assistance other than the valuation analyst whose signature appears below.

- our analyses, appraisal, opinions, and conclusions were developed and this report has been prepared in accordance with the Uniform Standards of Professional Appraisal Practice, and the business valuation standards of The Institute of Business Appraisers Inc., and the American Society of Valuation analysts.

- The American Society of Appraisers has a mandatory recertification program for all of its Senior members. All Senior members of our firm are in compliance with that program.

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

Experience

Director 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 but are not limited to security, automotive, funeral homes, health care, securities brokerage and financial institutions, retail, manufacturing, service, and professional business establishments. Assignments have also included the valuation of stock options and various types of intangible assets.

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, New York, Pennsylvania, Connecticut and Florida, Federal District Court in Newark, New Jersey and Hammond, Indiana, and has performed extensive services relating to court testimony. Testimony has also been provided in arbitration cases before the National Association of Securities Dealers and the American Stock Exchange, as well as other forms of arbitration.

Court Appearances. Has appeared in the following courts: *New Jersey* • Morris, Sussex, Bergen, Burlington, Passaic, Mercer, Middlesex, Monmouth, Essex, Hunterdon, Warren, Hudson, and Union. *New York* • Bronx. *Florida* • Palm Beach and Polk . *Connecticut* • Fairfield, Milford/Ansonia, Middlesex. *Pennsylvania* • Montgomery. *Massachusetts* • Middlesex. *Indiana* • Marion.

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

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

Early Settlement Panel. Has served on the Blue Ribbon Early Settlement Panel in Sussex County.

Professional Designations

- **CPA**: Licensed in Florida (*1996*), New Jersey (*1978*) and New York (*1977*).

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

Professional Designations

- **ABV**: Accredited in Business Valuation designated by The American Institute of Certified Public Accountants *(1998).*
- **MCBA**: Master Certified Business Appraiser designated by The Institute of Business Appraisers, Inc. *(1999*). Original certification (CBA) in 1987.
- **ASA**: Accredited Senior Appraiser designated by the American Society of Valuation analysts (*1991*). Reaccredited in 2001.
- **DABFA**: Diplomate of The American Board of Forensic Accounting designated by The American College of Forensic Examiners *(1997).*

Education

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

Faculty

- *National Judicial College,* Reno, Nevada since 1997.

Appraisal Education

- *New Jersey Law and Ethics Course*. Parsippany, NJ, New Jersey Society of Certified Public Accountants, 2004.
- *22nd Annual Advanced Business Valuation Conference*. Chicago, IL, American Society of Appraisers, 2003.
- *AICPA National Business Valuation Conference*. New Orleans, LA, American Institute of Certified Public Accountants, 2002.
- *Brown v. Brown: The Most Important Equitable Distribution Decision Since Painter*. Fairfield, NJ, New Jersey Institute for Continuing Legal Education, 2002.
- *2001 National Business Valuation Conference.* Las Vegas, NV, American Institute of Certified Public Accountants, 2001.

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

Appraisal Education

- *2001 Share the Wealth Conference.* Orlando, FL, The Institute of Business Appraisers, 2001.
- *2000 National Conference on Business Valuation,* Miami, FL, American Institute of Certified Public Accountants, 2000.
- *19th Annual Advanced Business Valuation Conference*, Philadelphia, PA, American Society of Appraisers, 2000.
- *Hot Issues in Estate and Gift Tax Returns: What do the Auditors Look For?* Fairfield, NJ, New Jersey Institute for Continuing Legal Education, 2000.
- *Pulling Ahead of the Pack - The Institute of Business Appraisers' 2000 National Conference.* Phoenix, AZ, The Institute of Business Appraisers, 2000.
- *Business Valuation Conference*. Las Vegas, NV, American Institute of Certified Public Accountants, 1999.
- *1999 International Appraisal Conference.* Boston, MA, American Society of Appraisers, 1999
- *1999 Annual Conference: The Future of Business Valuation.* Orlando, FL, The Institute of Business Appraisers, Inc., 1999.
- *1998 Joint Business Valuation Conference.* Montreal, Canada, American Society of Appraisers and Canadian Institute of Chartered Business Valuators, 1998.
- *The Future of Business Valuation Annual Conference*. San Antonio, TX, The Institute of Business Appraisers, Inc., 1998.
- *Business Valuation Conference.* San Diego, CA, American Institute of Certified Public Accountants, 1997.
- *16th Annual Advanced Business Valuation Conference.* San Francisco, CA, American Society of Appraisers, 1997.
- *Quantifying Marketability Discounts.* San Francisco, CA, Mercer Capital, 1997.
- *Introduction to Machinery & Equipment Valuation.* Chicago, IL, American Society of Appraisers, 1997.
- *National Conference on Appraising Closely-Held Businesses.* San Diego, CA, The Institute of Business Appraisers, Inc., 1997.

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

Appraisal Education

- *Business Valuation Conference.* Phoenix, AZ, American Institute of Certified Public Accountants, 1996.
- *15th Annual Business Valuation Conference.* Memphis, TN, American Society of Appraisers, 1996.
- *1996 Business Valuation Conference.* Holmdel, NJ, NJ Society of Certified Public Accountants, 1996.
- *National Conference on Appraising Closely-Held Businesses.* Orlando, FL, The Institute of Business Appraisers, Inc., 1996.
- *Business Valuation Conference.* New Orleans, LA, American Institute of Certified Public Accountants, 1995.
- *14th Annual Business Valuation Conference.* Boston, MA, American Society of Appraisers, 1995.
- *1995 Matrimonial Conference.* Holmdel, NJ, New Jersey Society of Certified Public Accountants, 1995.
- *Joint Business Valuation Conference.* San Diego, CA, American Institute of Certified Public Accountants - The Institute of Business Appraisers, Inc., 1995.
- *1995 Business Valuation Conference.* Holmdel, NJ, New Jersey Society of Certified Public Accountants, 1995.
- *National Conference on Appraising Closely-Held Businesses.* Las Vegas, NV, The Institute of Business Appraisers, Inc., 1995.
- *1994 International Conference.* Chicago, IL., American Society of Appraisers, 1994.
- *National Conference on Appraising Closely-Held Businesses.* Orlando, FL, The Institute of Business Appraisers, Inc., 1994.
- *1993 International Conference.* Seattle, WA, American Society of Appraisers, 1993.
- *Uniform Standards of Professional Appraisal Practice and Professional Appraisal Ethics.* Seattle, WA, American Society of Appraisers, 1993.
- *11th Annual Business Valuation Conference.* Atlanta, GA, American Society of Appraisers, 1992.
- *1992 International Conference.* New Orleans, LA, American Society of Appraisers 1992.

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

Appraisal Education

- *National Conference on Appraising Closely-Held Businesses.* Orlando, FL, The Institute of Business Appraisers, Inc., 1992.
- *10th Annual Business Valuation Conference.* Scotsdale, AZ, American Society of Appraisers, 1991.
- *1991 International Conference.* Philadelphia, PA, American Society of Appraisers, 1991.
- *Appraising Closely-Held Businesses.* Orlando, FL, The Institute of Business Appraisers, Inc., 1991.
- *Principles of Valuation-Business Valuation Case Study.* New Orleans, LA, American Society of Appraisers, 1989.
- *Principles of Valuation–Business Valuation Methodology.* New Orleans, LA, American Society of Appraisers, 1988.
- *Divorce Tax Planning.* American Institute of Certified Public Accountants, 1988.
- *Valuation of Closely-Held Businesses.* Total Tape Inc., 1987.
- *Business Valuation for Accountants.* Paramus, NJ, The Institute of Business Appraisers, Inc., 1986.
- *Valuation of Closely-Held Businesses.* American Institute of Certified Public Accountants, 1986.
- Has performed extensive reading and research on business valuation and related topics.

Lecturer

- *Small Business Case Study.* Phoenix, AZ, American Institute of Certified Public Accountants National Business Valuation Conference, 2003.
- *Valuation Issues - What You Need to Know.* San Antonio, TX, AICPA National Auto Dealer Conference, 2003.
- *Professional Practice Valuations.* Tampa, FL, The Florida Bar - Family Law Section, 2003.
- *Business Valuation Basics.* Orlando, FL, The Florida Bar Annual Meeting, 2003.
- *Business Valuation for Divorce.* Orlando, FL, The Florida Bar Annual Meeting, 2003.

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

Lecturer

- *Business Valuation in a Litigation Setting*. Las Vegas, NV, CPAmerica International, 2003.
- *Advanced Testimony Techniques*. Chicago, IL, Illinois Business Valuation Conference, 2003.
- *To Tax or Not to Tax? Issues Relating to S Corps and Built-In Gains Taxes.* Washington, DC, Internal Revenue Service, 2003.
- *Issues for CPAs in Business Valuation Reports.* New Orleans, LA, American Institute of Certified Public Accountants, 2002.
- *Guideline Public Company Method: Minority Versus Control – Dueling Experts.* New Orleans, LA, American Institute of Certified Public Accountants, 2002.
- *To Tax or Not To Tax? - That Is The Question.* Minneapolis, MN, Minnesota Society of Certified Public Accountants, 2002.
- *Pressing Problems and Savvy Solutions When Retained by the Non-Propertied Spouse.* Las Vegas, NV, American Institute of Certified Public Accountants/American Academy of Matrimonial Lawyers, 2002.
- *The Transaction Method - IBA Database.* Atlanta, GA, Financial Consulting Group, 2002.
- *The Transaction Approach - How Do We Really Use It?* Tampa, FL, American Society of Appraisers International Conference, 2003.
- *Valuation Landmines - How Not To Get In Trouble.* Washington, DC, 2002 Annual Business Valuation Conference, The Institute of Business Appraisers, 2002.
- *Guest Lecturer on Business Valuation.* New York, NY, Fordham Law School, 2002.
- *Guideline Company Analysis*. Chicago, IL, Illinois CPA Foundation, 2002.
- *Guideline Company Analysis.* Las Vegas, NV, American Institute of Certified Public Accountants, 2001.
- *Discount and Capitalization Rates*. Bloomington, MN, Minnesota Society of CPAs, 2001.
- *Valuation Premiums and Discounts*. Louisville, KY, Kentucky Tax Institute, 2001.
- *Business Valuation.* St. Louis, MO, Edward Jones, 2001.
- *Business Valuation for Marital Dissolutions.* Dublin, OH, Ohio Supreme Court, 2001.

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

Lecturer

- *Testimony Techniques.* Chicago, IL, Illinois CPA Society, 2001.
- *Valuing the Very Small Business.* Chicago, IL, Illinois CPA Society, 2001.
- *Valuations in Divorce*. Ft. Lauderdale, FL, Florida Institute of Certified Public Accountants, 2001.
- *Valuation Land Mines To Watch Out For*. Miami, FL, American Institute of Certified Public Accountants, 2000.
- *Ask the Experts - Discounts and Premia*. Miami, FL, American Institute of Certified Public Accountants, 2000.
- *Understanding a Financial Report*. Columbia, SC, South Carolina Bar Association, 2000.
- *Business Damages*. Columbia, SC, South Carolina Bar Association, 2000.
- *A Fresh Look at Revenue Rulings 59-60 and 68-609.* New Orleans, LA, Practice Valuation Study Group, 2000.
- *Business Valuation: What's It Really All About?* New York, NY, New York State Society of Certified Public Accountants, 1999.
- *Understanding and Increasing the Value of Your Business*. Phoenix, AZ, Inc. Growth Conference, 1999.
- *Equitable Distribution of Closely-Held Businesses – Fair Market Value or Fair Value?* Atlantic City, NJ, Association of Trial Lawyers of America -- New Jersey, 1999.
- *Controversial Topics In Business Valuation*. Orlando, FL, The Institute of Business Appraisers, Inc., 1999; Ft. Lauderdale, FL, Florida Institute of Certified Public Accountants, 1999, 2003.
- *Discount and Capitalization Rates.* San Antonio, TX, The Institute of Business Appraise, Inc., 1998; Asheville, NC, North Carolina Association of Certified Public Accountants, 1998; Ohio, Ohio Society of Certified Public Accountants, 1998.
- *Developing a Niche in Business Valuation.* Las Vegas, NV, American Institute of Certified Public Accountants, 1998.
- *Digesting Business Valuation for Legal Transactions*. New Brunswick, NJ, Institute of Continuing Legal Education, 1997.
- *The Market Approach to Business* Valuation. Baltimore, MD, CPA Associates International, 1997.

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

Lecturer

- *Valuing Accounting Practices for Sale or Merger.* New Orleans, LA, American Institute of Certified Public Accountants Practitioners Symposium, 1997.
- *The Value of a Deal.* New York, NY, Practicing Law Institute, 1997.
- *Revenue Ruling 59-60 Revisited .* San Diego, CA, The Institute of Business Appraisers, Inc., 1997.
- *Capitalization Rates.* Greensboro, NC, National Association of Certified Valuation Analysts, 1996.
- *Valuation Discounts and Premiums.* Greensboro, NC, National Association of Certified Valuation Analysts, 1996; New York, NY, New York State Society of Certified Public Accountants, 1999; San Francisco, CA, Accounting Firms Associated, Inc., 1999.
- *Equitable Distribution Value of Small Closely-Held Businesses and Professional Practices.* Greensboro, NC, North Carolina Association of Certified Public Accountants, 1996.
- *Does the Market Transaction Method Really Work?* Phoenix, AZ, National Business Valuation Conference, American Institute of Certified Public Accountants, 1996.
- *Valuation Issues Affecting Transfers of Family Businesses.* Princeton, NJ, New Jersey Society of Certified Public Accountants Financial Planning Conference, 1996.
- *Crossfire: Why You Should Not Use the Excess Earnings Method.* New Orleans, LA, American Institute of Certified Public Accountants Business Valuation Conference, 1995.
- *Practice Aid 93-3, What Did We Do?* Tampa, FL, Florida Institute of Certified Public Accountants, 1995.
- *Revenue Ruling 59-60: What Does It Really Say?* East Brunswick, NJ, New Jersey Society of Certified Public Accountants, 1995.
- *Preparing and Defending a Business Valuation Report in Litigation.* Holmdel, NJ, New Jersey Society of Certified Public Accountants, 1995.
- *Using the Market Approach to Value Small and Medium Sized Businesses.* San Diego, CA; Orlando, FL, American Institute of Certified Public Accountants, Institute of Business Appraisers, Inc., Joint Conference, 1995 - 1996.
- *CPA's Role in Divorce Litigation*. Holmdel, NJ, New Jersey Society of Certified Public Accountants, 1995.

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

Lecturer

- *Business Valuation and Litigation.* Reno and Las Vegas, NV, Nevada Society of Certified Public Accountants, 1994.
- *Business Valuation with an Emphasis on Employee Stock Ownership Plans, Mergers and Acquisitions, and Initial Public Offerings.* Phoenix, AZ, National Industry Conference, American Institute of Certified Public Accountants, 1994.
- *Business Valuation-There's a Right Way and a Wrong Way to Do It.* Dallas, TX, Dallas Estate Planning Council, 1993, Chattanooga, TN, Chattanooga Estate Planning Council, 1998.
- *The CPA's Role in Divorce Litigation.* Louisville, KY, Kentucky Society of Certified Public Accountants, 1993.
- *Valuation of Accounting and Other Professional Practices.* West Orange, NJ, Small and Medium Firm Conference, NJ Society of Certified Public Accountants, 1993.
- *Information Gathering Strategies for Business Appraisal*. San Diego, CA, National Conference on Appraising Closely-Held Businesses, The Institute of Business Appraisers, Inc., 1993.
- *Capitalization Rates*. Edison, NJ, Matrimonial Conference, NJ Society of Certified Public Accountants, 1993.
- *Measure of Value in Theory and Reality for Marital Dissolutions.* Orlando, FL, National Conference on Appraising Closely-Held Businesses, The Institute of Business Appraisers, Inc., 1992.
- *Equitable Distribution Value of Closely-Held Companies and Professional Practices.* San Diego, CA, National Conference on Appraising Closely-Held Businesses, The Institute of Business Appraisers, Inc., 1991.
- *Tax Aspects of Divorce.* NJ, Institute of Continuing Legal Education, 1989-1990, 1992.
- *Appraising Closely-Held Businesses: Expert Testimony.* Orlando, FL, National Conference on Appraising Closely-Held Businesses, The Institute of Business Appraisers, Inc., 1990.
- *Business Valuation for Accountants.* NJ, The Institute of Business Appraisers, Inc., 1988, 1989, 1990.
- *Using Forecasts and Projections in Business Valuation*. Orlando, FL, Valuation Study Group, 1989.

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

Lecturer

- *What You Need to Know About Valuation and Litigation Support Services*. East Hanover, NJ, CPA Club, 1989.
- *Valuing Professional Practices.* San Diego, CA, National Conference on Appraising Closely-Held Businesses, The Institute of Business Appraisers, Inc., 1989.
- *What is Your Business Worth?* Wayne, NJ, Dean Witter Reynolds, 1988.
- *Understanding Business Valuation for the Practice of Law.* NJ, Institute of Continuing Legal Education, 1987.

Instructor

- *Splitting Up is Hard to Do: Advanced Valuation Issues in Divorce and Other Litigation Disputes.* American Institute of Certified Public Accountants, Providence, RI, 2002.
- *Fundamentals of Business Valuation - Part 1.* American Institute of Certified Public Accountants, Dallas, TX, 2001.
- *Advanced Topics*. The Institute of Business Appraisers, Orlando, FL, 2001.
- *Business Valuation.* Federal Judicial Center, Washington, DC, 2001.
- *Business Issues: Business Valuation-State Issues; Marital Dissolution; Shareholder Issues and Economic Damages*. National Judicial College, Charleston, SC, 2000.
- *Business Valuation for Marital Dissolutions*. National Judicial College, San Francisco, CA, 2000.
- *Business Valuation Workshop.* 2000 Spring Industry Conference, American Institute of Certified Public Accountants, Seattle, WA, 2000.
- *Developing Discount & Capitalization Rates.* The Institute of Business Appraisers, Phoenix, AZ, 2000.
- *Mergers & Acquisitions*. National Association of Certified Valuation Analysts, Nevada, 1998; Ohio, 1998.
- *Valuation Issues in Divorce Settings*. American Institute of Certified Public Accountants, New Jersey, 1998.

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

Instructor

- *Financial Statements in the Courtroom (Business Valuation Component).* American Institute of Certified Public Accountants for the National Judicial College, Texas, 1997; Florida, 1997, 1998, 2001; Louisiana, 1998, 1999; Nevada, 1999, 2001; South Carolina, 2000; Georgia, 2000; Arizona, 2001; New York, 2002; Colorado, 2003; Ohio, 2003; Florida, 2003.

- *Preparing for AICPA's ABV Examination Review Course.* American Institute of Certified Public Accountants, New York, 1997, 2000, 2001; Pennsylvania, 1998; Kansas, 1998; Maryland, 2000, 2001; Massachusetts, 2000; Virginia, 2002.

- *How to Value Mid-Size and Smaller Businesses/Using Transaction Data to Value Closely-Held Businesses.* Atlanta, GA, Chicago, IL, 1996.

- *Conducting a Valuation of a Closely-Held Business.* The Institute of Business Appraisers, Inc., 1996.

- *How To Value Mid-Size and Smaller Businesses.* The Institute of Business Appraisers, Inc., 1995.

- *Valuation of Small Businesses and Professional Practices.* American Society of Appraisers, 1995.

- *Uniform Standards of Professional Appraisal Practice.* American Society of Appraisers, 1995.

- *Advanced Topics in Business Valuation.* New Jersey Society of Certified Public Accountants, 1995, 1996, 1997.

- *Business Valuation Theory.* New Jersey, 1994, 1995, 1996, 1997, 1999, 2000, 2002.

- *Business Valuation Approaches and Methods.* New Jersey, 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2002; North Carolina, 1997, 1999, 2000; Louisiana, 1997, 1998; Massachusetts, 1997, 1998, 1999; Pennsylvania, 1997; New York, 1997, 2000; Indiana, 1997; Connecticut, 1997, 2000; Ohio, 1998; Rhode Island, 1999, 2003.

- *Business Valuation Discount Rates, Capitalization Rates, Valuation Premiums and Discounts.* New Jersey, 1998, 2000, 2002; North Carolina, 1997, 1999, 2000; Louisiana, 1997; Massachusetts, 1997, 1998; Rhode Island, 1997, 1999; Indiana, 1997; Connecticut, 1997, 2000.

- *Business Valuation*. Champaign, IL, American Institute of Certified Public Accountants National Tax School, 1994, 1995, 1996.

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PROFESSIONAL QUALIFICATIONS

Instructor

- *Principles of Valuation: Introduction to Business Valuation.* American Society of Appraisers, 1998, 1999, 2001, 2002.
- *Principles of Valuation: Business Valuation Methodology.* American Society of Appraisers, 1992, 1993, 1995, 1996, 1997, 1998, 1999, 2001.
- *Principles of Valuation: Case Study.* American Society of Appraisers, 1993, 1999, 2000, 2001, 2002, 2003.
- *Principles of Valuation: Selected Advanced Topics.* American Society of Appraisers, 1992, 1994, 1995, 1996, 1998, 2002.
- *Developing Your Business Valuation Skills: An Engagement Approach.* NJ Society of Certified Public Accountants, 1992, 1993.
- *Advanced Business Valuation Seminar.* The Institute of Business Appraisers, Inc., 1991, 1992.
- *10 Day Workshop on Appraising Closely-Held Businesses.* The Institute of Business Appraisers, Inc., 1991, 1998.
- *Financial Statement Analysis.* St. Charles, MO, Lindenwood College Valuation Sciences Program, 1989, 1990.
- *Former Adjunct Instructor of Federal Income Taxation and Intermediate Accounting.* Centenary College, Hackettstown, NJ, 1982-1987.

Organizations

- The Institute of Business Appraisers, Inc.
- American Society of Appraisers.
- American Institute of Certified Public Accountants.
- New Jersey Society of Certified Public Accountants.
- New York State Society of Certified Public Accountants.
- Association of Certified Fraud Examiners.
- The American College of Forensic Examiners.
- Florida Institute of Certified Public Accountants

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Awards

- Presented with the "Hall of Fame Award" by the American Institute of Certified Public Accountants in December 1999 for dedication towards the advancement of the business valuation profession.
- Presented with the "Fellow Award" by The Institute of Business Appraisers Inc., in January 1996 for contributions made to the profession.

Professional Appointments

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

Current Committee Service

- International Board of Examiners - American Society of Appraisers.
- Qualifications Review Committee - The Institute of Business Appraisers, Inc. (since 1987).
- Chairman of Disciplinary and Ethics Committee -The Institute of Business Appraisers, Inc. (committee established 1989).
- Education Subcommittee - American Society of Appraisers.
- AICPA Committee with the Judiciary.
- AICPA ABV Credential Committee.

Past Committee Service

- AICPA Management Consulting Services Division - Executive Committee (1995 - 1997).
- Chairman of the Valuation Standards Subcommittee - NJ Society of Certified Public Accountants Litigation Services Committee.
- Matrimonial Subcommittee - NJ Society of Certified Public Accountants Litigation Services Committee.

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Past Committee Service

- Co-Chair of Courses and Seminars for Certified Public Accountants Subcommittee - NJ Society of Certified Public Accountants.
- Education Committee - The Institute of Business Appraisers, Inc.
- Chairman of Education Committee - North Jersey Chapter of American Society of Appraisers.
- AICPA Subcommittee on Business Valuation & Appraisal.

Editor

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

Author

- *Guideline Public Company Method - Control or Minority Value?*, Shannon Pratt's Business Valuation Update (2003).
- *Signed, Sealed, Delivered*, Journal of Accountancy (2002).
- *A CPA's Guide to Valuing a Closely Held Business*, American Institute of Certified Public Accountants (2001).
- Course entitled *Business Issues - State Courts*, National Judicial College, Reno, NV (2000).
- *Understanding Business Valuation: A Practical Guide to Valuing Small to Medium-Sized Businesses,* American Institute of Certified Public Accountants, First Edition (1998) Second Edition (2002).
- Contributing author to *The Handbook of Advanced Business Valuation*, McGraw-Hill (1999).

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PROFESSIONAL QUALIFICATIONS

Author

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