



ABC AGENCY, INC.

**VALUATION OF NON-VOTING SHARES IN THE
COMPANY**

AS OF DECEMBER 31, 20XX

REPORT DATE: JUNE 17, 20XX

The information contained in this report is confidential. No part or all of the contents can be conveyed to the public without the prior written consent and approval of California Business Valuations. The opinion of value in this report is valid only for the stated purpose, size interest, and date of the valuation.



June 17, 20XX

Van D.
ABC Agency Inc.
Address

Re: Valuation of ABC Agency, Inc.

Dear Mr. D.:

We have performed a valuation engagement and present our report in conformity with the "Statement of Standards for Valuation Services No. 1" (SSVS) of the American Institute of Certified Public Accountants and Uniform Standards of Professional Appraisal Practice (USPAP).

This document is a summary report of an appraisal to determine the fair market value of the non-voting shares in ABC Agency, Inc. ("the Company") (on a non-controlling basis) for income tax purposes as of December 31, 20XX.

The term 'fair market value' is defined in Revenue Ruling 59-60 as *the price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arms length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.*

The fair market value, as determined within our report, shall not be used for other purposes or dates without our written consent. The scope of our engagement did not include a physical visit to the Company's offices. The financial data for this appraisal was provided by the Client.

In the opinion of the undersigned appraiser, using accepted methods of valuation, and subject to this report and the Statement of Limiting Conditions incorporated herein, the estimate of fair market value of 100% non-voting shares in ABC Agency, Inc. is **\$11,262,000** in aggregate, or **\$25.95** per share (based on a total of 433,917 shares outstanding), on a non-voting and illiquid minority basis, as of December 31, 20XX, for income tax purposes.

We retain a copy of this letter in our files, together with the field data from which it was prepared. We consider these records confidential, and we do not permit access to them by anyone without your authorization.

USPAP Certification

Uniform Standards of Professional Appraisal Practice (USPAP)

I certify that to the best of my knowledge and belief that:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and they are my personal, unbiased, professional analyses, opinions, and conclusions.
- I have no present or prospective interest in or bias with respect to the property that is the subject of this report, and we have no personal interest or bias with respect to the parties involved.
- I have performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- My analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*, the *Business Valuation Standards* of the *American Society of Appraisers*, and the *American Institute of Certified Public Accountants' Statement on Standards for Valuation Services*;
- The appraiser has NOT made a personal inspection of the subject business.
- No person except the undersigned participated materially in the preparation of this report.

Sincerely yours,

California Business Valuations,

Daniel T. Jordan, ASA, CBA, CPA, MBA
Accredited Senior Appraiser

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SAMPLE

Executive Summary

Client Name	Van D.
Purpose / Intended Use of Report	Income Tax
Subject Company Name	ABC Agency, Inc.
Interest % Valued	Non-Voting Shares
Ownership Characteristics	Closely-Held
Type of Entity	C-Corporation
Valuation Date	December 31, 20XX
Report Date	June 17, 20XX
Report Type	Appraisal Summary Report
Premise of Value	Going Concern
Standard of Value	Fair Market Value
Governing Standard	USPAP and Revenue Ruling 59-60
Appraiser Name	Daniel Jordan, ASA, CBA, CPA, MBA
Appraiser Firm	California Business Valuations

Valuation Engagement

Background

ABC Agency, Inc. (“the Company”), a *State* C-Corporation, incorporated on December 13, 20XX, is a property casualty insurance company. The firm is a management general agent, underwriting residential property risk on behalf of Southern Vanguard Ins. Co. Two shareholders (M. and W.) will be converting shares in their IRA accounts to Roth IRA’s (back door IRA conversion). The Company has issued voting and non-voting shares to its shareholders.

Purpose of the Report

This document is a summary report of an appraisal to determine the fair market value of the non-voting shares in ABC Agency, Inc. (“the Company”) (on a non-controlling basis) for income tax purposes as of December 31, 20XX.

Intended Users

The intended user of our report is the Client. Any other users are considered unintended users.

While it might seem logical that there is only one fair market value of an asset, that is not true. Value only has meaning in the context of a scenario, with its facts, assumptions, and the purpose of the valuation. Thus, our Appraisal may not be used for other purposes, valuation dates, size interests, or by other users without our written permission. Using our appraisal work in an unauthorized manner could be misleading and dangerous. The client agrees to indemnify California Business Valuations and its owner, against any losses arising from unauthorized use of our report.

Standard of Value

Fair Market Value

The term ‘fair market value’ is defined as the price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arms length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.¹

Fair Market Value vs. Investment Value

The fair market value of an asset is its value to a hypothetical buyer and seller. It is not the value of that asset to any particular buyer, which is investment value and is frequently different than fair market value. Investment value to a strategic buyer is almost always higher

¹ International Glossary of Business Valuation Terms. IRS Treasury Regulations, Estate Tax Regulations 20.2031-1 and Gift Tax Regulations 25.2512-1 define the term similarly.

than fair market value. Although our valuation is intended to estimate fair market value, we assume no responsibility for a seller's or buyer's inability to obtain a purchase contract at that price.

Premise of Value

Our opinion of Fair Market Value relied on a "value in use" or going concern premise. This premise assumed that the Company is an ongoing business enterprise with management operating in a rational way with a goal of maximizing shareholder value.

Scope of Work

To gain an understanding of the operations and financial condition of the Company, we reviewed the Company's financial statements and other corporate information as made available to us. To understand the environment in which the Company operates, we studied economic conditions as of the valuation date and their impact on the subject Company.

As discussed in more detail later in this report, we considered all valuation methodologies and applied the most appropriate methodologies from the income, asset, and market approaches to derive an opinion of value of the subject equity interest. Our conclusion of value reflects these findings, our judgment and knowledge of the marketplace, and our expertise in valuation.

No Auditing Procedures

We did not audit, compile, or review financial statements or other data, and we do not express an opinion or any form of assurance on them. Our study is not designed to disclose any errors in the financial statements, nor any fraud or defalcations.

Valuation Considerations

The valuation of closely held securities and other fractional interests requires consideration of all relevant factors that may influence the market price. The factors recognized by tax courts, the Internal Revenue Service, and professional investors generally include the following:

- The nature and history of the business enterprise
- The outlook of the economy and the specific industry
- The book value and financial condition of the business
- The earnings capacity of the business
- The dividend paying capacity of the business
- The nature and value of the tangible and intangible assets (goodwill) of the business
- The market price of securities of publicly traded corporations engaged in the same or similar lines of business
- The marketability, or lack thereof, of the securities

- The existence, if any, of a control premium with regard to the block of securities being valued
- Sales of the stock (or partnership or LLC interest) and the size of the block of the stock to be valued

These considerations are outlined and described in Revenue Ruling 59-60, 1959-1 CB 237, as modified by Revenue Ruling 65-193, 1965-2 CB 370, and Revenue Ruling 77-287, IRB 1977-33. Although Revenue Ruling 59-60 specifically addresses itself to stock valuations for gift and estate tax purposes, the principles set forth may be applied to a wide spectrum of valuation problems, including those related to stockholder buy/sell agreements, mergers and acquisitions, Employee Stock Ownership Plans, corporate reorganizations, marital dissolutions, and bankruptcies. This report will discuss these factors and address other items relevant to the subject interests to determine their effect upon the fair market value of the subject interests.

Sources of Data

- Internally prepared balance sheets, Years 20XX-20XX, provided by Company's Management.
- Internally prepared income statements, Years 20XX-20XX, provided by Company's Management.
- Business Valuation Questionnaire Completed By: *Name*.
- Market Data: DealStats Transaction Database SIC #6411--Insurance Agents, Brokers, and Service
- Kroll (formerly Duff & Phelps), 2021, The Kroll Cost of Capital Navigator.
- Economic statistics published by the government or other sources.
- Other sources specified herein.

Financial Review

In our Financial Review Section, we review the Company's historical balance sheets and income statements.

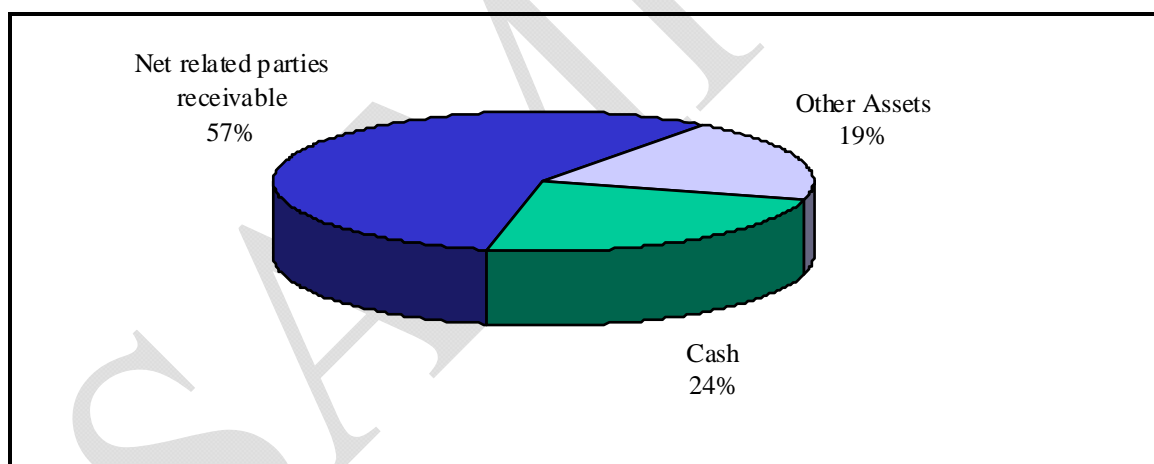
Balance Sheets

Table 4.1 displays the Company's balance sheets for the fiscal years ending December 31, 20XX through 20XX.² Table 4.1.A shows the balance sheets in percentages of total assets. Table 4.1.B shows the balance sheet items as a percentage of sales. Table 4.1.C displays the cash flow items as a percentage of sales.

Total Assets increased from \$7.9 million in 2019 to \$8.4 million in 2021. The largest assets as of the valuation date are cash of \$2.0 million, related parties receivable of \$4.8 million, and other current assets of \$1.6 million.

Fig. 4.1 depicts the composition of total assets as of December 31, 20XX.

FIG. 4.1: TOTAL ASSETS AS OF DECEMBER 31, 20XX
(By Percentage of Total Assets)



Total liabilities increased from -\$380,026 in 2019 to \$8.2 million in 20XX. ABC assumed the loan facility with Prosperity Bank from InsVest effective 2/1/2022 in the amount of \$5.3 million. The debt outstanding therefore increased from \$1.9 million to \$7.2 million. Since this was known as of the valuation date, we include this additional debt in the balance sheet as of December 31, 20XX.

Total equity decreased from \$8.3 million in 2019 to \$205,797 in 20XX.

² Source: Internally prepared balance sheets, Years 20XX-2XX1, provided by Company's Management. No balance sheets for 20XX and 20XX were available.

Income Statements

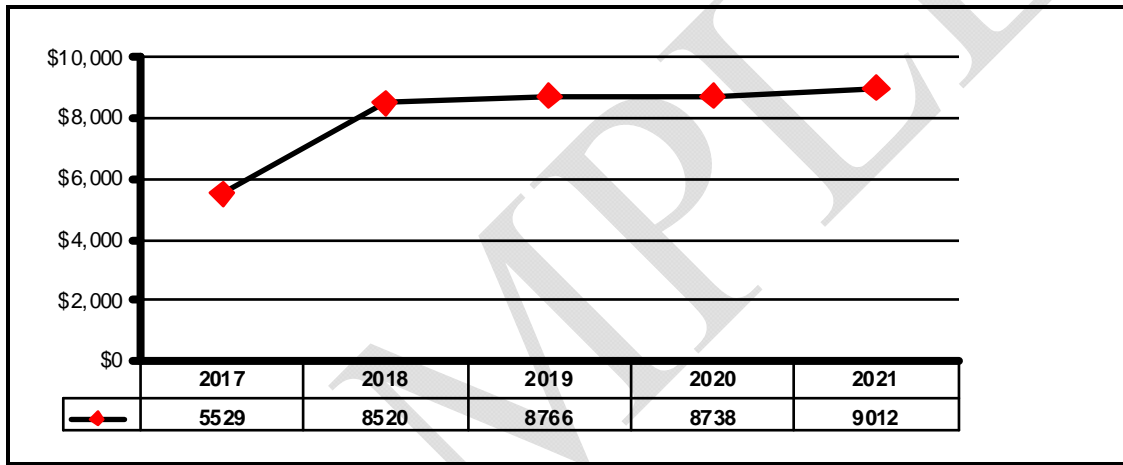
Table 4.2 shows the Company's historical income statements for the fiscal years ending December 31, 20XX through 20XX.³

Table 4.2.A is the Company's common size income statements for the same period, where all line items are shown as a percentage of total sales.

Net Revenues increased sharply from \$5.5 million in 20XX to \$8.5 million in 2018 and then only modestly to \$9.0 million in 20XX.

Figure 4.1 shows annual revenues for 20XX through 20XX.

FIGURE 4.1: ANNUAL TOTAL INCOME
(\$000's)

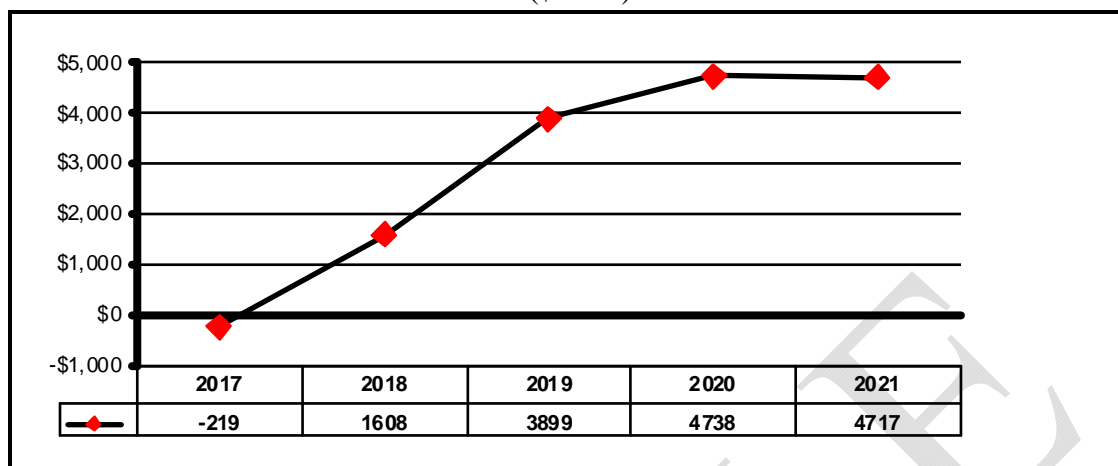


Net income before taxes (NIBT) increased from -\$218,934 in 20XX to \$4.7 million in 20XX and 20XX.

Figure 4.2 shows the net income before tax for the years 20XX through 20XX.

³ Source: Internally prepared income statements, Years 20XX-20XX, provided by Company's Management.

FIGURE 4.2: NET INCOME PER YEAR
(\$000's)



Adjustments to Financial Statements

In order to appropriately reflect the levels and trends of the financial performance of the Company, certain adjustments have been made to the historical income statements to reflect all levels of earnings on a normalized basis. The concept of normalizing earnings is to present data on a comparable basis to that of other companies and provide a foundation for developing future expectation about the subject Company.

The subject interests we are valuing are minority interests that have no power to change executive salaries or discretionary expenses. We therefore do not make such adjustments to net income. However, we still need to adjust for non-recurring items.

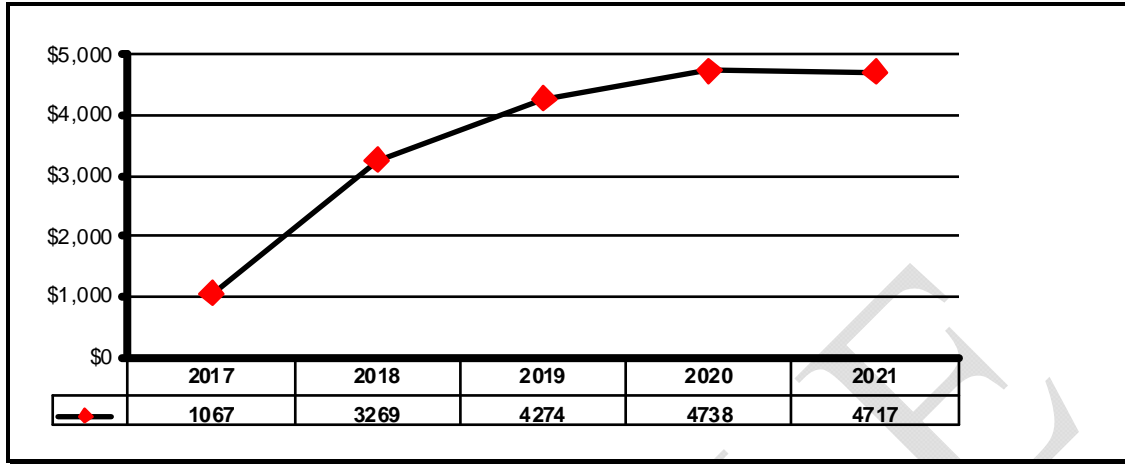
Non-Recurring Items

The Company amortized the goodwill at \$1.3 million in 20XX, \$1.7 million in 20XX, and \$375,000 in 20XX. There is no goodwill amortization since then. Since these deductions during 20XX and 20XX are non-recurring, we have added them back.

The Economic Net income before taxes (ENIBT) increased from \$1.1 million in 20XX to \$4.7 million in 20XX and 20XX.

Figure 4.3 shows the economic net income before tax for the years 20XX through 20XX.

FIGURE 4.3: ECONOMIC NET INCOME PER YEAR
(\$000's)



The Company is a C-Corporation. We apply corporate income taxes. The corporate tax rate has been changed to a flat 21% starting January 1st, 2018. We use 3% for the *State* Corporate State Tax. Companies deduct state and local tax expenses. The combined income tax rate for C-Corporations in *State* (federal & state) is calculated at 23.37%.

Weighting

Based on the historical up-trend, we weight the last three years equally but do not give any weight to 20XX and 20XX. The weighted economic net income after tax is \$3.5 million.

Valuation

Valuation Approaches

A valuation approach is “a general way of determining a value indication of a business... using one or more valuation methods.” A valuation method is, “within approaches, a specific way to determine value.”

There are three valuation approaches:

- **The Asset Approach.** In this approach, we seek to measure value through the calculation of assets net of liabilities, i.e., this is a balance sheet approach. One can use book, market, or liquidation values of assets in this approach. The same is true for liabilities, except that, in addition, it may be necessary to use a discounted cash flow method to calculate the market value of some liabilities such as notes payable.
- **The Income Approach.** In this approach, we seek to measure value by converting anticipated economic benefits (cash flows or income, with the former being the better measure) into a present single amount.
- **The Market Approach.** In this approach, we seek to measure value through comparing the subject company to other businesses or business interests that have sold.

Selection of Valuation Methods

In this appraisal, we utilize the Asset Appraisal Method, Capitalized Cash Flow Method, and the Transaction Method.

Reconciliation of FMV

Table 5.3 is a summary of the indicated values determined from each appraisal method as of December 31, 20XX. The various indications of value are weighted in order to arrive at a final estimate of value.

Asset Approach

The book value is \$205,797 as of the valuation date (Table 4.1).

Income Approach

The Capitalized Cash Flow Method resulted in a FMV-Illiquid Minority basis of \$15,387,000 (Table 5.1).

Market Approach

The Guideline Transaction Method included using private guideline companies from DealStats and resulted in a FMV-Private Control Basis of \$11,081,000 (Table 5.2).

Here, we value minority interests. We have to adjust the value from control to a minority basis by applying a discount for lack of control (DLOC).

We apply the discount for lack of control at 19.0% (transferred from Table 5.1.H).

A minority interest is less marketable than a 100% interest. We therefore subtract an additional discount for lack of marketability (DLOM) of 10%, based on professional judgment.

After the above adjustments, we arrive at the FMV-Private Minority Basis of \$8,075,617.

Weighting

Since each approach has its own validity, our starting position is to weight each one equally, or one-third. While the premise of value for the income and market approach is going concern, the asset approach is used more to determine the value of the company in liquidation. In other words, the Asset Approach is used to ascertain whether the Company is worth more “dead or alive.” If the Asset Approach with liquidating values yields a higher indication of fair market value than the Income and Market Approaches, i.e., the company is more valuable in liquidation than in operation, then a control shareholder would be wise to liquidate the Company, and the Asset Approach should dominate the other two approaches. However, a minority interest cannot force liquidation. Thus, the asset approach is only relevant when we value a control interest, since only a control interest has access to the value locked in the assets.

In our case, the asset approach resulted in a lower value than the income and market approaches. Thus, the income and market approaches dominate.

To calculate the final value, we weight the income and market approaches equally, as both approaches appear equally important, valid, and reliable.

The weighted average FMV of a 100% interest in the firm on an illiquid minority basis is **\$11,731,308**.

We are valuing a nonvoting member interest. Empirical research on both the U.S. and Canadian markets show that differentials between voting and nonvoting share prices are small, averaging under 5%. In *Barnes v. Commissioner*, one expert discounted the nonvoting stock by 3.66% and the other expert by 5%. The court found the use of a 3.66% discount for nonvoting stock reasonable. In *Kosman v. Commissioner*, the IRS expert opined to a 4%, which was based on the Lease, McConnell, and Mikkelson study published in the *Journal of Financial Economics* in April 1983. Based on the above, we apply a discount of 4% for the non-voting interest.

The FMV of 100% nonvoting shares is \$11,262,056. We divide this by 433,917, the number of shares outstanding⁴ as of the valuation date. The FMV per share is **\$25.95** as of December 31, 20XX.

⁴ The number of shares outstanding was provided by Management.

Conclusion

In our opinion, subject to the Statement of Limiting Conditions, the estimate of fair market value of 100% non-voting shares in ABC Agency, Inc. is **\$11,262,000** in aggregate, or **\$25.95** per share (based on a total of 433,917 shares outstanding), on a non-voting and illiquid minority basis, as of December 31, 20XX, for income tax purposes.

SAMPLE

Statement of Limiting Conditions

This appraisal is subject to the following assumptions and limiting conditions, in conjunction with the previously presented Certification section:

- (1) We have relied on the accuracy of the financial data provided, as referenced above. We have accepted the above financial data as correct without further verification as though they fairly and accurately represent the financial condition and activities of the Company. This information has been provided to us and is the responsibility of the client.
- (2) All other information used in this report is from sources we deem reliable. We have accurately reflected such information in this report; however, we make no representation as to our sources' accuracy or completeness and have accepted their information without further verification.
- (3) Neither our engagement nor this report can be relied upon to disclose any fraud, misrepresentation, deviations from Generally Accepted Accounting Principles, or other errors or irregularities.
- (4) The conclusions are based upon our review and analysis of documents and information provided but did not include a visit to the Company's offices. We assume that the present owners would continue to maintain the character and integrity of the enterprise through any sale, reorganization, or diminution of the owners' participation or equity interest.
- (5) All claims to property have been assumed to be valid and no investigation or consideration of legal title or any existing liens or encumbrances, which may be against the assets, were undertaken except as may be stated in this report.
- (6) We have not considered the existence of potential environmental liabilities, which may or may not be present on the underlying property. This includes real estate either owned or leased by the Company. Therefore, no responsibility can be taken for hidden or unapparent conditions of the property or potential claims against the Company.
- (7) Our opinion of value in this report is valid only for the stated purposes, and only as of the valuation date specified. The fair market value, as determined within our report, shall not be used for other purposes, size interests, or dates without our written permission.
- (8) This report reflects facts and conditions existing at the valuation date. Subsequent events and conditions have not been considered unless specifically noted and

- discussed in the report. We have no obligation to update our report for any other subsequent events and conditions.
- (9) The estimate of fair market value established by this report may rely on estimated values for some assets of the Company if independent appraisals for these assets are not available. Where such values are used in this appraisal no warranty is made with respect to these values. If these values are incorrect, the resulting estimate of the value of the subject ownership interest may be affected.
 - (10) An appraisal is not a legal or tax opinion. Its purpose is to estimate value according to the applicable standard of value. The appraiser assumes no responsibility whatsoever for legal or tax matters relative to its finding. Values are stated without reference to applicable legal or tax claims unless so noted.
 - (11) Though some similarities exist between value as used for this purpose and others, it would be incorrect to use the fair market value as determined within our report for any other purposes due to specific timing, performance, and marketability issues that arise in evaluating the fair market value of a company. Accordingly, any such use of the value as determined within this report for other purposes would be inaccurate and possibly misleading and no such use shall be made by the Company.
 - (12) Our determination of fair market value does not represent investment advice of any kind to any person and does not constitute a recommendation as to the purchase or sale of shares of the Company or as to any other course of action.
 - (13) Future services regarding the subject matter of this report, including, but not limited to, testimony or attendance in court shall not be required of California Business Valuations unless previous arrangements have been made in writing.
 - (14) Neither all nor any part of the contents of this report shall be conveyed to the public through advertising, public relations, news, sales, mail, direct transmittal, or other media without the prior written consent and approval of California Business Valuations.
 - (15) All users that are not directly involved with the purpose of this study are considered unintended users and should not rely on the information contained in this report without the advice of their attorney or accountant. This report may not be distributed in part, as only a thorough reading of this report can accurately convey the logic contained within. Excerpts taken out of context can be dangerously misleading and are therefore forbidden without the written consent of California Business Valuations.

Appraiser's Qualifications

Daniel Jordan, ASA, CBA, CPA, MBA, is the Managing Principal of California Business Valuations, specializing in the valuation of closely held businesses and intangible assets. Mr. Jordan provides business valuation services full time since 2000.

In addition to his CPA, Mr. Jordan has achieved multiple professional accreditations. He is an Accredited Senior Appraiser (ASA) and a Certified Business Appraiser (CBA). He earned his MBA Degree in Finance and Accounting from the Heinrich-Heine-University of Düsseldorf, Germany. Additionally, Mr. Jordan has published articles on valuation-related matters, lectured seminars, and provided expert testimony in court.

Mr. Jordan has been working for leading valuation firms. Prior to California Business Valuations, he worked nine years for Abrams Valuation Group, Inc. under the direct supervision of Jay Abrams, a nationally known authority in valuing closely-held companies who has written extensive material that is used in the profession. Mr. Jordan has assisted in the writing of Abrams' book "How To Value Your Business And Increase Its Potential", published by McGraw-Hill, which is also noted in the book. Mr. Jordan plays an integral role in valuations and litigation support work.

Mr. Jordan has played an integral role in valuations and transaction support work and has provided valuation/financial consulting services to clients representing a variety of organizations, from small entrepreneurs and family limited partnerships to firms with revenues of up to \$246 million, including the following:

- Mergers & Acquisitions and Sales
- Venture Capital Funding
- Private Placements
- Shareholder Buy/Sell Agreements
- Debt Instruments (Notes, Viatical Settlement)
- Intangible Assets (Patents, Economic Damages, Non-compete Agreement)
- Purchase Price Allocation (ASC 805, formerly SFAS 141R)
- Litigation Settlement
- Estate, Income & Gift Tax Reporting
- Financial Reporting

Industry Experience

Various Manufacturers, Distributors, Retail and Online Retail of Different Lines of Business • Various E-Commerce Businesses • Various Franchises • Various Types of Medical Practice • Chiropractor • Psychiatrist • Assisted Living Facilities • Home Care Service Agencies • Health Clinics • Sober Living Homes • Health Maintenance Organizations • Nursing Homes • Billing • Nursing Homes • Private Equity • Hedge Funds • Commodity Trading Advisor • Casinos • Insurance • Computer Software • Computer Hardware • Textile • Apparel • Mechanical Repair • Line Tester Technology • Food Manufacturer and Broker • Asset Management • Electronics Manufacturers • Furniture Manufacturing • Leasing Furniture • Embroidery & Printing • Retail Pharmacy • Internet Start-up • Internet Mortgage Leads • Auto Repair • Automobile and Home Improvement Leads • Export of Automobiles • Restaurants • Art Collection • Manufacture of Custom Scientific Equipment • Swim Wear • Commodities • General Contracting • Construction • Concrete Manufacturing • Jewelry • Gas Station • Laundry • Trucking • Staffing • Liquor Store • Shoe Store • Child Day Care • Beauty Salon • Hardware Store • Clothing Store • Heating Oil Dealer • Supply of Natural Gas and Electricity • Supermarket • Hair Care • Landscaping • Accounting Practice • Pharmaceutical • Plumbing • Advertising Agencies • Wholesaler of Tobacco and Candy Products • Car Wash • Manufacture of Awnings • Video Production • Photography • Wholesale of Medical Supplies • Financial Advisory Firms • Janitorial Services • Ambulance • Rental of Office Space • Call Center Services • Sale of Pet Food • Testing Laboratory • Catering • Retail of Live Poultry • Art Studio • Termite and Pest Control • Sporting Goods • Gym and Fitness • Painting • Contact Center • Retail of Bicycles • Veterinary Clinic • Architecture • Roofing • Fencing • Retail of Nuts, Dried Fruits • Mail Forwarding • Freight Forwarding • Marketing and Sales • Online Bakery Supply • Bakery Store • Wealth Management • Real Estate Holding • Customs Broker • Wines and Gourmet Food Products • Computer Training • Steel Fabrication • Physical Therapy • Commercial Flooring • Summer Camp • Machine Shop • Wine Bar • Consulting Firms • Various IT Solutions and Services • Investment Advisor • Ad Network • Art Collection • Fishing Equipment • Brokerage • Web Hosting and SEO • Retail Motorcycle • Aircrafts • Label Printing • Telephone and Data Service Provider • Medical Transcription • Finance Lender • Ticket Broker • Printing Equipment Manufacturing • Manufacturer's Representative • Marketing Research • Funeral Home • Crematory • Bus Company and Transportation • Deli and Grocery • Repair of Cell Phones and Other • Commercial Cleaning • Lighting • Property Management • Prepackaged Software • IT Staffing and Network Solutions • Meat Market • Tax Resolution • Bank • Recruiter • Biotech • Publishing House • etc.

Expert Testimony

- Daniel T. Jordan has testified as an expert witness for the Supreme Court of New York, Kings County, Monmouth County Superior Court, the Queens Surrogate Court, and the Veritext National Court Reporting Company in Washington DC, and the Bergen County Courthouse in New Jersey.

Books/Articles

- Assisted with the writing of *How to Value Your Business and Increase Its Potential*, Jay Abrams, McGraw-Hill, 2005.
- “*Superiority of Regression Analysis over Ratio Analysis*”, Daniel Jordan, Business Appraisal Practice, Fall 2007, p. 27-31; QuickRead NACVA, February 13, 2014.

- “*Valuation of Stock Options*”, Daniel Jordan, QuickRead NACVA, January 22, 2014.
- “*Valuing Intangibles in a Business Combination*”, Daniel Jordan, QuickRead NACVA, February 19, 2014.
- “*Excessive Government Spending: Are We Heading Towards The Next Financial Crisis?*”, Daniel Jordan, QuickRead NACVA, April 14, 2016.
- “*Valuation Considerations Post-TCJA*”, Daniel Jordan and Martin Shenkman, Wolters Kluwer, Financial and Estate Planning, July 26, 2018.

Lecture Summary

- “*Superiority of Regression Analysis over Ratio Analysis*”, New York State Society of CPA’s, Business Valuation Committee, New York, NY, October 2007.
- “*Understanding Business Appraisals*”, New York Legal Assistance Group, Inc., New York, NY, November 2008.
- “*A Fresh Look at BV Theory*”, New York Association of Business Brokers, Tarrytown, NY, April 2009.
- “*Business Valuation: Discounts and Premiums*”, American Association of Attorney-Certified Public Accountants, Uncasville, CT, May 2010.

Books/Articles Quoting Daniel Jordan

- Practical Planner, Martin M. Shenkman, CPA, MBA, PFS, JD, Volume 5, Issue 5, May 2010

Business Valuation Education

- *International Appraisal Conference* of The American Society of Appraisers, San Diego, August 2002 (27 CPE Hours)
- *Mastering Appraisal Skills for Valuing the Closely Held Business – Part A*. Instructor: Paul Hyde, The IBA, San Diego, March 2005 (32 CPE Hours)
- *Mastering Appraisal Skills for Valuing the Closely Held Business – Part B*. Instructor: Rand M. Curtiss, The IBA, Cleveland, July 2005 (32 CPE Hours)
- *Report Writing*. Instructor: Steven Schroeder, The IBA, St. Louis, August 2005 (16 CPE Hours)
- *Preparation For the CBA Exam*. The IBA, Phoenix, November, 2005 (16 CPE Hours)
- *Uniform Standards of Professional Appraisal Practice (USPAP)*: Instructor: Andrew Mantowani. Ivy Real Estate Education, New York, February 2006 (15 CPE Hours)
- *International Appraisal Conference* of The American Society of Appraisers, New York, August 2006 (6.5 CPE Hours)
- *Valuation for Financial Accounting (FASB 141/142/144)*. Instructor: William Johnston, ASA. Center for Advanced Valuation Studies (CAVS), New York, August 2006 (7 CPE Hours)
- *Advanced Financial Statement Analysis for Appraisers - Making the Calls*, Instructor: Mike Adhikari, The IBA, Las Vegas, January 2008 (8 CPE Hours)
- *Advanced Case Studies: Practical Applications*, Instructor: Dennis Bingham, The IBA, January 2008 (16 CPE Hours)

- *Valuing Intangibles*, Instructor: Rob Schlegel, The IBA, January 2008 (8 CPE Hours)
- *Forensic Accounting for Business Appraisers*. Instructor: Dr. Laura Tindall, The IBA, Louisville, KY, July 2008 (16 CPE Hours)
- *Business Appraisal for Divorce*, Instructor: Rob Schlegel, The IBA, July 2008 (8 CPE Hours)
- *Marketing Your Practice-Making the Phone Ring*, Instructor: KC Conrad, The IBA, August, 2008 (8 CPE Hours)
- Advanced Planning Seminar -Estate & Business Planning, New York, April 20, 2009 (7 CPE Hours)
- Estate Planners Day 2009, Estate Planning Council of NYC, New York, May 6, 2009 (7 CPE Hours)
- *14th Annual Multi-State ESOP Conference* of The ESOP Association, Scranton, Pennsylvania, September 2009
- *ESOP Appraisals*, Instructor: Chris Best, The IBA, November 9, 2009 (8 CPE Hours)
- *ESOP Conference* of The ESOP Association, Las Vegas, Nevada, November 2009 (12 CPE Hours)
- *44th Annual Heckerling Institute on Estate Planning*, Orlando, January 25-29, 2010 (33.5 CPE Hours)
- *45th Annual Heckerling Institute on Estate Planning*, Orlando, January 10-14, 2011 (33 CPE Hours)
- *46th Annual Heckerling Institute on Estate Planning*, Orlando, January 9-13, 2012 (33 CPE Hours)
- *New York Ethics: Tax Concentration*, Accountants Education Group, December 3, 2014 (4 CPE Hours)
- *National Tax Practice Institute (NTPI) Level 1 Online*, National Association of Enrolled Agents, December 2014 (24 CPE Hours)
- *BV301 Valuation of Intangible Assets, Chicago*, Instructor: Raymond Rath, ASA, The American Society of Appraisers (ASA), May 7-10, 2015 (30 CPE Hours)
- *Regulatory Ethics: Accountants Liability: Raise Your Risk IQ*, Continental Casualty Company, one of the CNA Insurance Companies, October 15, 2015 (3.5 CPE Hours)
- *50th Annual Heckerling Institute on Estate Planning*, Orlando, January 11-15, 2016 (33.5 CPE Hours)
- *2016-2017 Uniform Standards of Professional Appraisal Practice (USPAP)*, Career WebSchool California, March 2, 2016 (7 CPE Hours)
- *51th Annual Heckerling Institute on Estate Planning*, Orlando, January 9-13, 2017 (34 CPE Hours)
- *52th Annual Heckerling Institute on Estate Planning*, Orlando, January 22-26, 2018 (33 CPE Hours)
- *CoreValue Bootcamp, Build a Thriving Consulting Practice*, CTI-Consultants' Training Institute, March 25-29, 2019 (10 CPE Hours)
- *54th Annual Heckerling Institute on Estate Planning*, Orlando, January 13-17, 2020 (33 CPE Hours)
- *New York Ethics: Tax Concentration*, Accountants Education Group, April 2, 2021 (4 CPE Hours)

- *Regulatory Ethics: Accountants Liability: Positioning Your Firm for Success (Tax Focus)*, Continental Casualty Company, one of the CNA Insurance Companies, July 18, 2021 (4 CPE Hours)

Member - Professional Organizations

- American Society of Appraisers (ASA)
- National Association of Certified Valuators and Analysts (NACVA)
- National Business Valuation Group, LLC

SAMPLE

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Table 2.1
Ownership Interests in
ABC Agency, Inc.

	Shares	Ownership %	Class of Shares	
James W.	66,500	15.33%	A	Non-Voting
Yield Curve Capital	36,500	8.41%	A	Non-Voting
Dan M.	25,000	5.76%	A	Non-Voting
John K.	18,000	4.15%	A	Non-Voting
David M.	10,000	2.30%	A	Non-Voting
	-			
Jeff M. Roth IRA	35,000	8.07%	A	Non-Voting
Jeff M. Roth IRA	40,000	9.22%	A	Non-Voting
Tobin W. Roth IRA	75,000	17.28%	A	Non-Voting
Greg V.	20,180	4.65%	A	Non-Voting
InsVest Special Partner LLC	107,737	24.83%	B	Voting
Totals	433,917	100.00%		

Table 4.1
ABC Agency, Inc.
Balance Sheets [1]

Fiscal Year Ending 12/31	2019	2020	2021
Cash	1,304,797	1,194,350	2,021,276
A/R	(121,670)	(133,359)	
Inventories			
Other Current Assets	6,534,603	10,401,491	1,612,530
Total Current Assets	7,717,730	11,462,482	3,633,806
Property & Equip—Before Depr			
– Accum. Depreciation			
Property & Equipment—Net	171,830	56,265	-
Intangible Assets-Net of Amort			
Related parties receivable, net			4,751,351
Other Assets		350,000	
Total Assets	7,889,560	11,868,747	8,385,157
A/P	644,018	735,306	
Accrued Expenses	361,017	249,938	370,822
Commission Payable			627,499
Related parties payable, net			
Other Current Liabilities	(1,390,147)	(1,465,027)	
Total Current Liabilities	(385,112)	(479,784)	998,322
Loans from Shareholders			
Long-Term Debt [2]			7,180,373
Other Liabilities	5,086	1,070	666
Total Long Term Liabilities	5,086	1,070	7,181,039
Total Liabilities	(380,026)	(478,713)	8,179,361
Common Stock	10	10	10
Paid in capital	8,489,568	8,489,568	1,870,237
Retained Earnings	(219,992)	3,857,882	(1,664,450)
Total Equity	8,269,586	12,347,459	205,797
Total Liabilities & Equity	7,889,560	11,868,746	8,385,158

Notes:

[1] Source: Internally prepared balance sheets, Years 2019-2021, provided by Company's Management.

[2] ABC Agency assumes the loan facility with Prosperity Bank from InsVest effective 2/1/2022 in the amount of \$5.3 million. The debt outstanding increases from \$1.9 million to \$7.2 million. Since this was known

Table 4.1.A
ABC Agency, Inc.
Common Size Balance Sheets

Fiscal Year Ending 12/31	2019	2020	2021
Cash	16.5%	10.1%	24.1%
A/R	-1.5%	-1.1%	0.0%
Inventories	0.0%	0.0%	0.0%
Other Current Assets	82.8%	87.6%	19.2%
Total Current Assets	97.8%	96.6%	43.3%
Property & Equip—Before Depr	0.0%	0.0%	0.0%
– Accum. Depreciation	0.0%	0.0%	0.0%
Property & Equipment—Net	2.2%	0.5%	0.0%
Intangible Assets-Net of Amort	0.0%	0.0%	0.0%
Loans to Shareholders	0.0%	0.0%	56.7%
Other Assets	0.0%	2.9%	0.0%
Total Assets	100.0%	100.0%	100.0%
A/P	8.2%	6.2%	0.0%
Accrued Expenses	4.6%	2.1%	4.4%
Income Taxes Payable	0.0%	0.0%	7.5%
Current Portion of LTD	0.0%	0.0%	0.0%
Other Current Liabilities	-17.6%	-12.3%	0.0%
Total Current Liabilities	-4.9%	-4.0%	11.9%
Loans from Shareholders	0.0%	0.0%	0.0%
Long-Term Debt	0.0%	0.0%	85.6%
Other Liabilities	0.1%	0.0%	0.0%
Total Long Term Liabilities	0.1%	0.0%	85.6%
Total Liabilities	-4.8%	-4.0%	97.5%
Common Stock	0.0%	0.0%	0.0%
Paid in capital	107.6%	71.5%	22.3%
Retained Earnings	-2.8%	32.5%	-19.8%
Total Equity	104.8%	104.0%	2.5%
Total Liabilities & Equity	100.0%	100.0%	100.0%

Table 4.1.B
ABC Agency, Inc.
Balance Sheet Item as Percentage of Sales

Fiscal Year Ending 12/31	2019	2020	2021	AVG	STD DEV
Cash	14.9%	13.7%	22.4%	17.0%	4.7%
A/R	-1.4%	-1.5%	0.0%	-1.0%	0.8%
Inventories	0.0%	0.0%	0.0%	0.0%	0.0%
Other Current Assets	74.5%	119.0%	17.9%	70.5%	50.7%
Total Current Assets	88.0%	131.2%	40.3%	86.5%	45.4%
Property & Equip—Before Depr	0.0%	0.0%	0.0%	0.0%	0.0%
– Accum. Depreciation	0.0%	0.0%	0.0%	0.0%	0.0%
Property & Equipment—Net	2.0%	0.6%	0.0%	0.9%	1.0%
Intangible Assets-Net of Amort	0.0%	0.0%	0.0%	0.0%	0.0%
Loans to Shareholders	0.0%	0.0%	52.7%	17.6%	30.4%
Other Assets	0.0%	4.0%	0.0%	1.3%	2.3%
Total Assets	90.0%	135.8%	93.0%	106.3%	25.6%
A/P	7.3%	8.4%	0.0%	5.3%	4.6%
Accrued Expenses	4.1%	2.9%	4.1%	3.7%	0.7%
Income Taxes payable	0.0%	0.0%	7.0%	2.3%	4.0%
Current Portion of LTD	0.0%	0.0%	0.0%	0.0%	0.0%
Other Current Liabilities	-15.9%	-16.8%	0.0%	-10.9%	9.4%
Total Current Liabilities	-4.4%	-5.5%	11.1%	0.4%	9.3%
Loans from Shareholders	0.0%	0.0%	0.0%	0.0%	0.0%
Long-Term Debt	0.0%	0.0%	79.7%	26.6%	46.0%
Other Liabilities	0.1%	0.0%	0.0%	0.0%	0.0%
Total Long Term Liabilities	0.1%	0.0%	79.7%	26.6%	46.0%
Total Liabilities	-4.3%	-5.5%	90.8%	27.0%	55.2%
Common Stock	0.0%	0.0%	0.0%	0.0%	0.0%
Paid in capital	96.8%	97.2%	20.8%	71.6%	44.0%
Retained Earnings	-2.5%	44.2%	-18.5%	7.7%	32.5%
Total Equity	94.3%	141.3%	2.3%	79.3%	70.7%
Total Liabilities & Equity	90.0%	135.8%	93.0%	63.8%	61.0%

Table 4.1.C
ABC Agency, Inc.
Cash Flow Items as a Percentage of Sales

Fiscal Year Ending 12/31	2019	2020	2021	AVG	STD DEV
Capital Expenditures [1]					
Sale of Fixed Assets [1]					
Cap Exp/Sales	0.0%	0.0%	0.0%	0.0%	0.0%
Current Assets excluding Cash/Sales	73.2%	117.5%	17.9%	69.5%	49.9%
Current Assets/Sales	88.0%	131.2%	40.3%	86.5%	45.4%
Depreciation/Sales	0.0%	0.0%	0.0%	0.0%	0.0%
Amortization/Sales	4.3%	0.0%	0.0%	1.4%	2.5%
Long Term Debt/Sales	0.0%	0.0%	79.7%	26.6%	46.0%
Current Liabilities/Sales	-4.4%	-5.5%	11.1%	0.4%	9.3%
Net Working Capital/Sales	77.6%	123.0%	6.8%	69.1%	58.6%
Gain (Loss) on Sale of FA/Sales	0.0%	0.0%	0.0%	0.0%	0.0%
Sale of FA/Sales	0.0%	0.0%	0.0%	0.0%	0.0%

Table 4.2
ABC Agency, Inc.
Income Statements [1]

Fiscal Year Ending 12/31	2017	2018	2019	2020	2021
Income					
MGA Commissions	10,831,861	14,028,724	13,728,256	14,087,243	15,044,672
MGA Policy Fees	0	1,226,800	1,174,075	1,159,700	1,209,450
Other income	176	0	220,092	133,744	0
Third Party Revenue	373,158	16,571	99,529	110,491	73,660
Total Income	11,205,195	15,272,095	15,221,952	15,491,178	16,327,783
Commission Expense					
Independent Agents - SVIC products	5,496,416	6,523,459	6,218,386	6,440,243	7,034,107
Profit Share	0	207,064	169,014	157,721	86,175
Override/growth commissions	179,339	21,119	7,867	101,693	152,859
Third party products	0	0	60,730	53,850	43,062
Total Commissions	5,675,755	6,751,642	6,455,996	6,753,507	7,316,203
NET REVENUE	5,529,440	8,520,453	8,765,956	8,737,670	9,011,580
Cost of Sales					
Gross Profit	5,529,440	8,520,453	8,765,956	8,737,670	9,011,580
SG&A Expenses					
Compensation	1,447,052	1,624,727	1,796,083	1,696,312	1,665,027
Employee benefits/payroll taxes	540,236	633,289	458,558	391,068	237,708
System Expense	587,471	232,939	232,939	397,698	517,637
Underwriting Expenses/inspections	140,239	581,632	232,947	206,173	264,825
Loss Adjustment Expense	237,505	67,698	38,737	(1,327)	755
All other expenses	1,510,020	2,111,186	1,732,607	1,310,179	1,588,385
Total SG&A Exp	4,462,523	5,251,471	4,491,871	4,000,102	4,274,336
EBITDA	1,066,917	3,268,982	4,274,085	4,737,568	4,737,244
Depreciation					
Amortization	1,285,851	1,660,851	375,000	-	-
Operating Income	(218,934)	1,608,131	3,899,085	4,737,568	4,737,244
Interest Income					
(Interest Expense)					(20,571)
Other Income (Expense)					
Gain (Loss) on Sale of Fixed Assets					
Net Income Before Taxes	\$ (218,934)	\$ 1,608,131	\$ 3,899,085	\$ 4,737,568	\$ 4,716,673
Income Taxes	\$ 554,494	\$ 302,884	\$ 895,173	\$ 1,028,794	\$ 1,006,843
Net Income After Taxes	\$ (773,428)	\$ 1,305,247	\$ 3,003,912	\$ 3,708,774	\$ 3,709,830
Adjustments					
+ Amortization (non-recurring)	1,285,851	1,660,851	375,000	-	-
= Total Adjustments	1,285,851	1,660,851	375,000	-	-
Economic Net Inc Before Taxes	\$ 1,066,917	\$ 3,268,982	\$ 4,274,085	\$ 4,737,568	\$ 4,716,673
Income Taxes @ 23.37%	-	(763,961)	(998,854)	(1,107,170)	(1,102,286)
Economic Net Income After Taxes	\$ 1,066,917	\$ 2,505,021	\$ 3,275,232	\$ 3,630,398	\$ 3,614,386
Weights			1	1	1
Weighted ENIAT	\$ -	\$ -	\$ 3,275,232	\$ 3,630,398	\$ 3,614,386
Aggregate Weighted ENIAT	\$ 10,520,016				
Total of Weights Applied	3				
Weighted Avg. ENIAT	\$ 3,506,672				

Table 4.2
ABC Agency, Inc.
Income Statements [1]

Fiscal Year Ending 12/31	2017	2018	2019	2020	2021
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Assumptions:

Corporate Income Tax Rate (Fed & State)	23.37%
State Tax Rate	3.00%

Notes:

[1] Source: Internally prepared income statements, Years 2017-2021, provided by Company's Management.

Table 4.2.A
ABC Agency, Inc.
Common Size Income Statements

Fiscal Year Ending 12/31	2017	2018	2019	2020	2021
Income					
MGA Commissions	195.9%	164.6%	156.6%	161.2%	166.9%
MGA Policy Fees	0.0%	14.4%	13.4%	13.3%	13.4%
Other income	0.0%	0.0%	2.5%	1.5%	0.0%
Third Party Revenue	6.7%	0.2%	1.1%	1.3%	0.8%
Total Income	202.6%	179.2%	173.6%	177.3%	181.2%
Commission Expense					
Independent Agents - SVIC products	99.4%	76.6%	70.9%	73.7%	78.1%
Profit Share	0.0%	2.4%	1.9%	1.8%	1.0%
Override/growth commissions	3.2%	0.2%	0.1%	1.2%	1.7%
Third party products	0.0%	0.0%	0.7%	0.6%	0.5%
Total Commissions	102.6%	79.2%	73.6%	77.3%	81.2%
NET REVENUE	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Sales	0.0%	0.0%	0.0%	0.0%	0.0%
Gross Profit	100.0%	100.0%	100.0%	100.0%	100.0%
SG&A Expenses					
Compensation	26.2%	19.1%	20.5%	19.4%	18.5%
Employee benefits/payroll taxes	9.8%	7.4%	5.2%	4.5%	2.6%
System Expense	10.6%	2.7%	2.7%	4.6%	5.7%
Underwriting Expenses/inspections	2.5%	6.8%	2.7%	2.4%	2.9%
Loss Adjustment Expense	4.3%	0.8%	0.4%	0.0%	0.0%
All other expenses	27.3%	24.8%	19.8%	15.0%	17.6%
Total SG&A Exp	80.7%	61.6%	51.2%	45.8%	47.4%
EBITDA	19.3%	38.4%	48.8%	54.2%	52.6%
Depreciation	0.0%	0.0%	0.0%	0.0%	0.0%
Amortization	23.3%	19.5%	4.3%	0.0%	0.0%
Operating Income	-4.0%	18.9%	44.5%	54.2%	52.6%
Interest Income	0.0%	0.0%	0.0%	0.0%	0.0%
(Interest Expense)	0.0%	0.0%	0.0%	0.0%	-0.2%
Other Income (Expense)	0.0%	0.0%	0.0%	0.0%	0.0%
Gain (Loss) on Sale of Fixed Assets	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income Before Taxes	-4.0%	18.9%	44.5%	54.2%	52.3%
Income Taxes	10.0%	3.6%	10.2%	11.8%	11.2%
Net Income After Taxes	-14.0%	15.3%	34.3%	42.4%	41.2%
Adjustments					
Economic Net Inc Before Taxes	19.3%	38.4%	48.8%	54.2%	52.3%
Income Taxes @ 23.37%	0.0%	-9.0%	-11.4%	-12.7%	-12.2%
Economic Net Income After Taxes	19.3%	29.4%	37.4%	41.5%	40.1%

Table 4.2.C

Owners' Compensation [1]

Fiscal Year Ending 12/31	2017	2018	2019	2020	2021
Compensation (W2 Wages)					
Jeff M.	90,000	90,000	90,000	90,000	90,000
James W.	-	-	-	-	-
Tobin W.	-	-	-	-	-
Total	90,000	90,000	90,000	90,000	90,000

Notes:

[1] Source: Provided by Company's Management

Table 4.3
ABC Agency, Inc.
Financial Ratios

Fiscal Year Ending 12/31	2017	2018	2019	2020	2021	Avg
Liquidity Ratios						
Current Ratio	NA	NA	-20.0	-23.9	3.6	-13.4
Quick Ratio	NA	NA	-20.0	-23.9	3.6	-13.4
Leverage Ratios						
Debt Ratio (Debt/Assets)	NA	NA	-4.8%	-4.0%	97.5%	29.6%
Debt/Equity	NA	NA	-4.6%	-3.9%	3974.5%	1322.0%
Fixed Assets to Net Worth	NA	NA	2.1%	0.5%	0.0%	0.8%
Coverage Ratio (Times Interest Earned)	NA	NA	NA	NA	NA	NA
Activity Ratios						
AR Turnover (Sales/Receivables)	NA	NA	-72.0	-65.5	NA	-68.8
Days' Receivables (365/AR turnover)	NA	NA	-5.1	-5.6	NA	-5.3
Inv Turnover (COG/Inventory)	NA	NA	NA	NA	NA	NA
Days' Inventory (365/Inv turnover)	NA	NA	NA	NA	NA	NA
Assets to Sales	NA	NA	0.9	1.4	0.9	1.1
Asset Turnover (Sales/Total Assets)	NA	NA	1.1	0.7	1.1	1.0
Fixed Assets Turnover (Sales/Fixed Assets)	NA	NA	51.0	155.3	NA	103.2
Accounts Payable to Sales	NA	NA	0.1	0.1	0.0	0.1
Working Capital Turnover	NA	NA	1.1	0.7	3.4	1.7
Profitability Ratios						
Sales Growth—Annual	NA	54.1%	2.9%	-0.3%	3.1%	14.9%
Sales Growth—CAGR	13.0%	1.9%	1.4%	3.1%	NA	4.8%
Gross Profit Margin	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Pre-Tax Profit Margin—Unadjusted	-4.0%	18.9%	44.5%	54.2%	52.3%	33.2%
Net Inc Bef Tax (NIBT)—Annual Growth	NA	-834.5%	142.5%	21.5%	-0.4%	-167.8%
NIBT—CAGR	NA	43.1%	10.0%	-0.4%	NA	17.6%
Pre Tax ROE—Unadjusted	NA	NA	94.3%	46.0%	75.1%	71.8%
Pre Tax ROA—Unadjusted	NA	NA	98.8%	48.0%	46.6%	64.5%

Table 5.1
ABC Agency, Inc.
Capitalized Cash Flow Method

Weighted Average Adjusted Net Income (Table 4.2)	\$ 3,506,672
Adjustments to Reconcile Net Income to Cash Flow:	
+ Depreciation (Table 5.1.B)	-
+ Amortization (Table 5.1.B)	-
- Capital Expenditures	-
- Incr in Net Working Capital (Table 5.1.B)	(186,876)
Total Adjustments	(186,876)
Forecast Cash Flow	3,319,796
Multiply by 1 plus the long-term growth rate	1.03
Growth-Adjusted Cash Flow	3,419,390
Divided by: Capitalization Rate (r - g) (Table 5.1.C)	16.0%
Indicated Value of 100% of Equity = FMV-Marketable Minority Basis	\$ 21,371,188
- Discount-Lack of Marketability (Table 5.1.G)	28% (5,983,933)
FMV-100% Illiquid Minority Basis	\$ 15,387,256
 Indicated Fair Market Value of 100% Interest on an Illiquid Minority Basis (Rd.) as of December 31, 2021	 \$15,387,000

Assumptions:

Discount Rate (Table 5.1.C) = <i>r</i>	19.0%
Long-Term Growth Rate of Cash Flows = <i>g</i> (see report)	3.0%

Table 5.1.B
Cash Flow Calculations

Avg. Depreciation as % of Sales	Table 4.1.C	0.0%
Net Sales in 2021	Table 4.2	9,011,580
Estimated Depreciation		0
2021. Amortization as % of Sales	Table 4.1.C	0.0%
Net Sales in 2021	Table 4.2	9,011,580
Estimated Amortization		0
Avg. Net Working Capital as % of Sales	Table 4.1.C	69.1%
Net Sales in 2021	Table 4.2	9,011,580
Times Estimated Growth Rate	Table 5.1	3.0%
Increase in Sales		270,347
Estimated Growth In Working Capital		186,876

Table 5.1.C

ABC Agency, Inc.

Cost of Equity Capital

Risk Premium Report Study (Using Build-Up Method)

December 31, 2021

Kroll Normalized Risk Free Rate (As of Valuation Date) [1]	2.50%
Equity Risk Premium [1]	5.50%
Size Premium [1] (transferred from Table 5.1.D)	5.37%
Industry Risk Premium [2]	0.44%
Company-Specific Risk Premium [3]	<u>5.00%</u>
DISCOUNT RATE	18.81%
ROUNDED	<u><u>19%</u></u>

Company Specific Risk Component	<u>Risk Factor</u>
Financial position of the company	1.0%
Level of diversification	1.0%
Depth of management	1.0%
Competition	0.0%
Barrier to funds	1.0%
Expected growth or decline of the business	<u>1.0%</u>
Total Company Specific Risk Component	<u>5.0%</u>

Notes:

[1] The Kroll Cost of Capital Navigator.

[2] The Kroll Cost of Capital Navigator, Industry: GICS 40301010 - INSURANCE BROKERS

[3] Based on professional judgment.

Table 5.1.D

ABC Agency, Inc.

Computation of Size Premium Using Guideline Portfolios Based Upon 2021 Kroll Risk Premium Report

	<u>HISTORICAL</u>	<u>ADJUSTED</u>	<u>SELECTED</u>		
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>IN MILS \$ (when applicable)</u>	<u>Size Premium</u>
Market Value of Equity	\$11,731,000	\$11,731,000	\$11,731,000	11.7	5.84%
Book Value of Equity	205,797	205,797	205,797	0.2	4.52%
5-year Average Net Income	2,948,505	2,948,505	2,948,505	2.9	5.47%
Market Value of Invested Capital	n/a	n/a	n/a	n/a	n/a
Total Assets	8,385,157	8,385,157	8,385,157	8.4	5.22%
5-year Average EBITDA	3,616,959	3,616,959	3,616,959	3.6	5.33%
Sales (In Year of Valuation)	9,011,580	9,011,580	9,011,580	9.0	5.35%
Number of Employees	17	17	17	17	5.88%
				Mean Premium Over the Riskless Rate	5.37%
				Median Premium Over the Riskless Rate	5.35%
				Average of Analytics	5.36%
				Premium Selected	<u><u>5.37%</u></u>

Table 5.1.E
Discount for Lack of Marketability Factors

SELECTION OF A BASELINE DISCOUNT FOR LACK OF MARKETABILITY (DLOM)		
Proposed Baseline Discounts	Investment Characteristics	Expected Holding Period
10%	Cash & Marketable Securities	Likely Short Holding Period
15%	Assets held for sale, including real estate, that are expected to sell in the near future.	Likely Short Holding Period
20%	Publicly traded partnerships, lower quality marketable securities such as infrequently traded public companies.	Likely Short to Medium Holding Period
25%	Income Producing Real Estate with Strong Cash Distributions. Interest(s) in privately held companies with regular, strong cash distributions.	Likely Medium Holding Period
30%	Income Producing Real Estate with Some Cash Distributions and vacant land with current development potential. Also, interests in privately held companies with little or no cash distributions.	Likely Medium Holding Period
35%	Illiquid Assets with Infrequent, Small Cash Distributions such as holdings of vacant land without current development potential. Also interests in higher risk privately held companies with no cash distributions.	Likely Long Holding Period
40%	Illiquid Assets with No Cash Distributions Expected for some time such as holdings of remotely located vacant land. Also interests in privately held companies with no cash distributions and poor future prospects.	Likely Very Long Holding Period

Table 5.1.F
Discount for Lack of Marketability Factors

Category	Factor	Rating of (1)	Rating of (0)	Rating of +1	
Income	Are cash distributions material?	Yes	Income taxes only	Control discretion	
	...Certain?	Yes	Uncertain or N/A	Control discretion	
	...Frequent?	Yes	Uncertain or N/A	Control discretion	
Appreciation	Is the entity diversified?	Yes	Uncertain or N/A	No	
	Is the economic risk high?	No	Uncertain or N/A	Yes	
	...Interest rate risk (considering both assets and liabilities)?	No	Uncertain or N/A	Yes	
	...Stock market/asset price risk?	No	Uncertain or N/A	Yes	
	...Business risk?	No	Uncertain or N/A	Yes	
	...Financial risk?	No	Uncertain or N/A	Yes	
	Are unrealized tax liabilities large?	No	Uncertain or N/A	Yes	
	Are growth prospects good?	Yes	Uncertain or N/A	No	
Liquidity	Are there rights to liquidation?	Yes	Uncertain or N/A	No	
	...Withdrawal/return of capital?	Yes	Uncertain or N/A	No	
	...Assignee admission?	Yes	Uncertain or N/A	No	
	Have there been sales of interests?	Yes	Uncertain or N/A	No	
	Are there transfer restrictions?	No	Uncertain or N/A	Yes	
	Are there insider-trading restrictions?	No	Uncertain or N/A	Yes	
	Is there a right of first refusal?	No	Uncertain or N/A	Yes	
	Is there an active secondary market?	Yes	Uncertain or N/A	No	
	Is the holding period long?	No	Uncertain or N/A	Yes	
	Is there a clear exit strategy?	Yes	Uncertain or N/A	No	
	Are many potential buyers present?	Yes	Uncertain or N/A	No	
	Is there a buy-sell agreement?	Yes	Uncertain or N/A	No	
	Is there put/call protection?	Yes	Uncertain or N/A	No	
	Is there a blockage effect?	No	Uncertain or N/A	Yes	
	Financial	Is there bankruptcy risk?	No	Uncertain or N/A	Yes
		Are current liquid assets material?	Yes	Uncertain or N/A	No
		Are capital calls mandatory and probable?	No	Uncertain or N/A	Yes
Is there unused debt capacity?		Yes	Uncertain or N/A	No	
Are there outside financing sources?		Yes	Uncertain or N/A	No	
Is cash flow strong?		Yes	Uncertain or N/A	No	
...stable?		Yes	Uncertain or N/A	No	
Can the entity change easily?		Yes	Uncertain or N/A	No	
Power		Is information available / reliable?	Yes	Uncertain or N/A	No
		Are owners harmonious?	Yes	Uncertain or N/A	No

Table 5.1.G

Discount for Lack of Marketability

Category	Factor	Conclusion	Rating	
Income	Are cash distributions material?	Yes	(1)	
	...Certain?	Unknown	0	
Appreciation	...Frequent?	Unknown	0	
	Is the entity diversified?	No	1	
	Is economic risk high?	Normal	0	
	...Interest rate risk (assets and liabilities)?	No	(1)	
	...Stock market/asset price risk?	No	(1)	
	...Business risk?	Normal	0	
	...Financial risk?	Normal	0	
	Are unrealized tax liabilities large?	No	(1)	
Liquidity	Are growth prospects good?	Normal	0	
	Are there rights to liquidation?	No	1	
	...Withdrawal/return of capital?	No	1	
	...Assignee admission?	Yes	(1)	
	Have there been sales of interests?	Yes	(1)	
	Are there transfer restrictions?	Yes	1	
	Are there insider trading restrictions?	Not applicable	0	
	Is there a right of first refusal?	Unknown	0	
	Is there an active secondary market?	No	1	
	Is the holding period long?	Yes	1	
	Is there a clear exit strategy?	No	1	
	Are many potential buyers present?	No	1	
	Is there a buy-sell agreement?	Yes	(1)	
	Is there put/call protection?	No	1	
	Is there a blockage effect?	No	1	
	Financial	Is there bankruptcy risk?	No	(1)
		Are current liquid assets material?	Yes	(1)
		Are capital calls mandatory and probable?	No	(1)
Is there unused debt capacity?		No	1	
Are there outside financing sources?		Unknown	0	
Is cash flow strong?		Yes	(1)	
...stable?		Yes	(1)	
Can the entity change easily?		No	1	
Power	Is information available / reliable?	Yes	(1)	
	Are owners harmonious?	Yes	(1)	
Summary	Sum of the Ratings	The sum of the +1/0/-1 ratings above	(2)	
	Factors Rated	The number of factors rated above	<u>35</u>	
	Net Factors	The sum of the preceding two numbers	33	
	Net Factors / Factors Rated	The quotient of the preceding two numbers	94%	
	Baseline Discount	As described in the report text	<u>30%</u>	
Conclusion	Subject Discount	The product of the preceding two numbers	28.3%	
Conclusion	Subject Discount (Rounded)		28%	

Table 5.1.H

Discount-Lack of Control

Year of Buyout	Median Premium Paid Over Market (%) [1]	Implied Minority Interest Discount (%)
2011	32.4%	24.5%
2012	37.0%	27.0%
2013	31.2%	23.8%
2014	26.5%	20.9%
2015	31.8%	24.1%
2016	31.2%	23.8%
2017	26.7%	21.1%
2018	25.9%	20.6%
2019	28.8%	22.4%
2020	33.4%	25.0%
Min	25.9%	20.6%
Max	37.0%	27.0%
Median	31.2%	23.8%
Std Dev	3.5%	2.1%

Size of Interest	
Median Premium (= P) For Control (2011-2020) [2]	31.2%
Discount-Minority Interest = $P / (1 + P)$	23.8%
Adjustment for Size of Interest [3]	80%
Discount-Lack of Control	19.0%

[1] Source: FactSet Mergerstat/BVR Control Premium Study, 4th quarter 2020, Page 7. 12-Month Median Equity Control Premiums. Excludes negative premiums.

[2] The average control premium paid over market ranges between 26% and 37% (see chart above). We compute a median of 31.2%, which implies a discount of 23.8%.

[3] The DLOC of 23.8% represents the disadvantage a minority shareholder in a public company has compared to a control interest in a public company. We need to calculate the disadvantage of the subject interest compared to a 100% pro rata interest in the property.

The 0.00% interest has more influence and control than a typical minority interest in the stock market. On the other hand, the private minority interest is more vulnerable to abuse than a public minority interest. Therefore, we keep 80% of the DLOC.

Table 5.2
Guideline Transaction Method (Stock Sales)
DealStats--SIC #6411--Insurance Agents, Brokers, and Service

	Sale Date	Business Description	Net Sales	Operating Profit	EBITDA	Discr Earn	Market Value of Invested Capital	MVIC / Sales	MVIC / Disc. Earnings	MVIC / EBITDA
1	07/01/2002	Operates an Insurance Agency Wholesaler	\$3,077,441	\$695,374	\$759,070		\$2,024,816	0.66x		2.7x
2	07/06/2007	Provides Group Insurance Brokerage, Consulting, and Admi	\$3,169,406	\$298,272	\$348,515		\$5,922,499	1.87x		17.0x
3	10/03/2011	Managing General Agent that Sells Health, Accident, Critical	\$4,009,099	\$2,197,890	\$2,197,890		\$7,534,296	1.88x		3.4x
4	06/30/2015	Provides Claims, Vehicle Rental, Vehicle Repair, and Fleet In	\$5,607,741	(\$1,376,915)	(\$1,042,383)		\$5,752,570	1.03x		
5	01/22/2018	Offers Medicare Supplement Insurance Brokerage Services	\$7,512,000	\$1,561,000			\$20,595,000	2.74x		
6	12/01/1998	Provider of Claims Administration Services to the Property a	\$13,829,989	\$2,579	\$275,223		\$13,500,000	0.98x		49.1x
7	06/28/2001	Holding Company Engaged in a Broad Range of Insurance B	\$14,343,000	\$13,863,000			\$125,100,000	8.72x		
8	01/02/2008	Insurance Exchange	\$14,381,000	\$6,740,000	\$7,141,000		\$43,841,000	3.05x		6.1x
9	09/01/1998	Insurance Claims Investigation Agency	\$14,476,273	\$1,252,049	\$1,730,589		\$9,000,000	0.62x		5.2x
10	03/31/2005	Third-Party Claims and Risk Management Services	\$15,530,629	\$4,076,742			\$16,000,000	1.03x		
11	02/23/2007	Insurance Underwriter	\$26,509,000	\$21,852,000			\$57,201,000	2.16x		
		Mean	\$11,131,416	\$4,651,090	\$1,629,986	NA	\$27,861,016	2.25	NA	13.91
		Median	\$13,829,989	\$1,561,000	\$759,070	NA	\$13,500,000	1.87	NA	5.67
		Harmonic Mean						1.31	NA	5.45
		Standard Deviation						2.30	NA	17.98
		Coefficient of Variation						1.02	NA	1.29

Valuation Using Invested-Capital Multiples

	Sales	Disc Earn	EBITDA	Weighted Value
Comp. Fundamental (Weighted Avg) (Tables 5.2.A/B/C)	8,838,402	4,672,966	4,582,966	
Harmonic Mean MVIC Multiple	1.31	NA	5.45	
Indicated Value	11,536,523	NA	24,986,713	
Weight	50.0%	NA	50.0%	
Weighted Value	5,768,262	NA	12,493,356	18,261,618
Adjustments to Arrive at Fair Market Value (Table 4.1)				
- Interest-Bearing Debt				(7,180,373)
FMV-Private Illiquid Control Int				11,081,245
Rounded				11,081,000

Table 5.2.A

Calculation of the Revenue Base

Fiscal Year Ending 12/31	2017	2018	2019	2020	2021
Sales (Table 4.2)	\$ 5,529,440	\$ 8,520,453	\$ 8,765,956	\$ 8,737,670	\$ 9,011,580
Weights			1	1	1
Weighted Amounts	-	-	8,765,956	8,737,670	9,011,580
Aggregate Weighted Amounts					26,515,206
Total of Weights Applied					<u>3</u>
Weighted Average Revenues				\$	8,838,402

Table 5.2.B

Calculation of the Discretionary Earnings Base

Fiscal Year Ending 12/31	2017	2018	2019	2020	2021
Discretionary Earnings (Table 4.2) [1]	\$ 1,156,917	\$ 3,358,982	\$ 4,364,085	\$ 4,827,568	\$ 4,827,244
Weights			1	1	1
Weighted Amounts	-	-	4,364,085	4,827,568	4,827,244
Aggregate Weighted Amounts					14,018,897
Total of Weights Applied					<u>3</u>
Weighted Average Discretionary Earnings				\$	4,672,966

[1] Discretionary Earnings is EBITDA plus one owners' compensation.

Table 5.2.C

Calculation of the EBITDA Base

Fiscal Year Ending 12/31	2017	2018	2019	2020	2021
EBITDA (Table 4.2)	\$ 1,066,917	\$ 3,268,982	\$ 4,274,085	\$ 4,737,568	\$ 4,737,244
Weights			1	1	1
Weighted Amounts	-	-	4,274,085	4,737,568	4,737,244
Aggregate Weighted Amounts					13,748,897
Total of Weights Applied					<u>3</u>
Weighted Average EBITDA				\$	4,582,966

Table 5.3
ABC Agency, Inc.
Reconciliation of Fair Market Value as of 12/31/2021

Valuation Methods	Table	Indicated Value	Discount/ Premium	Weight	Wtd FMV
Asset Approach					
Book Value Method	4.1	\$205,797		0.0%	\$0
Income Approach					
Capitalization of Cash Flow Method	5.1	\$15,387,000		50.0%	\$7,693,500
Market Approach					
Transaction Method-DealStats	5.2	\$11,081,000			
Less: Discount for Lack of Control (Table 4.1.H)		(\$2,108,093)	19.0%		
Indicated Value-Illiquid Minority Basis		\$8,972,907			
Less: Add'l Discount for Lack of Marketability [1]		(\$897,291)	10.0%		
Indicated Value-Illiquid Minority Basis		\$8,075,617		50.0%	\$4,037,808
VALUE CONCLUSION - 100% Interest in Company				100.0%	\$11,731,308
Less: Discount for Nonvoting Member Interest [2]			4.0%		(\$469,252)
FMV of 100% Nonvoting Member Interest					\$11,262,056
Rounded					\$11,262,000
Divide by # of Shares Outstanding					433,917
FMV per Share					\$25.95

Notes:

[1] A minority interest is less marketable than a 100% interest. We therefore subtract an additional discount for lack of marketability of 10%, based on professional judgment.

[2] Empirical research on both the U.S. and Canadian markets show that differentials between voting and nonvoting share prices are small, averaging under 5%. In Barnes v. Commissioner, one expert discounted the nonvoting stock by 3.66% and the other expert by 5%. The court found the use of a 3.66% discount for nonvoting stock reasonable. In Kosman v. Commissioner, the IRS expert opined to a 4%, which was based on the Lease, McConnell, and Mikkelson study published in the Journal of Financial Economics in April 1983. Based on the above, we apply a discount of 4% for the non-voting member interest.