

Valuation of  
1,000 Shares of Voting Common Stock,  
on a Non-Marketable, Controlling Interest Basis of  
**ACTIVE AUTO INSTRUMENTATION, INC.**  
**A California C corporation**  
As of June 17, 2005

Report Date  
August 25, 2008

**Strictly Confidential**  
**Restricted Distribution**



Active Auto Instrumentation, Inc. corporate headquarters building in Somewhere, California. Image source: Subject company's web site, [www.Techno.com/profile.htm](http://www.Techno.com/profile.htm).

VALUATION SERVICES PROVIDED BY

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Valuation of 1,000 Shares of Voting Common Stock of  
**ACTIVE AUTO INSTRUMENTATION, INC., A CALIFORNIA C CORPORATION,**  
AS OF JUNE 17, 2005

**OPINION OF ESTIMATED VALUE**

Based on our analysis and in consideration of all the relevant factors, using generally accepted valuation theory and methodology, and subject to the Statement of Facts, Assumptions and Limiting Conditions incorporated in and made an integral part of the accompanying appraisal report, our opinion of the estimated fair market value of 1,000 shares of voting common stock, representing 100% (one hundred percent) of the issued and outstanding common stock of Active Auto Instrumentation, Inc., a California C corporation, on a non-marketable, controlling interest basis, as of June 17, 2005, based on a going concern premise of value, for the Purpose of estate tax return compliance upon the demise of Mrs. Alice Smith, the Decedent, is:

**\$ 2,880,000** (Two Million Eight Hundred Eighty Thousand Dollars)

**APPRAISER'S CERTIFICATION**

1. The statements of fact contained in this appraisal report are true and correct to the best of my knowledge and belief.
2. The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions set forth in the attached report herein, and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. Neither I nor any employee or associate of Val U. Dude, Inc. has any present or prospective interest in the property that is the subject of this report, and I have no personal interest with respect to the parties involved.
4. I have no personal bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
5. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. 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 report.
7. I have made a personal inspection of the Subject Company.
8. My analyses, opinions and conclusions were developed, and the accompanying appraisal report was prepared, in conformity with the Business Appraisal Standards of the Institute of Business Appraisers (IBA), the professional standards of the National Association of Certified Valuation Analysts (NACVA) and the Uniform Standards of Professional Appraisal Practice (USPAP), in effect as of date this report, August 25, 2008.
9. No one provided significant professional assistance to me.

Authorized reports will be signed in blue ink by Val U. Dude and will be blind embossed upon such signature with the corporate seal of Val U. Dude, Inc. Reports not so signed and blind embossed are void and invalid.

\_\_\_\_\_ Dated August 25, 2008  
Val U. Dude, Accredited Valuation Analyst

This appraisal report is valid only as presented in its entirety and exclusively for the Purpose and Valuation Date specified in the accompanying appraisal report, and as specified in our opinion of estimated value. No portion of the accompanying appraisal report, including this Opinion and Certification, shall be detached, copied or otherwise segregated from the complete bound report for any reason, or for any other Purpose or Valuation Date, and are void and invalid if so used.

Valuation of 1,000 Shares of Voting Common Stock of  
**ACTIVE AUTO INSTRUMENTATION, INC., A CALIFORNIA C CORPORATION,**  
**AS OF JUNE 17, 2005**

**EXECUTIVE SUMMARY**

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**SUMMARY OF APPRAISAL SPECIFICATIONS**

**Assignment**

Client Name	Active Auto Instrumentation, Inc.
Engagement Officer	Mr. Jack Smith
Ownership	Mr. Jack Smith
Subject Interest	1,000 Shares of Voting Common Stock
Percentage of Ownership Valued	100% (One Hundred Percent)
Level of Value	Controlling Interest
Valuation (Effective) Date	June 17, 2005
Purpose of Appraisal	Estate Tax Return Compliance
Definition (Standard) of Value	Fair Market Value

**Subject Company**

Subject Company Name	Active Auto Instrumentation, Inc.
Company Location	123 Any Street, Somewhere, California 99999
Type of Entity	C corporation
Incorporated or Organized	State of California, on January 14, 1985
Business Mix Level	Pure Play
Principal Activity SIC Code	5013
SIC Description	Motor Vehicle Supplies and New Parts

**Report**

Valuation Date	June 17, 2005
Report Date	August 25, 2008
Type of Report	Appraisal Report
Distribution of Report	Restricted to Recipients Listed in Section 1 of Accompanying Report
Professional Standards	NACVA, IBA, USPAP

**Valuator**

Valuator	Val U. Dude
Valuator's Qualifications	Curriculum Vitae Presented in Section 6 of Accompanying Report
Valuator's Credential	Accredited Valuation Analyst
Credential Conferred by	National Association of Certified Valuation Analysts

## NARRATIVE SUMMARY

**Overview.** Active Auto Instrumentation, Inc. is predominately a wholesale distributor of high-end engine control systems, data acquisition and monitoring equipment used mainly in the motor sports industry by automobile racing enthusiasts for improving performance of racing car engines and handling characteristics of racing cars. The company operates two facilities. The main facility is located in the city of Somewhere, in the Southern California county of Sunshine, and the newer East Coast facility, operated as a wholly-owned North Carolina corporate subsidiary, is located in the city of Mooresville, informally known as “gasoline alley,” in the hub of the South Eastern auto racing region. Both entities are C corporations. All of the voting stock of Active Auto Instrumentation, Inc. of one class is owned by Mr. Jack Smith. All of the stock of the wholly-owned North Carolina subsidiary is owned by Active Auto Instrumentation, Inc.

**Analysis.** The Company’s historical financial statements show a five-year trend of sharply increasing revenue, gross margin and net income, albeit, largely unsustainable in the long term. Included in our analysis is the trailing year ended June 30, 2005, which mostly nearly corresponds to the valuation date of June 17, 2005.

The Company enjoys a financially strong position, with key metrics above industry average, including an abundance of cash, very current accounts receivable and payables, virtually no debt and a strong working capital position. It has borrowing capacity which it seldom uses in the form of a \$100,000 line of credit, the outstanding balance of which is \$4,000 at the valuation date. It has no long-term debt, no payables or receivables with respect to the shareholder.

The Company owns no vehicle which is used by the shareholder and owns no recreation vehicles, test vehicles, racing cars, rare or vintage automobile collectibles or water craft. The Company’s non-operating assets are limited to excess cash and the Somewhere building upper floor build out, which we have considered in our synthesis of our opinion of estimated value.

The national economic outlook, which is the relevant geographic area of the Company’s North American operations, is moderate to favorable. The industry outlook, which we have regarded as the market to which the Company sells and services its principal product line, is favorable, to the extent our exhaustive research efforts resulted in a reasonably reliable consistent picture of an industry for which limited data is available.

Of the three valuation approaches available (Asset, Income and Market), we used the Income Approach and the Market Approach, and weighted the Income Approach higher in our estimation of confidence because it considers the Company’s specific attributes more directly, it provides a value indication based on the Company’s future earning power more directly, and our estimate of future earning power was based on a rigorous exercise in forecasting cash flow. By comparison, the Market Approach did not afford these highly specific metrics, so did not warrant as high a confidence level in our opinion. The Asset Approach using the liquidation premise was inappropriate with the Company’s condition as a going concern.

The Company’s consolidated results of operations, as reported (unadjusted), are shown below.

	<b>For the Years Ending</b>				
	February 28, 2002	February 28, 2003	February 28, 2004	February 28, 2005	June 30, 2005 TY
Revenue	\$ 3,059,423	\$ 3,343,160	\$ 4,747,907	\$ 5,516,812	\$ 5,263,928
Cost of revenue	1,680,768	1,842,987	2,709,752	2,844,017	2,756,124
Gross profit	1,378,655	1,500,173	2,038,155	2,672,795	2,507,804
Operating expense	1,272,832	1,424,762	1,826,517	2,198,778	2,305,649
Operating income (loss)	105,823	75,411	211,638	474,017	202,155
Other income (expense), net	6,957	(2,537)	(293)	(946)	(2,176)
Income (loss) before income taxes	112,780	72,874	211,345	473,071	199,979
Income tax expense (benefit)	36,990	23,652	83,101	196,557	69,116
Net income (loss)	<u>\$ 75,790</u>	<u>\$ 49,222</u>	<u>\$ 128,244</u>	<u>\$ 276,514</u>	<u>\$ 130,863</u>

Note 1 - Federal and state income tax expense lags on the tax returns by one year due to the accountant's reporting preference. Taxes shown herein are adjusted to reflect current year amounts. Therefore, net income does not agree with tax returns and retained earnings on tax returns are accordingly overstated.

### **Appraisal Report in its Entirety for a Specific Purpose and Date**

This appraisal report is valid only as presented in its entirety and exclusively for the Purpose and Valuation Date specified herein, and as specified in our opinion of estimated value.

No portion of the accompanying appraisal report, including this Executive Summary, shall be detached, copied or otherwise segregated from the complete bound report for any reason, nor for any other Purpose or Valuation Date, and shall be invalid if so used.

Valuation of 1,000 Shares of Voting Common Stock of  
**ACTIVE AUTO INSTRUMENTATION, INC., A CALIFORNIA C CORPORATION,**  
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Valuation of 1,000 Shares of Voting Common Stock of  
**ACTIVE AUTO INSTRUMENTATION, INC., A CALIFORNIA C CORPORATION,**  
**AS OF JUNE 17, 2005**

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VALUATION OF  
1,000 SHARES OF VOTING COMMON STOCK,  
ON A NON-MARKETABLE, CONTROLLING INTEREST BASIS OF  
**ACTIVE AUTO INSTRUMENTATION, INC.**  
AS OF JUNE 17, 2005

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Introduction
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## 1. INTRODUCTION

### 1.1 Summary Description of the Appraisal Assignment [USPAP 10-2 (a)(i), (iii), (iv) and (v)]

Active Auto Instrumentation, Inc. (“Client”) has retained Val U. Dude, Inc. (“Firm”), pursuant to an engagement letter of September 6, 2005 (“Agreement”), as authorized by its President, Mr. Jack Smith, to provide an opinion of the estimated fair market value of 1,000 shares of voting common stock, representing 100% (one hundred percent) of the issued and outstanding common stock (“Assignment”) of Active Auto Instrumentation, Inc. (“Subject Interest”), a federal and California C corporation (“Company,” “Subject Company”), on a non-marketable, controlling interest basis (“Level of Value”), based on a going concern premise of value, (“Premise”) as of June 17, 2005 (“Valuation Date”) for the purpose of estate tax return compliance (“Purpose”) represented to us as coincident with the demise of Mrs. Alice Smith (“Decedent”).

The Subject Company conducts its operations from its headquarters office, distribution and light manufacturing facilities at 123 Any Street, Somewhere, California, 99999, which is in the Southern California county of Sunshine. More information about the facility is presented subsequently in this report.

### 1.2 Objective of the Appraisal Report [USPAP 10-1 (b)]

The objective of our appraisal report is to provide an opinion of estimated value for the Subject Interest.

We have intended to inform users familiar with business valuation in a simple and straightforward manner about our research, analysis and line of reasoning leading to our opinion of estimated value. We assume the Client is not necessarily familiar with business valuation matters, who, nonetheless, also expects to understand the report. Therefore, our objective has been twofold: to prepare a report which concise enough for the seasoned appraisal reader, and which is comprehensive enough for those unfamiliar to business valuation.

#### 1.2.1 Copyright Protection and Restricted Distribution of this Appraisal Report [USPAP 9-2 (a)]

This report is the work product of Val U. Dude, Inc., and is protected by copyright with all rights reserved. Accordingly, neither this report in its entirety, nor any element or component thereof, may



be published, disseminated, distributed, copied or duplicated by any means or in any manner by anyone to any other person or entity without the express written consent of Val U. Dude, Inc., unless so ordered by a court of competent jurisdiction.

Distribution of this report is restricted exclusively to those parties listed below in Exhibit 1-1 as authorized by the Client pursuant to the terms of our Agreement, and related other correspondence.

Exhibit 1-1 Active Auto Instrumentation, Inc.			
Authorized Distribution of Appraisal Report			
Individual's Name	Position	Company Name	No. of Copies
Mr. Jack G. Smith	President	Active Auto Instrumentation, Inc.	1
Mr. Richard E. Cheatem	Certified Public Accountant	Cheatem & Howe, CPAs	2
Total Number of Copies Authorized for Distribution			3

Source: Authorized engagement letter between Firm and Client dated September 6, 2005 and subsequent authorizations

### 1.2.2 Compliance with Professional Standards of Appraisal Organizations for Development and Reporting for Appraisal Reports [USPAP 9 and 10]

This report was prepared according to the professional standards in effect at the report date, August 25, 2008, of the following nationally-recognized appraisal organizations:

- Business Appraisal Standards of the Institute of Business Appraisers in effect as of January 15, 2001,
- Professional Standards of the National Association of Certified Valuation Analysts in effect as of January 1, 2008, and
- Appraisal Foundation, 2008-2009 Uniform Standards for Professional Appraisal Practice (2006 USPAP) in effect as of January 1, 2008.

The appraiser is a member in good standing of the Institute of Business Appraisers and the National Association of Certified Valuation Analysts (NACVA) and holds an AVA credential from NACVA. Since the appraiser is not a member of the American Society of Appraisers (ASA), the appraiser is not obligated to conform to USPAP. However, despite the ASA's non binding pronouncement to the contrary, we have complied with USPAP voluntarily. USPAP standards are cited in the section headings to which our report complies. The significance of membership in professional associations includes, among other things, the requirement that the member conform to the association's professional standards.

### **1.2.2.1 The Appraisal Assignment Defined by Professional Standards [USPAP 10-2]**

This written report is defined as a *Formal Written Appraisal Report* in conformity with §5.1 of the Business Appraisal Standards of the Institute of Business Appraisers; is defined as a *Conclusion of Value* in conformity with §4.3 of the Professional Standards of the National Association of Certified Valuation Analysts; and is defined as an *Appraisal Report* in conformity with the 2008-2009 Uniform Standards of Professional Appraisal Practice (USPAP), Standards Rule 10-2. For purposes of identification from now on, we shall use the term *appraisal report*.

### **1.2.3 Conformity of the Appraiser with Internal Revenue Service Qualification Requirements [USPAP Supplemental Standards Rule]**

#### **1.2.3.1 Conformity with Transitional Guidance Provided by Internal Revenue Service Notice 2006-96 Regarding Appraisal Requirements for Noncash Charitable Contributions**

The Internal Revenue Service has previously used definitions and requirements for charitable contribution valuations to apply equally to ESOP, estate and gift tax valuations. Although this appraisal report is not for purposes of a charitable contribution, and we find no direct reference in the *Transitional Guidance* relating to appraisals for other than charitable contributions. Nonetheless, we do satisfy the new requirements in that we are qualified by virtue of our background, experience, education and membership in professional associations, and by virtue of having fulfilled the additional requirements effective February 17, 2007.<sup>1</sup>

#### **1.2.3.2 Conformity with Internal Revenue Service Business Valuation Guidelines**

The Internal Revenue Service has issued an updated *Guideline* published in the Internal Revenue Manual to provide guidance to IRS personnel in their performance of reviewing appraisal reports for IRS purposes effective July 1, 2006.<sup>2</sup> These standards are not intended to apply to independent valuers who perform services in conformity to professional standards issued by nationally recognized appraisal accrediting organizations. Nonetheless, we have reviewed the guidelines and have determined that we are in conformity with the applicable provisions in our development and reporting of this appraisal report.

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<sup>1</sup> Guidance Regarding Appraisal Requirements for Noncash Charitable Contributions, Part III - Administrative, Procedural, and Miscellaneous, Notice 2006-96, (Internal Revenue Service)

<sup>2</sup> IRS Business Valuation Guidelines, IRM §4.48.4, Engineering Program, Business Valuation Guidelines, (Internal Revenue Service: July 1, 2006)

#### 1.2.4 Selection Criteria Used for Information Included in this Report

We realize that the users of this report may have limited time and resources to read and extract key information to form their opinions and calibrate their credibility in acceptance of our opinion of estimated value. In deference to these constraints, we have developed a guide for selecting the information to include and expound upon in our reporting. We tested the information by asking ourselves if the information passed the tests signified by the key questions below:

1. Is it reasonable and appropriate?
2. Is it relevant?
3. Is it realistic?
4. Is it replicable?
5. Is it required by principle, regulations, case law or statute?
6. Is it recognized as generally accepted valuation theory or methodology?

In a few cases, where the data was compelling, fascinating, or might have added context to the content, we may have exercised artistic license in expanding our narrative beyond the above guidelines.

#### 1.3 Summary of the Scope of Work Used to Develop the Appraisal [USPAP 10-2 (a)(viii)]

Our opinion of estimated value and the scope of this Assignment is subject to the Statement of Facts, Assumptions and Limiting Conditions set forth herein, and based upon, among other factors, the following:

- Client and any other intended users
- Intended use of the appraiser's opinions and conclusions
- Type and definition of value
- Effective date of the appraiser's opinions and conclusions
- Subject of the assignment and its relevant characteristics, and
- Assignment conditions<sup>3</sup>

No information has been otherwise restricted or withheld by us. The scope of this assignment has not been otherwise restricted or limited by the Client, nor, to the best of our knowledge and belief, has any information or documentation been withheld or limited by the Client, management or other sources from whom we requested information or documentation other than what we have disclosed herein.

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<sup>3</sup> Uniform Standards of Professional Appraisal Practice (USPAP), Advisory Opinion 28 (AO 28), (Washington, D.C.: The Appraisal Foundation, 2006)

Determining the scope of work is an ongoing process in an assignment. Information or conditions discovered during an assignment might cause the appraiser to reconsider the scope of work.<sup>4</sup> For purposes of preparing this appraisal report, taking into consideration our assignment, we have determined and performed the scope of work necessary, including research and analysis of the economic, industry and company-specific factors that we determined were reasonable, appropriate and relevant in the development and reporting of our opinion of estimated value.

Our judgment was used to avoid overreaching as far as the degree of statistical analysis we used in our development process. We were guided, in part, by our opinion of the approximate level of sophistication we would ordinarily expect from a hypothetical investor of this Subject Interest when conducting his or her due diligence.

We were also guided by the circumstances and developmental conclusions as they began to emerge from our continuing analysis and evaluation of the data as it became available. We believe that the type and extent of our research and analysis, taking into consideration our assessment of the relevance of certain analyses and procedures, provides a suitable basis to produce credible assignment results, which are both reasonable and appropriate for the completion of this assignment and for the support of our opinion of estimated value.

### **1.3.1 Requirement to Assess Restrictions and Limitations Imposed Upon the Appraiser and to Determine the Possible Resulting Implications on the Value Conclusion Imposed Therefrom [USPAP Scope of Work Rule]**

The Scope of Work Rule imposed by USPAP standards, to which this appraisal conforms, requires that we assess the degree to which our development, analysis or research was limited or restricted by any parties. USPAP states in the Scope of Work Rule:

An appraiser must not allow assignment conditions to limit the scope of work to such a degree that the assignment results are not credible in the context of the intended use.<sup>5</sup>

USPAP *Comments* on the above are as follows:

If relevant information is not available because of assignment conditions that limit research opportunities (such as conditions that place limitations on inspection or information gathering), an appraiser must withdraw from the assignment unless the appraiser can:

- modify the assignment conditions to expand the scope of work to include gathering the information, or

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<sup>4</sup> Ibid.

<sup>5</sup> *Scope of Work Rule*, USPAP 2008-2009 Edition, Appraisal Foundation, Washington, D.C.

- Use an extraordinary assumption about such information, if credible assignment results can be developed.<sup>6</sup>

No restrictions or limitations were imposed by the Client requiring the application of this provision.

### **1.3.2 Subject of the Appraisal [USPAP 10-2 (a)(i), (iii), (iv) and (v)]**

Active Auto Instrumentation, Inc. (“Client”) has retained Val U. Dude, Inc. (“Firm”), pursuant to an engagement letter of September 6, 2005 (“Agreement”), as authorized by its President, Mr. Jack Smith, to provide an opinion of the estimated fair market value of 1,000 shares of voting common stock, representing 100% (one hundred percent) of the issued and outstanding common stock (“Assignment”) of Active Auto Instrumentation, Inc. (“Subject Interest”), a federal and California C corporation (“Company,” “Subject Company”), on a non-marketable, controlling interest basis (“Level of Value”), based on a going concern premise of value, (“Premise”) as of June 17, 2005 (“Valuation Date”) for the purpose of estate tax return compliance (“Purpose”).

### **1.3.3 Definition of Value, Premise of Value and Level of Value [USPAP 10-2 (a)(vi)]**

#### **1.3.3.1 Definition of Value**

The definition of value applied to the Subject Interest is *fair market value*.

##### **1.3.3.1.1 Fair Market Value as Defined by Rev. Rul. 59-60**

The fair market value standard is defined in Revenue Ruling 59-60 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 the relevant facts.<sup>7</sup>

In addition, Rev. Rul. 59-60 continues,

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.<sup>8</sup>

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<sup>6</sup> Ibid., *Comment*

<sup>7</sup> Rev. Rul. 59-60, Internal Revenue Service, 1959-1 C.B. 237, Section 2.02, citing §§ 20.2031-1(b) of the Estate Tax Regulations and 25.2512.1 of the Gift Tax Regulations, which define fair market value.

<sup>8</sup> Ibid.

Further, Rev. Rul. 59-60 adds,

A determination of fair market value, being a question of fact, will depend on the circumstances in each case. [...] valuation is not an exact science. A sound valuation will be based upon all the 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.<sup>9</sup>

#### **1.3.3.1.2 Fair Market Value as Defined by Treasury Regulations**

Treasury regulations have been issued to define *fair market value* for purposes of both estate tax planning (gifting) and estate valuation (after death) as follows:

The fair market value (of the property being valued) is the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of relevant facts.<sup>10</sup>

#### **1.3.3.1.3 How the Definition of Value is Being Applied to this Appraisal [USPAP 10-2 (a)(vi)]**

The definition provided by the Treasury Regulations above has been used as the definition of value in our appraisal, although the definitions established by the Treasury Regulations and Rev. Rul. 59-60 are virtually identical.

Although Rev. Rul. 59-60 does not speak to other attributes of the hypothetical buyer and hypothetical seller explicitly, nonetheless, it is the role of the appraiser to estimate the value of the Subject Interest to simulate a transaction that would most likely culminate between a hypothetical buyer and a hypothetical seller. The following attributes are commonly accepted for hypothetical buyers and sellers:

...the willing buyer and the willing seller are hypothetical persons dealing at arms' length, rather than any particular buyer or seller. In other words, a price would not be considered representative of fair market value if influenced by special motivations not characteristic of a typical buyer or seller.<sup>11</sup>

Accordingly, to bring full effect to this simulation, we incorporated the following additional attributes of the hypothetical buyer and seller:

- The hypothetical buyer and seller are profit motivated, well informed and acting in their own best interests.

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<sup>9</sup> Ibid., SEC. 3. APPROACH TO VALUATION, paragraph .01.

<sup>10</sup> Treasury Regulation 25.2512-1 and Treasury Regulation 20.2031-1(b)

<sup>11</sup> Shannon P. Pratt, Robert F. Reilly, Robert P. Schweihs, Valuing a Business, 4<sup>th</sup> ed. (New York: McGraw Hill, 2000) 29

- The hypothetical buyer would exclude any related parties, subsidiaries, parent companies, shareholders, creditors, competitors or customers who can pay a price artificially higher or lower not contemplated by an independent, arms-length hypothetical financial investor.
- The hypothetical buyer is a financial buyer who will not be purchasing the Subject Interest for any perceived special synergies or strategic benefits.
- The Subject Interest will be sold for cash in U.S. dollars or with financial terms comparable thereto.<sup>12</sup>
- The Subject Interest will be held for sale on the market for a reasonable period of time.
- The Subject Company will continue to operate as a going concern and not be liquidated.<sup>13</sup>
- The price represents the normal consideration for the property sold, unaffected by special or creative financing, or sales concessions granted by anyone associated with the sale.<sup>14</sup>
- The hypothetical seller is presumed to be knowledgeable about the relevant facts, including market influence on value, the investment implications of the Company's risk profile, its value drivers, control characteristics, and marketability implications on value.

### 1.3.3.2 Premise of Value [USPAP 10-2 (a)(vi)] [USPAP 9-2(c)]

The determination of the valuation *premise* is key to the application of valuation Approaches and Methods used to appraise the equity interest in a company. The premise of value addresses the question, Under what set of hypothetical or actual circumstances is a transaction regarding the Subject Interest most applicable?<sup>15</sup> We employed the *Glossary* to provide our definition:

**Premise of Value** – An assumption regarding the most likely set of transactional circumstances that may be applicable to the subject valuation; e.g., going concern, liquidation.<sup>16</sup>

The two most common premises are *going concern* and *as if in liquidation*. For purposes of our appraisal, we adopted the definitions from the *International Glossary of Business Valuation Terms*, the full version of which is included in herein.

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<sup>12</sup> Gary R. Trugman, Understanding Business Valuation, 2nd Edition (American Institute of Certified Public Accountants, New York: 2002) 58

<sup>13</sup> We ultimately determined the appropriate premise of value to be orderly liquidation, which was not predetermined by either Company management or the Client.

<sup>14</sup> Pratt, 29

<sup>15</sup> Pratt, 28

<sup>16</sup> International Glossary of Business Valuation Terms

**Going Concern Value** – the value of a business enterprise that is expected to continue to operate into the future. The intangible elements of Going Concern Value result from factors such as having a trained workforce, an operational plant, and the necessary licenses, systems, and procedures in place.

**Liquidation Value** – the net amount that can be realized if the business is terminated and the assets are sold piecemeal. Liquidation can be either “orderly” or “forced.”<sup>17</sup>

Most authoritative sources confer on the enterprise only three choices of valuation premises: *going concern* or *liquidation*, which is either *forced* or *orderly*. Management represents that the Subject Company will not be liquidated. Again, the *Glossary* provides the following definition of *going concern*:

Going Concern - An ongoing operating business enterprise<sup>18</sup>

Dr. Shannon Pratt, a recognized authority on generally accepted business valuation theory and methodology, defines *value as a going concern*, as follows:

Value as a Going Concern – Value in continued use, as a mass assemblage of income producing assets, as a going-concern business enterprise.<sup>19</sup>

Adopting the presumption that the hypothetical seller is reasonably prudent and profit motivated when valuing a controlling interest, the professional standards set forth by the Uniform Standards of Professional Appraisal Practice and the Institute of Business Appraisers requires the appraiser to consider and accept the higher of the two values, reflecting the realistic expectation of such a seller.<sup>20, 21</sup> We have incorporated this consideration in our contemplation of fair market value and our selection of the premise of value.

The selection of the highest value is not without its considerable intuitive appeal. The idea of valuing an asset at its “highest and best use” is a well established concept, originating from the appraisal of real property, where its application to valuation is an explicit requirement.<sup>22</sup>

Our consideration is also based on the prerequisite that the Subject Interest is valued on a controlling interest basis, which affords the owner of the Subject Interest the authority to liquidate the Company. Otherwise, the liquidation premise would be inapplicable if liquidation could not be carried out.

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<sup>17</sup> International Glossary of Business Valuation Terms

<sup>18</sup> Ibid.

<sup>19</sup> Pratt, 33 (Emphasis Added)

<sup>20</sup> Business Appraisal Standards, §5.3(j)(ix), (Institute of Business Appraisers, Inc.: January 15, 2001)

<sup>21</sup> 2008-2009 USPAP, Standards Rule 9-3

<sup>22</sup> Trugman, 39



#### **1.3.3.2.1 Conclusion Regarding Premise of Value**

We believe it is reasonable and appropriate to regard the Subject Company as a going concern as of the Valuation Date and for the foreseeable future. Accordingly, in collective consideration of our financial analysis, Company analysis and discussion with management, we have concluded that the most appropriate premise of value for the Subject Interest is *as if a going concern*. Additional information is presented in subsequent sections of this report.

#### **1.3.3.3 Level of Value**

The level of value refers to the characteristics of ownership expressed on either a *controlling interest* basis, or a *minority interest* basis. Inasmuch as we valued 100% of the Company's issued and outstanding voting common stock, the level of value of the Subject Interest was *controlling interest*. See the *Glossary* herein for definitions of these terms.

#### **1.3.4 Date of Valuation [USPAP 10-2 (a)(vii)]**

The valuation date (also known as "effective date" and "appraisal date") of this appraisal is **June 17, 2005** ("Valuation Date") which was selected by the Client as being coincident to the demise of Mrs. Alice Smith. Accordingly, this appraisal report is void and invalid for any other Valuation Date.

Our opinion of estimated value reflects facts and conditions existing or reasonably foreseeable at the Valuation Date. Subsequent events have not been considered. We have no responsibility to update this report for events and circumstances occurring after the Valuation Date, June 17, 2005.

#### **1.3.5 Date of the Appraisal Report [USPAP 10-2 (a)(vii)]**

The date of this appraisal report, corresponding to the date this report was signed by the appraiser is **August 25, 2008** ("Report Date").

#### **1.4 Exclusive Nature, Purpose and Use of the Appraisal Report [USPAP 10-2 (a)(ii)]**

We have prepared this appraisal report pursuant to our Agreement for the purpose of estate tax return compliance ("Purpose"). Our opinion of estimated of value is valid exclusively for the Purpose set forth herein. Accordingly, this appraisal report is void and invalid for any other Purpose.

#### **1.5 Statement of Facts, Assumptions, Extraordinary Assumptions, Hypothetical Conditions and Limiting Conditions Used in this Report [USPAP 10-1 (c)]**

Some appraisal professionals prefer to format their report by placing the Statement of Facts, Assumptions and Limiting Conditions in the Appendix. We prefer to present it in the body of the report to avoid the implication that its relevance may be mistakenly regarded as incidental to the development of our conclusion by its placement in the Appendix. Just the opposite is true. These factors are critical in understanding the basis of our thought processes, judgment and decision criteria in developing our opinion of estimated value.

### **1.5.1 Statement of Facts, Assumptions and Limiting Conditions Used in this Report**

The development of an opinion of estimated value in a business valuation report requires reliance upon various facts, assumptions and limiting conditions that usually have a significant impact on the opinion of estimated value. Accordingly, our opinion of estimated value is subject to the following facts, assumptions and limiting conditions, which are an integral part of this report, the inclusion of which have been approved in substantial meaning and form, if not verbatim, by the Client, pursuant to the terms of our Agreement and its subsequent amendments, addendums and reinstatement:

#### **General Assumptions and Conditions**

1. Val U. Dude, Inc. does not purport to be a guarantor of value, and assumes no responsibility for changes in market conditions, legal or regulatory matters, or for the owner to find a purchaser at the price indicated by our opinion of estimated value. An actual transaction for the sale of the Subject Interest may be consummated at a higher or lower price than our opinion of estimated value. Although valuation of a closely-held company is an imprecise and partially subjective undertaking, and reasonable people can differ in their opinions of estimated value, we have used generally accepted valuation theory, methodologies and procedures in arriving at our opinion of estimated value.
2. Unless otherwise stated in this report, we did not observe, and we have no knowledge of, the existence of hazardous materials regarding the subject assets, properties, or business interests. We are not qualified to detect or discover these materials, and, accordingly, we assume no responsibility for the possible existence of these materials. No duty arises for us to gain the expertise for their possible detection or disclosure.
3. This appraisal assignment cannot be relied upon to prevent, detect, disclose or correct any errors, omissions, irregularities or illegal acts, including, but not limited to, fraud, embezzlement, defalcations or departures from Generally Accepted Accounting Principles (GAAP) by any individual, entity, organization or agency. This understanding has been confirmed by the Client pursuant to the terms of our Agreement and its subsequent amendments, addendums and reinstatement.
4. All facts and data presented in this report are true and correct to the best of our knowledge and belief. We have not knowingly withheld or omitted anything from our report affecting our opinion of estimated value.
5. We assume that the management of the Subject Company is competent and diligent. This engagement does not opine on the effectiveness of management, nor does our engagement extend to opining on the ability or effectiveness of marketing or other management or ownership functions upon which actual results may depend.
6. We are not licensed attorneys. This appraisal report is not a legal or tax opinion and should not be relied upon as such. Its purpose is to opine on an estimate of value at the Valuation Date without reference to any legal or tax claims, conditions or specific attributes, except where expressly noted in this report. No opinion is intended to be

expressed for matters that require legal or specialized expertise, investigation, or knowledge beyond that which is customarily employed by valuation analysts.

7. We have no knowledge of the existence of any issues related to actual or pending litigation, regulatory compliance, limitations in the corporation's articles, bylaws, minutes or agreements, pending or in place among the parties or involving any third parties, except for that which is disclosed herein. We have no knowledge of any noncompliance with any federal, state or local regulations and laws regarding the Subject Company. We are not qualified to detect such noncompliance issues. Accordingly, we do not opine upon nor assume any responsibility for such conditions, should they exist, nor for any expertise required for their discovery or disclosure.
8. We, by reason of this opinion, and under the terms of our Agreement and its subsequent amendments, addendums and reinstatement, are not required to give testimony, or to be present in any court, conference, proceeding, hearing or inquiry concerning the Subject Interest being valued unless previous arrangements have been made.
9. This valuation reflects facts and conditions existing or reasonably foreseeable at the Valuation Date. Subsequent events have not been considered. Accordingly, we have no responsibility to update this report for events or circumstances occurring after the Valuation Date, June 17, 2005.
10. As of the Valuation Date, management and others knowledgeable about Company plans represent that the Company will not be otherwise sold or liquidated.
11. Regarding the Company's assets, we assume (i) the subject assets, properties, or business interests are valued free and clear of any or all liens, restrictions or encumbrances unless otherwise stated; (ii) there are no hidden or unapparent conditions regarding the subject assets, properties, or business interests; (iii) no responsibility for the legal description or matters including legal or title considerations; (iv) title to the subject assets, properties, or business interests is good and marketable unless otherwise stated; (v) no restrictions are imposed by any governmental body or agency on the presence or operation of any of the underlying assets that would affect the value of the Subject Interest other than as indicated in this report.
12. We assume Active Auto Instrumentation, Inc. is in full compliance with all applicable federal, state, and local regulations and laws; has all required licenses, certificates of occupancy, consents, or legislative or administrative authority from all applicable local, state, or federal government, or private entity or organization, or can be obtained or reviewed for any use on which the opinion contained in this report is based. Val U. Dude, Inc., and the appraiser, assume no liability for the economic, legislative, governmental or regulatory compliance factors that may affect the opinion of estimated value in this report.

### **Reliance on Information**

13. This appraisal report is prepared with the inclusion of, and reliance upon, information (i) provided by the Client, who warranted to us through the terms of our Agreement and its subsequent amendments, addendums and reinstatement that all the information they provided was complete and accurate to the best of their knowledge, and (ii) provided by other sources including research that has been accepted as correct without independent verification. We express no opinion on the accuracy or completeness of such information, and no warranty, opinion or assurances regarding the reliability of the underlying information used for this appraisal is expressed or implied by virtue of its inclusion or upon its reliance in this appraisal report.

### **Appraiser's Independence**

14. We are independent with respect to Active Auto Instrumentation, Inc. Neither the appraiser nor Val U. Dude, Inc. have any present or contemplated future interest in Active Auto Instrumentation, Inc., any personal interests with respect to the parties involved, or any other interest that might prevent us from performing an unbiased valuation.
15. The fees for this valuation are based upon the normal billing structure of Val U. Dude, Inc., and are in no way contingent upon an action or event resulting from the analysis, opinion, or conclusions in, or the use of, this appraisal report.

### **Restrictions**

16. This appraisal report is valid only as presented in its entirety and exclusively for the Purpose and Valuation Date specified herein. Its use for any other Purpose is invalid for which Val U. Dude, Inc. assumes no liability. Reports which are unsigned or do not carry an original signature of the appraiser in blue ink, over which is impressed a blind embossed corporate seal of Val U. Dude, Inc., are also invalid. No portion of the accompanying appraisal report, including the Appraiser's Certification or the Executive Summary, shall be detached, copied or otherwise segregated from the complete bound report for any reason, or for any other Purpose or Valuation Date, and shall be invalid if so used.
17. This report is protected by copyright, and shall not be used by any individual, firm, organization, agency or enterprise, including the Client, by any manner and means, in whole or in part, for any other purpose other than the Purpose so indicated herein, exclusively by the Client, subject to the restrictions set forth for its authorized distribution, without the express written consent of Val U. Dude, Inc.
18. Possession of this report does not carry with it the right of publication of all or part of it, nor conveyed by any method or means to any third parties without the express written consent of Val U. Dude, Inc.

### **1.5.2 Statement of Extraordinary Assumptions Used in this Report [USPAP 10-1(c)]**

There were no extraordinary assumptions used in this report within the meaning of USPAP Standard 10-1 (c).

### **1.5.3 Statement of Hypothetical Conditions Used in this Report [USPAP 10-1(c)]**

There were no hypothetical conditions used in this report within the meaning of USPAP Standard 10-1 (c).

## **1.6 Valuation Factors Considered in this Appraisal [USPAP 10-2 (a)(viii)]**

The Internal Revenue Service (“IRS”) provides general guidance on the valuation of closely-held companies as well as valuation dates for estate and gift tax purposes. We have set forth the provisions promulgated by the Internal Revenue Service with our assessment of their relevance to this Assignment in the subsections below.

### **1.6.1 Specific Factors in the Valuation of Closely-Held Stock Required by the Internal Revenue Service Under Revenue Ruling 59-60**

Rev. Rul. 59-60 has become broadly recognized and accepted by the valuation profession as the seminal defining pronouncement which applies “to the valuation of corporation stocks on which market quotations are either unavailable or are of such scarcity that they do not reflect the fair market value.”<sup>23</sup> We have considered and carefully analyzed each of the eight valuation factors required by Internal Revenue Service Revenue Ruling 59-60, all available financial data, as well as all relevant factors affecting value in our appraisal of the Subject Interest.<sup>24</sup>

Although the eight factors of Rev. Rul. 59-60 are addressed in greater depth as they apply to the Subject Interest in the sections which follow in this appraisal report, for purposes of summarization, shown in Exhibit 1-2 below are the eight factors and our ultimate determination of their applicability to our valuation of the Subject Interest:

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<sup>23</sup> Rev. Rul. 59-60, SECTION 1. PURPOSE.

<sup>24</sup> Ibid., SECTION 4. FACTORS TO CONSIDER., Paragraph .01.

Exhibit 1-2 Active Auto Instrumentation, Inc.		
Relevance of Rev. Rul. 59-60		
Rev. Rul. 59-60 Section	Description of Factor	Relevancy
(a)	The nature of the business and the history of the enterprise from its inception.	Yes
(b)	The economic outlook in general and the condition and outlook of the specific industry in particular.	Yes
(c)	The book value of the stock and financial condition of the business.	Yes
(d)	The earning capacity of the company.	Yes
(e)	The dividend-paying capacity.	Yes
(f)	Whether or not the enterprise has goodwill or other intangible value.	Superseded. See Rev. Rul. 95-193
(g)	Sales of the stock and the size of the block of stock to be valued.	Yes
(h)	The market price of stocks of the corporations engaged in the same or a similar line of business having their stocks actively traded in a free and open market, either on an exchange or over-the-counter.	Yes

### 1.6.2 Specific Factors in the Valuation of Closely-Held Stock Required by Subsequent Internal Revenue Service Revenue Rulings

We also considered subsequent Internal Revenue Service pronouncements and their applicability to our Assignment, and have included our assessment of their ultimate relevance below in Exhibit 1-3:<sup>25</sup>

<sup>25</sup> Trugman, 65-68

Exhibit 1-3 Active Auto Instrumentation, Inc.		
Relevance of Additional Revenue Rulings		
Revenue Ruling	Subject of Publication	Relevancy
Rev. Rul. 65-192	<b>Income and Other Taxes</b> - Expands Rev. Rul. 59-60 to include income and other taxes; discredits ARM 34 and ARM 68 in valuation of business interests, unless intent is to value intangibles; superceded by Rev. Rul. 68-609	Superceded by Rev. Rul. 68-609
Rev. Rul. 65-193	<b>Intangible Assets</b> - deletes the final §4.02(f) of Rev. Rul. 59-60 dealing with the valuation of intangibles	None
Rev. Proc. 66-49	<b>Donated Property</b> - To be used for appraisals of donated property; defines content of a formal appraisal report and factors to consider in arriving at fair market value of property	None
Rev. Rul. 68-609	<b>Excess Earnings Method</b> - discusses "formula method" for determining fair market value of intangible assets of a business. Supercedes ARM 34. Theory in Revenue Ruling 59-60 applies to income and other taxes as well as to estate and gift taxes, and to business interests of any type, including partnerships and proprietorships, and to intangible assets for all tax purposes.	None
Rev Proc. 77-12	<b>Inventory Valuation</b> - originally issued for valuation of merchandise inventory for purchase price allocation, now provides reasonable guidance for appraisal for merchandise inventory for business valuations	Limited.
Rev. Rul. 77-287	<b>Discount for Lack of Marketability</b> - recognizes the relevance of restricted stock studies in determining discounts for lack of marketability	Yes, in the form of discount for lack of liquidity in the sale of a controlling interest.
Rev. Rul. 83-120	<b>Preferred Stock</b> - discusses valuing preferred stock	None
Rev. Rul. 85-75	<b>Acceptability of Estate Tax Values for Depreciation Basis</b> - IRS not bound to accept values for estate tax purposes to determine depreciation deductions or income taxes on capital gains	None

Exhibit 1-3 Active Auto Instrumentation, Inc.		
Relevance of Additional Revenue Rulings		
Revenue Ruling	Subject of Publication	Relevancy
Rev. Rul. 93-12	<b>Discount for Lack of Control</b> - allows the application of minority interest discounts to partial interest transfers even when a family owns overall control of a closely-held business. Supercedes and reverses Rev. Rul. 81-253, which disallowed such discounts, but was overturned by case law.	None

### 1.6.3 Specific Factors in the Valuation of Closely-Held Stock Required by Chapter 14 of the Internal Revenue Code

We also considered the four sections under Chapter 14 of the Internal Revenue Code and their relevance to our Assignment. These sections relate to issues with respect to the transfer of interests in partnerships and closely-held corporations, which are not relevant to our Assignment. Our summary of their relevance is shown below in Exhibit 1-4

Exhibit 1-4 Active Auto Instrumentation, Inc.		
Relevance of IRC Chapter 14		
Chapter Section Number	Summary of Subjects Addressed in Section	Relevance
2701	Allocation of profit and loss, distributions	None
2702	Retained life, annuity and unitrust interests transferred via trusts for lifetime gift tax purposes	None.
2703	Formation, purpose, capital contributions, transfer restrictions, dissolutions	None
2704	Term, management, transfer restrictions, dissolutions	None.



#### 1.6.4 Specific Factors in the Valuation of Closely-Held Stock Required by Section 2031 of the Internal Revenue Code

We also considered section 2031 of the Internal Revenue Code and its relevance to our Assignment. Our summary of their relevance is shown below in Exhibit 1-5

Exhibit 1-5 Active Auto Instrumentation, Inc.		
Relevance of IRC Section 2031		
Chapter Section Number	Summary of Subjects Addressed in Section	Relevancy
2031(a)	Valuation dates for estate taxes	Yes, under the direction of the Client
2031(b)	Suggests consideration of the publicly-traded guideline company method	Conditional. See Text.