

ON THE MARK

Our “Value” Proposition

Today’s regulatory environment is tougher than ever.

In the past, hedge fund managers could use “mark-to-model” values for illiquid assets ... or simply place them in a “side pocket.” Executives could time when their stock options were issued, and businesses could use the same investment bank to manage acquisitions and provide fairness opinions.

Today, such practices are considered questionable and, at best, are contrary to the highest professional and ethical standards.

“[Asset valuation is] one area within the Commission’s purview that could use an immediate regulatory touch.”

*Commissioner Roel C. Campos
U.S. Securities and Exchange
Commission*

To meet regulatory requirements, you need an independent valuation firm – one that has the experience and data needed to provide more sophisticated analysis and more realistic values for your illiquid securities.

Funds and companies that are not fully compliant are subject to fines, lawsuits and negative publicity. The potential impact on brand value can be difficult to overcome.

So why should you rely on Pluris Valuation Advisors?

Not only does our staff have the experience needed to value even the most complex derivatives accurately, we also have the most in-depth, comprehensive empirical transaction data available on restricted stock, warrants and convertible securities.

What's It Worth?



Public markets can efficiently determine the value of most financial assets – publicly traded stocks, bonds and derivatives, for example.

But what if there is no public marketplace for your assets? Assets that are illiquid, such as restricted securities and stock options, are much harder to value.

Many assets either lack liquidity or have limited liquidity, including restricted stock and warrants, stock options and stock in private companies. Collectively, such assets are worth trillions of dollars.

Much is at stake in valuing these illiquid assets accurately. Valuations will affect earnings by hedge funds and compensation for fund managers, private investment in public equity (PIPE) financing and more.

While demand is increasing for the valuation of illiquid assets, expertise for providing such valuations is limited. Pluris was created to fill this widening gap.

Our clients include:

- Hedge funds and other investment advisors that need their portfolios valued
- Public companies that need issued stock options valued
- Companies that need fairness or solvency opinions for pending transactions
- Wealthy families that need assets valued for estate-planning purposes
- Litigants who need expert testimony for lawsuits involving securities

Real-World Valuation Data

Our proprietary **LiquiStat™** database* provides the comprehensive data from comparative real-world transactions that is needed to generate, document and support valuations of illiquid assets.

Unlike data on private placements by the issuer, where discounts may result from many factors, **LiquiStat™** data comes from private sales, from investor to investor, that are a pure reflection of fair value. This data, along with our in-depth experience, ensures that our clients receive the most accurate valuations possible.

**The LiquiStat database is based on exclusive data licensed from Restricted Stock Partners, an affiliate of Pluris. Restricted Stock Partners operates the Restricted Securities Trading Network (RSTN), the largest network of institutional and accredited investors that buy and sell restricted securities.*

“... added investment in infrastructure and personnel are necessary to quickly and repeatedly revalue portfolios of less liquid positions during periods of market stress. Further, greater transparency concerning valuation practices may be warranted.”

*Commissioner Annette L. Nazareth
U.S. Securities and Exchange
Commission*

What Can Go Wrong?



Why do you need independent valuation advice?

If you are a hedge fund manager or are otherwise responsible for reporting the value of a portfolio, what is the downside to the do-it-yourself approach?

Note that under SEC Rule 206(4)-8, inaccurate valuations may constitute fraud *whether or not the valuation is intentionally inaccurate*.

What other impact could inaccurate valuations have?

- Your NAV could become increasingly inaccurate, until a large one-month markdown is needed.
- Poor valuation practices could lead to litigation.
- Auditors may refuse to sign off on financial statements.
- Hedge funds that cannot file statements with unqualified audit opinions may face investor redemptions or they may find it difficult to raise money.

In spite of the consequences, a Deloitte Research study found that fewer than half of hedge funds surveyed get independent, third-party pricing validation. It also found that 16 of 60 hedge funds surveyed are using “proprietary models” to value assets and that seven of the 16 are using them to value PIPE securities – even though research shows that such “mark-to-model” practices yield inaccurate results.

Valuation Service Areas

The following are among the valuation services Pluris provides.

Portfolio Valuations

Hedge funds are increasingly facing potential liability for inaccurate valuations.

In the past, fund managers have had broad discretion over how they value illiquid securities. Even many valuation firms lack the specialized knowledge, capital market expertise and market data required to value restricted securities accurately. Given that their compensation is based on fund returns, fund managers have also had an incentive to overvalue illiquid assets.

While it is clearly inaccurate to base the value of an illiquid asset on the purchase price or on the price of the underlying stock, these are just two examples of the inappropriate valuation methods that have commonly been used.

Today, regulators no longer allow such methods and require asset valuations to be based on “fair value,” which can best be obtained from market data on sales of comparable assets.

Outside valuation is especially important – not only because of the need for objectivity, but because of the lack of in-house expertise needed to meet FAS 157, SEC ASR 113, SEC Rule 206(4)-8 and other requirements.

Financial Reporting Valuations

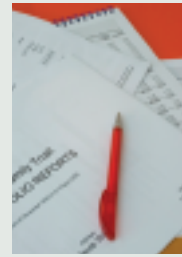
Pluris valuations are fully compliant with financial reporting standards. We provide valuations for:

- Stock-based compensation accounting
- Purchase price allocation
- Asset impairment accounting
- Companies going public

Pluris Valuation Advisors has in-depth experience using both theoretical models and data from comparable transactions to develop valuations that will withstand audit scrutiny.

We can provide independent, defensible valuations to meet the requirements of all accounting standards, including FAS 157, FAS 123R, FAS 141 and FAS 142.

portfolio valuations



financial reporting

tax valuations



litigation support

Tax Valuations

Many taxpayers are paying more than they need to in gift, estate and income taxes, because their illiquid assets are being valued at a higher price than is necessary.

While the IRS is more vigilant than ever about policing valuations made for tax purposes, a higher discount may be taken if the methodology used is defensible.

It's been our experience that commonly used safe-harbor methods sometimes overvalue assets – and that other methods that are acceptable to the IRS can provide values that are more favorable to the taxpayer.

When these valuations are backed up by professional appraisals and real-world transaction data, they can help mitigate the risk of an audit – and provide a solid defense if there is an audit. We are committed to stand by our opinions through audits, appeals and, if necessary, Tax Court.

Transaction Opinions

With shareholder litigation an ever-increasing threat, corporate boards are more reluctant than ever to approve mergers or leveraged buyouts without first obtaining an independent fairness opinion or solvency opinion.

Litigation Support

Because of our specialized knowledge and proprietary data on restricted securities and other illiquid assets, Pluris is uniquely qualified to deliver expert testimony and other conflict resolution services.

Our experts can deliver objective expert testimony in depositions, in administrative proceedings or in court. Armed with our independent studies and carefully analyzed empirical evidence, we can also provide strategic advice and consulting to assist attorneys in complex negotiations – particularly when the goal is to structure a favorable negotiated settlement without incurring the time and expense of a trial.

“... the reporting entity must not ignore information about market participant assumptions that is reasonably available without undue cost and effort.”

- FAS 157

Pluris

Specific Valuation Services

Pluris values many different types of illiquid securities and other assets. Because there is no public market for them, illiquid assets are valued at a discount – but how much of a discount is appropriate? And how do other factors, such as lack of control, come in to play?

We have the expertise and market data to determine defensible values for the following.

Restricted (Unregistered) Stock. Using mark-to-model methods or combining discounts based on averages from published papers will yield unreliable results. Our valuations are based on real-world market data from private sales.

Warrants. Non-tradable warrants cannot be valued using Black-Scholes, which was designed for continuously traded securities.

Convertible Securities. Convertible debentures or convertible preferred shares are often valued as a combination of debt, equity and options.

Private Equity. Shares, debentures or warrants in private entities require significant discounts for lack of marketability.

Pre-Deal Valuations. We value equity in both pre-merger and pre-IPO entities.

Stock Options. Employee stock options are valued under FAS 123R for financial reporting purposes.

Employee Restricted Stock. Compensatory, non-vested restricted stock is valued using methods required by FAS 123R.

Non-Qualified Stock Options. Non-qualified stock options are often transferable and have become a favored vehicle for transferring wealth from one generation to the next.

Interests in Hedge Funds or Private Equity Funds. The net asset values of fund interests require discounting for their illiquidity.


Fund “Carry” and Other GP Interests. The payoff private equity funds provide to general partners in hedge funds is highly uncertain and depends on future performance.

Family Holding Companies. Family limited partnerships and limited liability companies are commonly used to pool and transfer family wealth. Illiquidity discounts apply.

Private Company Stock. Shares in private entities should always be discounted for lack of control and lack of marketability, even when a sale or initial public offering is pending.

Undivided Interests. Undivided interests in real estate lack control over the property held and are not marketable. Significant discounts apply.

Multi-Level Discounts. Tiered holding company structures further “fractionalize” ownership, resulting in additional discounts for lack of control and lack of marketability.



ON THE MARK

About Pluris Valuation Advisors LLC

Pluris Valuation Advisors LLC of New York, N.Y., specializes in valuing the restricted securities of public companies and other assets that lack liquidity.



17 Battery Place, Suite 1343
New York, NY 10004

Phone: (212) 248-4500

Fax: (212) 248-4599

www.PlurisValuation.com