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.

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.

“[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
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.

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
**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.

<table>
<thead>
<tr>
<th>Restricted (Unregistered) Stock.</th>
<th>Non-Qualified Stock Options.</th>
<th>Non-tradable warrants cannot be valued using Black-Scholes, which was designed for continuously traded securities.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Using mark-to-model methods or</td>
<td>Non-qualified stock options are often transferable and have become a favored vehicle for transferring wealth from one generation to the next.</td>
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<tr>
<td>combining discounts based on averages from published papers will yield unreliable results. Our valuations are based on real-world market data from private sales.</td>
<td>Interests in Hedge Funds or Private Equity Funds.</td>
<td>The net asset values of fund interests require discounting for their illiquidity.</td>
</tr>
<tr>
<td>Warrants.</td>
<td>Fund “Carry” and Other GP Interests.</td>
<td>The payoff private equity funds provide to general partners in hedge funds is highly uncertain and depends on future performance.</td>
</tr>
<tr>
<td>Non-tradable warrants cannot be valued using Black-Scholes, which was designed for continuously traded securities.</td>
<td>Family Holding Companies.</td>
<td>Family limited partnerships and limited liability companies are commonly used to pool and transfer family wealth. Illiquidity discounts apply.</td>
</tr>
<tr>
<td>Convertible Securities.</td>
<td>Private Company Stock.</td>
<td>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.</td>
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<tr>
<td>Convertible debentures or convertible preferred shares are often valued as a combination of debt, equity and options.</td>
<td>Undivided Interests.</td>
<td>Undivided interests in real estate lack control over the property held and are not marketable. Significant discounts apply.</td>
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<tr>
<td>Private Equity.</td>
<td>Multi-Level Discounts.</td>
<td>Tiered holding company structures further “fractionalize” ownership, resulting in additional discounts for lack of control and lack of marketability.</td>
</tr>
<tr>
<td>Shares, debentures or warrants in private entities require significant discounts for lack of marketability.</td>
<td>Stock Options.</td>
<td>Employee stock options are valued under FAS 123R for financial reporting purposes.</td>
</tr>
<tr>
<td>Pre-Deal Valuations.</td>
<td>Employee Restricted Stock.</td>
<td>Compensatory, non-vested restricted stock is valued using methods required by FAS 123R.</td>
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<td>We value equity in both pre-merger and pre-IPO entities.</td>
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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.

On The Mark