

**PRIVATE & CONFIDENTIAL**

October 4, 2007

Carlyn McCaffrey, Esq.  
Weil Gotshal & Manges LLP  
767 Fifth Avenue  
New York, NY 10153-0119

Dear Ms. McCaffrey:

You have requested Empire Valuation Consultants, LLC (“Empire”) to render its opinion as to the fair market value of a 24.64% limited partnership interest in AAA Associates, L.P. (“AAAALP” or the “Partnership”) as of June 6, 2007 (the “Valuation Date”). It is our understanding that this valuation will be used by your client, Leon Black, for gift tax reporting purposes.

This report is an Appraisal Report as defined in Standards Rule 10 of The Appraisal Foundation’s Uniform Standards of Professional Appraisal Practice (“USPAP”), which specifically applies to the preparation of valuation reports of business interests.

**Methodology**

AAAALP has been valued on a going concern basis. Since the Partnership is closely-held, and thus without a public market for its ownership interests, this appraisal was conducted according to guidelines established by the Internal Revenue Service (“IRS”) and USPAP, and in conformity with the American Society of Appraisers’ Principles of Appraisal Practice and Code of Ethics, together with other standards that were deemed relevant to this engagement.

This appraisal considered all pertinent factors outlined in USPAP Standards Rule 9 and IRS Revenue Ruling 59-60, including, but not limited to, the following:

- the nature and history of AAAALP;

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- the financial and economic conditions affecting the general economy, the Partnership, and its industry;
- the past results, current operations, and future prospects of AAAALP;
- the earning capacity and dividend-paying capacity of the Partnership;
- the economic benefit to the Partnership of both its tangible and intangible assets;
- the market price of actively traded interests in public entities engaged in the same or similar lines of business as AAAALP, as well as sales of ownership interests in entities similar to the Partnership;
- the prices, terms, and conditions of past sales of ownership interests in AAAALP; and
- the impact on the value of ownership interests in AAAALP resulting from the existence of buy-sell and option agreements, investment letter stock restrictions, restrictive shareholders agreements, or other such agreements.

In defining "fair market value," IRS Revenue Ruling 59-60 refers to Section 25.2512-1 of the Gift Tax Regulations. Fair market value is described therein as the price at which ownership interests 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.

### **Executive Summary**

As will be detailed in this report, Empire has concluded that the fair market value of a 24.64% limited partnership interest in AAAALP is reasonably stated as **\$53,800,000** as of June 6, 2007, for use by Leon Black for gift tax reporting purposes.

### **Sources of Information**

Information used in determining the fair market value of a 24.64% limited partnership interest in AAAALP was provided by the documents and sources listed below:

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- Copy of AAAALP's Amended and Restated Limited Partnership Agreement, dated June 8, 2006 (the "AAAALP Partnership Agreement");
- Copy of the First Amended and Restated Limited Partnership Agreement for AAA Investments, L.P. (the "Investment Partnership"), dated June 8, 2006 (the "Investment Partnership Agreement");
- Copy of AAAALP's audited financial statements for the period from May 31, 2006 (date of formation) to December 31, 2006;
- Copy of the Investment Partnership's audited financial statements for the period from June 15, 2006 (date of commencement of operations) to December 31, 2006, as contained in the financial report for AP Alternative Assets, L.P. ("APAALP") for the period from June 15, 2006 to December 31, 2006;
- Copy of the Investment Partnership's audited financial statements for the quarter ended March 31, 2007, as contained in the financial report for APAALP as of that same date;
- Copy of the Investment Partnership's audited financial statements for the six months ended June 30, 2007, as contained in the financial report for APAALP as of that same date;
- Copy of the Amended and Restated Limited Partnership Agreement of Apollo Investment Fund VI, L.P. ("Fund VI"), dated August 26, 2005 ("Fund VI Partnership Agreement");
- Copies of Amended and Restated Limited Partnership Agreements of Apollo Overseas Partners VI, L.P.; Apollo Overseas Partners (Delaware) VI, L.P.; Apollo Overseas Partners (Delaware 892) VI, L.P.; and Apollo Overseas Partners (Germany) VI, L.P. (together the "Co-Investing Entities"), and all dated August 26, 2005;
- Copies of Management Agreements — between Fund VI and Apollo Management VI, L.P. ("AMVILP"), dated August 26, 2005; and between the Co-Investing Entities and AMVILP, dated August 26, 2005;
- Copy of Quarterly Report to Investors ("QR") of Fund VI for the quarter ended December 31, 2006;

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- Copy of the Private Placement Memorandum for Fund VI (“PPM”);
- Projections provided by management;
- Ownership schedule of Mr. Black’s interests provided by the Apollo Group (“Apollo”), as of the Valuation Date;
- Conversations and correspondence with John Suydam, Apollo’s Chief Legal Officer; Barry Giarraputo, Chief Financial Officer for AP Alternative Investments; and Michael Gullace, Director of Special Projects; as well as attorneys from the firm of Weil Gotshal & Manges, LLP; and
- Other reviews, analyses, and research as were deemed necessary.

### **Apollo & Investment Partnership Overview**

Founded in 1990 by a group of four experienced investment management individuals from Drexel Burnham Lambert, the Apollo umbrella covers a variety of mainly private investment vehicles. It is considered a leading global alternative asset manager. Alongside its traditional private equity funds, Apollo also oversees distressed debt and mezzanine investing. Typically, Apollo has concentrated its investments in middle-market companies. Apollo’s managing partners are Leon Black, Joshua Harris, and Marc Rowan, who have worked together for more than 20 years and, as of June 2007, led a team of over 70 investment specialists. Apollo has offices in New York, London, Los Angeles, Singapore, Frankfurt, and Paris.

As of the Valuation Date, Apollo had assets under management (“AUM”) of approximately \$27 billion. Over time, the firm hopes to assemble a balance between its private equity and capital market funds, but as of June 2007, nearly \$20 billion was concentrated in private equity.

In the context of the Apollo funds, private equity funds raise pools of capital from institutional investors and high net worth individuals. These funds typically seek to acquire significant controlling ownership interests in businesses and typically invest in the common equity or preferred stock of private and sometimes public companies. Private equity funds are typically structured as unregistered limited partnership funds with terms of eight to ten years, and can contain provisions to extend the life of the fund under certain circumstances. Investors in private equity funds provide a commitment to the fund that is called by the fund as investments are made and equity capital is required. Private equity fund managers typically earn

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fees as follows: (i) management fees based on the amount of invested or committed capital; (ii) transaction and advisory fees as capital is invested and portfolio companies are managed; and (iii) a carried interest based on the performance of the fund, which is often subject to a preferred return for investors, or “hurdle.”

Apollo’s capital market funds are essentially “hedge funds.”<sup>1</sup> Hedge funds are typically structured as limited partnerships, limited liability companies or offshore corporations. Hedge fund managers earn a base management fee typically based on the net asset value (“NAV”) of the fund, and incentive fees based on a percentage of the fund’s profits. Some hedge funds set a “hurdle rate” under which the fund manager does not earn an incentive fee until the fund’s performance exceeds a benchmark rate. Another feature common to hedge funds is the “high water mark” under which a fund manager does not earn incentive fees until the net asset value exceeds the highest historical value on which incentive fees were last paid.

Typical hedge fund investors include high net worth individuals and institutions. These investors can invest and withdraw funds periodically in accordance with the terms of the funds, which may include lock-up periods on withdrawals. Hedge fund managers often commit a portion of their own capital in the funds they manage to align their interests with the investors.

As of March 31, 2007, the Apollo private equity funds have collectively generated a gross annual return of 41% and a net annualized return of 29%, since inception. Management was forecasting existing and targeted AUM (for both private equity and capital markets) for the end of 2007 at \$43.7 billion. Over half of that amount was in play at the end of 2006. It should be noted that the return levels achieved by Apollo’s funds varied significantly depending on the nature of the funds and the investments made. This valuation is for a specific minority interest, which is dependent upon the results of one fund. Therefore, the overall investment return of Apollo may not be indicative of AAAALP’s returns given the current environment or of AAAALP’s expected returns going forward.

The Investment Partnership is the partnership through which APAALP and AAAALP make investments. These include investments in Apollo-sponsored private equity funds and capital markets-focused funds. The investments in private equity consist primary of (i) co-investments alongside private equity funds sponsored by Apollo, and (ii) purchases of secondary interests in such funds. At the Valuation Date, APAALP had a co-investment agreement with Fund VI, along with its

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<sup>1</sup> Hedge fund is a managed portfolio that has targeted a specific return goal regardless of market conditions and can use a wide variety of different investing strategies to achieve this goal, and generally those strategies are managed and executed by a portfolio manager.

respective parallel co-investment funds. In addition to investments in private equity, the Investment Partnership invests in capital markets-focused funds, including the Apollo Strategic Value Offshore Fund, Ltd. (the "SVF Fund," a debt and equity investment fund focused on value-oriented and distressed securities), AP Investment Europe Limited (the "Europe Fund," a European mezzanine and leveraged debt investment vehicle), and Apollo Asia Opportunity Offshore Fund, Ltd. (the "Asia Fund," a vehicle focused on value driven, mezzanine and special opportunity corporate investments in the Asia Pacific region).

At the Valuation Date, the Investment Partnership had some \$1.7 billion invested in the SVF Fund, Fund VI, the Europe Fund, and the Asia Fund (together, the "AAA Funds"). Each of the AAA Funds will be discussed in more detail later in this report.

## **Partnership Profile**

AAAALP is a Guernsey limited partnership that was formed on May 31, 2006 under the Limited Partnerships (Guernsey) Law, 1995, as amended (the "Law"). The Partnership is the general partner of the Investment Partnership, and, as of the Valuation Date, owned less than 1% of the Investment Partnership. The Partnership earns a "carried interest" on certain Investment Partnership profits. According to the Partnership's financial statements, for 2006 AAAALP generated a pre-tax loss of (\$57,037) on investment income of \$53,277. At the end of December 2006, the book value of AAAALP's total assets was \$1.1 million and its partners' deficit was (\$57,699). The Partnership did not make any distributions in 2006. However, the Partnership's position improved in 2007. Through the Valuation Date, AAAALP was allocated some \$23 million related to carried interest on private equity co-investments and approximately \$0.4 million was distributed to AAAALP for carried interest on realized gains on private equity co-investments. The Partnership's financial statements for 2006 are presented in Exhibits A through C.

### **A. Partnership Ownership**

The Partnership's general partner is AAA MIP Limited ("AAA MIP" or the "GP"), a Guernsey limited company. According to management, Apollo Advisors VI (EH), L.P. ("VIEHLP") owns the 24.64% limited partnership interests in AAAALP.<sup>2</sup> The Partnership's Investment Manager is Apollo Alternative Assets, L.P. ("AAALP"), a

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<sup>2</sup> According to management, Mr. Black indirectly owned a 24.64% limited partnership interest in AAAALP through his 24.64% limited partnership interest in VIEHLP.

Caymen Islands limited partnership. AAALP is also the Investment Manager for the Investment Partnership.

### **B. Qualifications as General Partner of the Investment Partnership**

The Partnership has several principals. All of the principals served on numerous boards of well-known companies and were active in civic and charitable foundations. Brief descriptions of AAAALP's principals' and their qualifications are listed below.

**Barry Giarraputo, with Apollo since 2006:** Prior to that time, Mr. Giarraputo was a senior managing director at Bear Stearns where he served in a variety of finance roles over 9 years. Previous to that, Mr. Giarraputo was with the accounting and auditing firm of PricewaterhouseCoopers LLP for 12 years where he worked in the firm's Audit and Business Services Group and was responsible for a number of capital markets clients including broker-dealers, money-center banks, domestic investment companies and offshore hedge funds and related service providers. Mr. Giarraputo has also served as an Adjunct Professor of Accounting at Baruch College where he graduated cum laude in 1985 with a BBA in Accountancy.

**John Suydam with Apollo since 2006:** From 2002 through 2006, Mr. Suydam was a partner at O'Melveny & Myers LLP, where he served as head of Mergers & Acquisitions and co-head of the Corporate Department. Prior to that, Mr. Suydam served as chairman of the law firm O'Sullivan, LLP which specialized in representing private equity investors. Mr. Suydam serves on the boards of directors of the Big Apple Circus and Quality Distribution. Mr. Suydam received his JD from New York University and graduated magna cum laude with a BA in History from the State University of New York at Albany.

### **C. AAAALP Partnership Agreement Provisions**

The following provisions of the Partnership Agreement were considered relevant to the valuation of a 24.64% limited partnership interest. Any capitalized terms below that have not been specifically defined elsewhere in this report shall have the meanings set forth in the AAAALP Partnership Agreement.

- **Purpose:** The principal purpose of AAAALP is to act as the General Partner of the Investment Partnership (2.5).
- **Management:** Subject to the AAAALP Partnership Agreement, the GP has complete and exclusive responsibility (i) for all management decisions to be made on behalf of the Partnership and (ii) for the conduct of the business and affairs of the Partnership, including all such decisions and all such

business and affairs to be made or conducted by the Partnership in its capacity as general partner of the Investment Partnership (5.1).

- **Expenses:** The Partnership will pay, or will reimburse the GP for, all costs and expenses arising in connection with the organization and operations of the Partnership (5.4a).
- **Transfers:** A limited partner ("LP") may assign to any other partner or to any Related Party of such partner all or any portion of such LP's rights to share in and receive allocations and distributions associated with such LP's Partnership share. No other transfer of any LP's interest, whether voluntary or involuntary, shall be valid or effective, and no transferee shall become a substituted LP, unless the prior written consent of the GP has been obtained, which consent may be given or withheld (6.3.)
- **Withdrawals:** A LP holding Class Shares of any Class may request a complete or partial withdrawal at any time after the Fund GP Book Accounts, with respect to all such Classes in which the LP holds any Class Shares, have been extinguished. The GP may require any LP to withdraw at any time after the Fund GP Book Accounts, with respect to all such Classes in which the LP holds any Class Shares, have been extinguished and at such earlier time as may be consistent with the provisions of the applicable Class Designation Schedule of each Class in which the LP holds any Class Shares (6.4.)
- **Allocation of Profits & Losses:** The GP shall designate a separate Class relating to each Fund GP Book Account by adopting a separate Class Designation Schedule, which shall be maintained with the books and records of the Partnership. The Class Designation Schedule for each Class shall specify: (1) the Fund GP Book Account to which the Class relates; (2) the number of Class Shares into which the Class is divided (or the formula or method for dividing the Class allocations and distributions into Class Shares); (3) the LPs from time to time holding the Class Shares comprising the Class; and (4) such other terms applicable to the Class and the interests of LPs therein as the GP may determine (which terms may include, among other things, vesting provisions, eligibility or service requirements or conditions, provisions for involuntary dilution or involuntary divestiture with or without cause, and requirements for the grant of consideration to the Partnership in exchange for a Class Share in the form of capital contributions, restrictive covenants or both). All items of income, gain, loss, deduction or credit derived by the Partnership from such Fund GP Book Account shall be allocated to the Class associated with such Fund GP Book

account and shall be apportioned among LPs in accordance with their Class Shares with respect to such Class. Any other net income or loss shall be allocated to the LPs in such manner as the GP may determine (3.4).

- **Distributions:** The GP is not entitled to any allocations or distributions from the Partnership (3.2a). The GP may cause the Partnership to pay distributions to the partners at any time. Distributions of any amounts derived by the Partnership from any Fund GP Book Account shall be made to the LPs in proportion to their respective Class Shares in the Class associated with such Fund GP Book Account, determined immediately prior to giving effect to such distribution or as otherwise specified in the applicable Class Designation Schedule. Distributions to any LP of amounts relating to any Class shall be subject to reduction to reflect any items of loss or deduction allocated to such LP with respect to any other Class or any allocation to such partner of other net losses. Distributions of any amounts attributable to other net profits shall be made at such times as the GP may determine and in accordance with the manner in which such other net profits were allocated to the LPs (4.1.)
- **Reports:** As soon as is practicable after the end of each taxable year, the GP shall furnish to each LP: (i) such information as may be required to enable each LP to properly report for U.S. federal and state income tax purposes such LP's distributive share of each Partnership item of income, gain, loss, deduction, or credit for such year; and (ii) a statement of the total amount of net profit or net loss for such year and a reconciliation of any difference between such net profit or loss and the aggregate net profits or losses allocated by the Investment Partnership to the Partnership for such year.
- **Term:** The term of the Partnership shall continue until the dissolution (without continuation) of the Investment Partnership or the earlier of: (i) at any time there are no LPs, unless the business of the Partnership is continued in accordance with the Law; and (ii) any event that results in the GP ceasing to be a GP of the Partnership under the Law, provided that the Partnership shall not be dissolved and required to be wound up in connection with any such event if: (i) at the time of the occurrence of such event there is at least one remaining GP of the Partnership who is hereby authorized to and does carry on the business of the Partnership, or (ii) within 90 days after the occurrence of such event, a majority of the LPs agree in writing or vote to continue the business of the Partnership and to the appointment, effective as of the date of such event, if required, of one or more additional GPs of the Partnership (2.4).

## **Investment Partnership Profile**

The Investment Partnership commenced operations in June of 2006. In connection with the formation of the Investment Partnership, AAAALP made a \$1.0 million cash contribution in respect of its general partner's interest. In addition, APAALP contributed approximately \$1.8 billion (which, in turn, represented substantially all of the cash contributions received by APAALP upon its initial offering and related transactions). APAALP owned 100% of the limited partnership interests of the Investment Partnership as of the Valuation Date.

### **A. Investment Strategy – AAA Funds**

As noted, the Investment Partnership had some \$1.7 billion invested in the AAA Funds as of the Valuation Date. A brief description of each is provided below.

**Fund VI:** Fund VI is a private equity partnership that succeeded Funds I, II, III, IV, and V. Fund VI closed in January 2006 with \$10.1 billion of commitments. To date, invested capital was over \$2.3 billion (in 12 classic buyout investments) with realized proceeds of \$0.9 billion. The investment objective of Fund VI is to achieve long-term capital appreciation by making investments in: (1) control or influential minority equity and equity equivalent positions; and (2) debt or other securities providing equity-like returns. Fund VI seeks investments across a range of industries, markets, and regions and generally pursues individual investments ranging in size from approximately \$150 million to \$600 million.

Fund VI uses three approaches to generate value: (1) classic buyouts; (2) distressed buyouts; and (3) corporate partner buyouts. Classic buyouts are essentially leveraged buyouts and have tended to be in: (1) situations that involved consolidation through merger or follow-on acquisitions; (2) carve-outs of larger organizations looking to shed non-core assets; (3) situations in which the seller had difficult tax or accounting goals; or (4) situations in which the business plan involved substantial departures from past practice to maximize the value of its assets. In terms of geographic orientation, without the consent of its Advisory Board, Fund VI may not invest more than 25% of its aggregate commitments in securities of issuers organized and operating primarily outside of North America.

**SVF Fund:** The SVF Fund was formed to invest in absolute-value investment opportunities, primarily among the securities of distressed companies in North America and Europe. The fund invests in the securities of leveraged companies using three primary strategies: (1) distressed investments (primarily a long-only strategy focused on the debt securities of companies in the periods before, during, and after bankruptcy); (2) value driven investments (long and short investments that

span the capital structure of leveraged companies and seek to profit from identified catalysts that will typically develop within six to nine months from the initial investments); and (3) special opportunities (primarily a long only strategy focused on control opportunities and illiquid securities).

At the end of 2006, the SVF Fund had investments in securities with a fair value of approximately \$553.8 million. By type, about half of its investment portfolio was invested in corporate debt, with the remainder split between bank loans and common stock. Most (i.e., some 85%) of the investment portfolio was invested in North American companies, and distributed over several industries. Since inception, the SVF Fund has generated a 22.9% gross annualized return and a 16.0% net annualized return.

**Asia Fund:** The Asia Fund is a private equity partnership that seeks to generate attractive risk-adjusted returns across market cycles by capitalizing on investment opportunities in the Asian markets. This fund primarily invests in the securities of public and private companies in need of capital for acquisitions, refinancings, monetization of assets and distressed financings, among other special situations. The Asia Fund commenced operations in December of 2006 with \$200.0 million of committed capital from Apollo Alternative Assets, LP. and made its first investment in February of 2007. Since its inception, the Asia Fund had generated a 33.6% gross annualized return and a 24.4% net annualized return.

**Europe Fund:** The Europe Fund is a limited liability Guernsey incorporated investment company that commenced operations in July 2006 with \$250 million in invested capital from APAALP. This is a capital markets fund that invests in mezzanine, debt, and equity investments of both public and private, companies primarily located in Europe (although the Europe Fund had a significant portion of its portfolio invested in North American companies at the Valuation Date). This fund seeks to generate current income and capital appreciation. As of the Valuation Date, about half of the Europe Fund's investments were in the form of bank loans, with the remainder in notes receivable and corporate debt, and allocated across a spectrum of industries. From its inception, this fund had generated a 17.8% gross annualized return and a 12.0% net annualized return.

## **B. Economic Structure**

The economic structure of the Investment Partnership is outlined below, based on the terms set forth in the Investment Partnership Agreement. Any capitalized terms below that have not been specifically defined elsewhere in this report shall have the meanings set forth in the Investment Partnership Agreement.

- **Management Fees:** Paid to AAALP rather than to AAAALP. AAAALP is paid an incentive allocation as described later in this section.
- **Investment Pools & Book Accounts:** The Investment Partnership maintains a series of memorandum accounts referred to as Investment Pools to reflect, on a segregated basis, the assets, liabilities, and investment results, of: (i) each investment in an Apollo Fund; (ii) each series of Co-investments made pursuant to a single Committed Co-investment Facility; (iii) each Additional Investment; and (iv) all Temporary Investments. For each Investment Pool, the Investment Partnership shall maintain for each partner a memorandum account referred to as a Book Account to reflect such partner's financial participation in the investment results of such Investment Pool. A separate new Investment Pool shall be established whenever the Investment Partnership: (i) enters into a new Committed Co-investment Facility; (ii) makes a new additional investment; (iii) makes a new commitment to any Apollo Fund that requires investors to make capital commitments; or (iv) makes a new purchase of equity interests in any Apollo Fund that does not require investors to make capital commitments. Whenever a new Investment Pool is established, a new Book Account and a Pool Share shall be established for each partner with respect to such Investment Pool. When all investment positions in an Investment Pool have been liquidated and all investment operations to be conducted therein have been completed, such Investment Pool and the Book Accounts associated with such Investment Pool shall be closed. Any balances remaining in any such Book Account of a partner at that time shall be transferred to such partner's Temporary Book Account (3.4).
- **Incentive Allocation or "Carried" Interests:** Each investment that is made by the Investment Partnership is subject to one carried interest, which will generally entitle an affiliate of Apollo to receive a portion of the profits generated by the investment. There will not be any duplication of carried interest on a given investment. In particular:

- 1) Private Equity Fund Investments: The general partner of each Apollo-sponsored private equity fund in which an investment is made is generally entitled to a carried interest that will allocate to it 20% of the net returns generated by the fund after capital contributions in respect of realized investments and expenses have been returned to limited partners and subject to realized gains and losses of portfolio investments will not be netted across funds and each carried interest will apply only to the results of an individual fund.
- 2) Co-investment Facilities: AAAALP as the general partner, is generally entitled to a carried interest that will allocate to it 20% of the realized gains on each co-investment made pursuant to a co-investment facility (such as the agreement with Fund VI) after capital contributions in respect of realized investments made pursuant to that co-investment facility have been recovered. The general partner's carried interest in respect of each investment made pursuant to the co-investment agreement with Fund VI is subject to the Investment Partnership first achieving a preferred return of 8% per annum on the capital invested pursuant to the agreement. Once such preferred return has been achieved, the general partner will be entitled to the next 2% (25% of 8%) of net realized gains and, thereafter, such gains will be allocated as 80% to the Investment Partnership and as to 20% to AAAALP. Realized gains and losses on investments made pursuant to one co-investment facility will not be netted against other co-investment facilities in future Apollo private equity funds.
- 3) SVF Fund: An affiliate of Apollo will be entitled to a carried interest for each year amounting to 20% of any appreciation in net asset value, subject to first making up any losses carried forward from prior years other than losses attributable to capital that the Investment Partnership withdraws from the SVF Fund after losses were incurred.
- 4) Europe Fund: An affiliate of Apollo will be entitled to receive a performance-based incentive fee in respect of the Europe Fund. The general partner will be entitled to receive a carried interest in respect to Apollo Investment Corporation ("AIC") Co-investments. The fee for the Europe Fund and the carried interest for AIC Co-investments is calculated in two parts: the first payable quarterly and calculated as 20% of the investment income (excluding any realized capital gain) on investments of the Europe Fund or AIC Co-Investments (as the case may be), subject to a preferred return of 7% per annum (with a full catch-up) and the second payable annually and calculated as 20% of the realized capital gains of the Europe Fund or AIC Co-investments (as may be the case) and in each case

net of realized capital losses and unrealized capital depreciation. The performance of the Europe Fund will not be netted against the performance of AIC Co-investments.

- 5) Asia Fund: For an interim period, an affiliate of Apollo will be entitled to a carried interest that will allocate to it 20% of the realized returns of returns on each investment made by this fund. Realized gains and losses on one such investment will not be netted against any other such investments. If and when significant third party investors are admitted to the aforementioned fund, it is anticipated that the carried interest payable in respect of investments made by such fund will be subject to change.
  - 6) Additional Investments: The general partner is generally entitled to a carried interest that will allocate to it 20% of the realized returns of each of the additional investments made by the Investment Partnership. Realized gains and losses on an additional investment will not be netted against any other additional investments. The general partner will not be entitled to a carried interest in respect to temporary investments (3.5).
- **Operating Expenses**: The Investment Partnership shall pay all costs and expenses arising in connection with its operations (4.3).
  - **Withdrawal**: AAAALP, as the general partner, may withdraw from the Investment Partnership only with the prior written consent of the APAALP and upon AAAALP's appointment of a replacement general partner that agrees to assume the rights and undertake the obligations of AAAALP under the Investment Partnership Agreement. The general partner may voluntarily withdraw any portion of its interest attributable to the general partner's Incentive Allocations at any time (5.5).
  - **Term**: The Investment Partnership shall be dissolved upon the first to occur of the following: (i) the bankruptcy, insolvency, dissolution or liquidation of AAAALP; (ii) the election of AAAALP and the consent of the APAALP; or (iii) the dissolution or liquidation of APAALP (or the making of a definitive determination to initiate such a dissolution or liquidation). In the event of the bankruptcy, insolvency, dissolution or liquidation of AAAALP, the Investment Partnership shall not be dissolved if, within 90 days of the date of such bankruptcy, insolvency, dissolution or liquidation, the remaining partners agree in writing to the continuation of the Investment Partnership's business and a new general partner that is an affiliate of AAAALP or the Investment Manager (i.e., AAALP) assumes the rights and undertakes the obligations of AAAALP (6.1).

**C. Financial Position & Summary of Investments**

As of March 31, 2007, the Investment Partnership's investments had a fair value of \$1.3 billion, net assets were \$2.0 billion, and partners' capital was \$1.8 billion. By the Valuation Date, the fair value of investments was closer to \$1.7 billion. The Investment Partnership's total annualized return for 2007 (through the Valuation Date) was approximately 20%. As can be seen in Exhibit D, as of March 31, 2007, just under half of the investment portfolio was invested in the SVF Fund, 27.9% in the Europe Fund, 17.5% in Fund VI, and 5.2% in the Asia Fund. Between March 31, 2007 and the Valuation Date, the Investment Partnership's portfolio had shifted so that close to a third of its investments were in Fund VI.

Below is a brief description of the Investment Partnership's co-investments and commitments as of May 18, 2007, as taken from the APAALP March 31, 2007 financial statements.

**Table I  
 Investment Partnership's Investments**

<b>Company Name</b>	<b>Company Description</b>
Berry Plastics Group, Inc,	One of the world's leading manufacturers and suppliers of value-added plastic packaging products.
CEVA Logistics	Formerly TNT Group's logistics division which employs approximately 38,000 transportation people, operates in 26 countries and manages 7.4 million square meters of warehouse space.
Countrywide plc	The leading provider of residential real estate services in the UK. The company has a leading market position in all of its business areas in the UK with the number one market share in residential property sales, residential property lettings and property management, arranging mortgages, insurance and related financial products, surveying and valuation services for mortgage lenders and prospective homebuyers, and residential property conveyance services.
Jacuzzi Brands	A global leader in whirlpool baths, outdoor spas and shower products marketed under the Jacuzzi Sundance Spas, Bathcraft, and Astracast brands. Upon the completion of Apollo's investment in Jacuzzi Brands, the Zurn business unit of Jacuzzi Brands was acquired by Rexnord Corporation.
Momentive Performance Materials Holdings, Inc.	Formerly General Electric's advanced materials division, which manufactures silicone-based products (including sealants, urethane additives, and

Company Name	Company Description
	adhesives), high-purity fused quartz and ceramics materials, and employs over 5,000 people worldwide.
Noranda Aluminum	A vertically integrated producer of commodity grade primary aluminum as well as high quality rolled coils. Through a 50/50 joint venture with Century Aluminum, Noranda owns a bauxite mine in Jamaica and an alumina refinery in Gramercy, LA. Gramercy supplies alumina (primary input to make aluminum) to Noranda's 100% owned aluminum smelter in New Madrid, MO, which produces 10% of North America's primary aluminum production. Through four world-class rolling mills, Noranda produces 22% of North America's aluminum foil and light gauge sheet. Noranda's target markets are in the U.S. and Mexico.
Oceania Cruises	A leading cruise line focused on the destination-oriented, upper premium cruise market. Oceania owns three 684-berth vessels and offers itineraries in the Mediterranean, Far East, South America, the Caribbean, Australia and New Zealand.
Realogy	Leading provider of residential real estate and relocation services in the world. Through its portfolio of leading brands (Coldwell Banker, Century 21, Sotheby's International Realty, ERA, Corcoran Group and Coldwell Banker Commercial), Realogy is the world's largest real estate brokerage franchisor and the largest U.S. residential real estate brokerage firm. Realogy is also the largest U.S. provider and a leading global provider of outsourced employee relocation services, as well as a provider of title and settlement services.
Rexnord Corporation	A leading diversified, multi-platform manufacturer of highly-engineered products primarily focused on the power transmission and water management sectors. Concurrent with Apollo's investment in Jacuzzi Brands, the Zurn water management business unit of Jacuzzi Brands was acquired by Rexnord
Verso Paper Holdings, LLC	Formerly International Paper's coated papers division, which produces annually approximately 2 million tons of coated freesheet and coated groundwood papers for the magazine, catalog and retail insert markets.
Harras Entertainment, Inc.	One of the premier gaming and lodging companies in the world, with a #1 or #2 share in each market in which it competes. The company owns, operates,

Company Name	Company Description
	or manages 56 casinos in eight countries, representing approximately 40,000 hotel rooms and 3 million square feet of casino gaming space under the Harrah's, Caesars, Horseshoe and Bally's brand names, among others.

## **Economic, Industry & Company Outlook**

In the appraisal of any company, the general economic factors prevailing at the valuation date, as well as those foreseen then, must be considered. Assimilation of these facts and forecasts provides insight into the economic climate in which investors are dealing. Although individual factors may or may not have a direct impact upon a particular industry, the overall economy and its outlook have a strong influence on how investors perceive investment opportunities.

### **A. General Economy**

For this analysis, the general economic climate that prevailed through the second quarter of 2007 was considered, as was the outlook for the domestic economy. This section of the report contains an overview of selected economic factors, such as gross domestic product ("GDP"), inflation, and U.S. monetary and fiscal policy.

The Value Line forecast closest to the Valuation Date was utilized, as it was considered to be most reasonable. In its Quarterly Economic Review, dated May 25, 2007, Value Line maintained that the economy was on a slow yet sustainable growth path that should see the nation's GDP increase by an average of little more than 2% over the next several quarters. A modestly stronger pace of business activity was then likely to take hold in 2008. Value Line believed the possibility of a recession remained, but that the odds of such an occurrence were remote. The principal risks included a series of missteps by the Fed, resource bottlenecks stemming from high factory utilization rates, an increase in inflation, a sustained rise in energy prices, or deterioration in the global arena.

The economy slowed abruptly in the past year, with the rate of growth declining from a high of 5.6% in the first quarter 2006 to just 1.3% in 2007's first quarter. However, supported by increases in the rates of manufacturing activity and industrial production and a likely increase in non-residential construction spending, Value Line expected growth to return to the 2% range for the remainder of 2007. GDP growth of 2.5% to 3.0% was then expected for 2008. This forecast assumed that the Fed would vote for between one and three interest rate cuts, that the auto

market would enjoy somewhat stronger demand, and that both the consumer and capital goods sectors would stabilize at comfortable levels. In addition, housing would no longer be a drag on the economy, oil prices were expected to hold near then-current levels, and global events would be neither supportive nor disruptive, on balance.

According to Value Line, the rate of inflation should gradually decline, with the core rate stabilizing at approximately 2%. In 2006, producer prices rose 2.9% versus a gain of 4.9% in 2005, while consumer prices rose 3.2%, down from 3.4% in 2005. Producer prices were expected to increase by 4.8% in 2007, and consumer prices were expected to increase by 3.5%. The change in industrial production was estimated to be 1.9% in 2007, and was expected to average 2.6% from 2008 through 2011.

While the Fed opted to leave interest rates unchanged at its May Federal Open Market Committee meeting, Value Line expected the Fed to vote for interest rate cuts over the next year. The three-month Treasury bill rate was 4.9% at the publication date and was expected to increase slightly to 5.0% in the second quarter of 2007. The Prime Lending Rate was 8.25% at the publication date and was forecast to fluctuate between 7.9% and 8.5% through 2011. Value Line believed that the Fed would maintain a stable monetary policy.

With regard to corporate earnings, Value Line thought earnings were up 5% to 10% in the first quarter of 2007, and that gains near that level would continue for the year despite the expectation that GDP may not rise by more than 2.0%. A similar rate of earnings improvement was forecasted for 2008.

In sum, Value Line was forecasting real, inflation-adjusted GDP to rise at a rate of 2.0% for all of 2007. Longer-term projections called for real GDP growth to increase from 2.6% in 2008 to 3.3% in 2011, based on assumptions that oil prices would decline, that the Fed would maintain short-term interest rates at relatively constant levels through 2011, and that there would be no marked change for the worse on the global front.

## **B. Industry Outlook for Private Equity Investing**

According to a January 11, 2007, Wall Street Journal Online (“WSJO”) article,<sup>3</sup> U.S. private-equity firms raised a record amount of money last year, with 322 funds collecting a total of \$215.4 billion. In many instances, with buyout firms chasing larger acquisitions, and institutional investors investing greater sums in the

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<sup>3</sup> *Wall Street Journal Online*, [www.wsj.com](http://www.wsj.com), “Private-Equity Firms Raked In Record Amounts Last Year”, January 11, 2007.

asset class, U.S. private-equity firms raised 33% more capital than levels recorded in 2005. This figure also surpassed the prior record set in 2000, wherein \$177.1 billion in capital was raised.

More specifically, leveraged buyout firms, which purchased companies in order to sell them for a profit a few years later, raised \$148.8 billion or 69% of total U.S. capital raised. Typically, these firms were taking advantage of lower financing costs, as many of these funds completed larger acquisitions and invested their capital quite rapidly. In addition, close to half of all of the money raised by leveraged buyout firms was collected by eight firms with established funds of \$5 billion or more. Among them were Bain Capital, First Reserve Corp., Kohlberg Kravis Roberts & Co. and Texas Pacific Group. Meanwhile, the Blackstone Group, based in New York, was raising a buyout fund that was expected to collect \$20 billion, possibly becoming the largest private-equity fund ever raised.

Conversely, U.S. venture-capital firms represented just 11.7% of total capital raised, with 119 funds raising \$25.1 billion. Last year's pace (2006) was similar to levels observed in 2005, when 151 funds raised \$25.7 billion. In the past, U.S. venture-capital firms used to account for a larger share of the overall industry, particularly in 1999 and 2000, when most of the money was invested into young Internet companies. Indeed, many investors soured on venture-capital funds and instead preferred to commit capital to established managers. Approximately 20% of venture capital dollars were raised by just two firms: New Enterprise Associates and Oak Investment Partners. Taken together, these firms often invested in more mature companies which carried less risk. Looking ahead, private-equity firms were expected to maintain a vigorous fund-raising pace for 2007, driven again by leveraged buyout firms.

A December 18, 2006, CNN Money article<sup>4</sup> stated that the merger boom was primarily fueled by low interest rates, rising stock prices, plenty of money in the debt markets and greater risk tolerance among investors worldwide. According to the director of the Center for Private Equity and Entrepreneurship at Dartmouth's Tuck School of Business, he characterized the private equity market as "going like a house afire." Nevertheless, a downturn in economic growth would likely hurt the industry. Another threat included the possibility of a further pickup in inflation, which could fuel higher interest rates, and hence push up borrowing costs.

Proceeding into 2007, it was expected that buyout firms would look for deals in industries that had not already been picked over. One analyst mentioned in the article believed that the health care, media, financial services and retail segments

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<sup>4</sup> CNN Money, [www.cnnmoney.com](http://www.cnnmoney.com), "After the buyout boom: The Bust?", December 18, 2006.

would be at the center of most of the active private equity deals in 2007. In 2006, private-equity funds targeted the technology, manufacturing and consumer products segments.

As presented in a October 8, 2006, *BusinessWeek* article,<sup>5</sup> many public and private pension funds desired to invest in the private equity market, where returns can be as high as 50%. As noted, private equity firms were raising greater funds, and hence pursued larger deals. In the past, private equity firms acquired small to medium sized businesses, in sectors such as machine parts. However, this trend was shifting and the trend towards larger deals was expected to continue.

The outlook for private equity was favorable, despite the lower likelihood that the category would continue to set records at its current pace. Nonetheless, *BusinessWeek* felt that a slowdown in the current pace would be favorable, and easing growth would discourage investors from bidding up the value of deals to bubble-like levels. Furthermore, some experts worried that debt levels were becoming too high for many companies. If an economic slowdown were to take place, it would make it difficult for companies to service debt with adequate earnings.

Highlighted in a November 23, 2006<sup>6</sup>, Standard & Poor's ("S&P") industry report, private equity buyouts were becoming a dominant part of the global M&A market. Similar to the foregoing, S&P believed the broader strength was attributed to the following: (1) greater funds raised by institutional and wealthy investors searching for higher returns; and (2) low interest rates and low relative costs of debt. Furthermore, in August 2006, private equity funds held approximately \$297 billion in uncalled capital, according to Private Equity Intelligence. This implied that a high level of activity would likely continue, so long as debt was cheap and buyout opportunities still remained.

In a press release dated January 29, 2007,<sup>7</sup> Thomson Financial stated that private equity performance was characterized as extremely steady for both the short and long term horizon categories, during the period ended September 30, 2006. To be more specific, the short term performance of venture capital firms was down slightly from the prior period, with one-year returns at approximately 10.8% for the one-year period ended third quarter 2006, compared to 13.7% for the second quarter. As a whole, venture capital returns were "very predictable" over the last several quarters, with five-year returns slowly improving, and all other time

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<sup>5</sup> *BusinessWeek*, "Private Equity Keeps Booming", October 8, 2006.

<sup>6</sup> *Standard & Poors*, "Industry Surveys: Investment Services", November 23, 2006.

<sup>7</sup> Thomson Financial, "Private Equity Performance Remains Steady In Q3 2006", January 29, 2007.

horizons remained consistent. Separately, the performance of the buyout category declined slightly, posting returns of 23.6% for the period ended third quarter 2006, compared to 26.2% for the second quarter 2006. Ten- and twenty-year buyout returns were also steady, at 8.8% and 13.2%, respectively.

### **C. Partnership Outlook**

The outlook for the Partnership was dependent upon the performance of the Investment Partnership and, in turn, the performance of the Investment Partnership's investments. AAAALP's main source of income is the carried interest fee generated by certain investment returns (as of the Valuation Date, Fund VI) and distributed to the Partnership. As noted, Fund VI generates carried interest payments as investment gains are realized and in excess of its preferred return due to its limited partners.

### **Valuation of AAA Associates, L.P.**

The purpose of the valuation section is to incorporate the information considered and/or presented previously into a quantitative representation, thus assigning a value to the ownership privileges of the closely-held entity. The valuation methodology reflects the analyst's expectation of how free and open capital markets would assign value to the economic activities of the business asset under analysis.

#### **A. Valuation Methodologies**

There are a number of generally accepted methods in use for valuing a closely-held business asset, none of which is necessarily superior to the others. It is more a question as to which of the methods or combination of methods is best suited to the business, industry, and economic circumstances of the particular company being appraised at a specific valuation date. The purpose of the engagement and the percentage of equity being valued are additional factors to be considered when selecting a valuation method.

The following discussion summarizes the most generally accepted valuation methods.

**Adjusted Net Asset Value Method:** Adjusted NAV is a method that focuses primarily on the balance sheet. It requires restatement of the company's assets and liabilities in order to reflect their market values. Application of this method is most useful in determining a fully marketable controlling interest (i.e., enterprise) value. However, the method's relevance generally weakens when valuing a minority or other ownership interest in a going concern which lacks the right to liquidate assets or sell the business. Exceptions are when liquidation of the

business is considered highly probable, when the realizable value of its assets equals, or exceeds, the value of its distributions to its owners, or when the company's value is tied directly to the value of its underlying investments.

The interest in question is a limited partnership interest that does not have the power to sell and distribute the Partnership's assets. Further, the Partnership's value is driven by its cash flows from the carried interest. Therefore, an asset-based methodology was not used to value a limited partnership interest in AAAALP.

**Capitalization of Income Method:** The capitalization of income method utilizes historical results to determine the value of a company's owners' capital. An income base is first derived, and then divided (i.e., capitalized) by a separately computed required rate of return, or capitalization ("cap") rate. The income base can be defined variously as a company's adjusted earnings, cash flows, or dividends. For the cap rate to be appropriate, it must correspond to the specific inputs used in developing the income base.

Generally, this method is considered a reasonable one to use in valuing a going concern. However, its application weakens when a company's historical income, even when adjusted, is not considered to be a good proxy for that expected in the future.

As noted, the Partnership had only been in operation for approximately one year as of the Valuation Date and, therefore, did not have much of a cash flow history to capitalize. Since its historical results are not a good proxy for future cash flows, this methodology was not employed in valuing a limited partnership interest in AAAALP.

**Guideline Company Method:** The objective of the guideline company valuation technique is to identify business entities that have publicly traded securities, and business and financial risks which are comparable to those of the entity being valued. The pricing multiples of the selected public companies are then used to derive a market value for the company under analysis.

This methodology was not applied directly in valuing the Partnership since it was significantly different in expected life and size relative to the publicly traded companies identified with operations similar to AAAALP. However, betas for companies in similar lines of business were used to derive a required rate of return for a limited partnership interest in AAAALP.

**Guideline Transaction Method:** Similar to the guideline company method, the objective of the guideline transaction valuation technique is to identify firms that have been acquired, and that have business and financial risks that are comparable to those of the subject company. The pricing multiples implied by the selected transactions are then used to derive a market value for the capital of the company under analysis.

Using several transaction databases, a search was conducted for acquisitions of companies similar to the Partnership, however, none were found that were appropriate to use in a guideline transaction approach. Also, it should be noted that the interest in question is a minority, limited partnership interests that does not have the ability to sell the Partnership or its assets, while the multiples derived from the databases are on a controlling interest basis and often incorporate synergies expected by the buyer. Therefore, this methodology was not applied in valuing a limited partnership interest in AAAALP.

**Discounted Future Income Method:** The discounted future income method can use cash flows or earnings (“DFE”) as a basis to forecast the income which the business will generate. Thereafter, an aggregate present value is calculated for the future cash flows using a required rate of return known as the discount rate. The strength of this method is that it facilitates the analysis of operational practices and their impact upon the business’ value. Its weakness, however, is that it relies heavily upon projections of cash flows or net income which, for some firms, are difficult to make with any accuracy.

Management provided and Empire reviewed the Partnership’s earnings projections, based on the expected performance of its underlying investment assets. As such, the DFE methodology was used to value a limited partnership interest in AAAALP as of the Valuation Date.

## **B. Outline of Valuation Process**

A DFE analysis was conducted for AAAALP using projections provided by management and rates of return calculated by Empire. The guideline company methodology provided some benchmarks for aiding in the establishment of a rate of return. A pass-through premium was considered due to the fact that there are no income taxes at the Partnership level. Lastly, a discount for lack of marketability was selected based on factors limiting the liquidity of a limited partnership interest in AAAALP.

### C. Discounted Future Earnings Analysis

Modern financial theory holds the value of any asset to be a function of several interrelated factors:

- The stream of benefits the owner of the asset expects to receive;
- The timing of the receipt of these benefits; and
- The risk borne by the owner.

Thus, appraisal methodologies rely on the premise that the value of a business enterprise is equal to the present value of the income that it can expect to generate going forward. From an investor's standpoint, these future income streams represent the dividend-paying (i.e., distribution-paying) capacity of the company or, in the case of a leveraged company, monies available for all invested capital (i.e., interest-bearing debt plus owners' capital).

In order to complete a DFE analysis, it is necessary to develop an explicit forecast for AAAALP's earnings together with a required rate of return by which they can be discounted back to their present value.

**Projected Future Earnings:** Exhibit E shows the projections for AAAALP as they were provided to Empire by management. The following table also shows the primary inputs related to AAAALP's projected earnings.

**Table II**  
**AAAALP Projections**  
 (\$ in 000,000s)

	2007	2008	2009	2010	2011	Horizon
Carried Interest	1.5	5.5	26.3	100.2	168.4	168.4
Operating Expense Ratio	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%
Operating Expenses	(0.7)	(2.5)	(11.8)	(45.1)	(75.8)	(75.8)
Adjusted Pre-Tax Inc.	0.8	3.0	14.5	55.1	92.6	92.6
Tax Rate (Empire Adj.)	42%	42%	42%	42%	42%	42%
Estimated Taxes	(0.4)	(1.3)	(6.1)	(23.2)	(38.9)	(38.9)
Net Income	0.5	1.8	8.4	32.0	53.7	53.7

The key assumptions for the inputs were:

- The carried interest cash flow was based upon the formula outlined previously in this report as per the Investment Partnership Agreement.

- Operating expenses were projected by management.
- Fund VI would be replaced by a subsequent fund (i.e., there will always be an underlying fund from which the Partnership receives its carried interest).

As can be seen in Exhibit E, AAAALP's net income was forecast to increase from \$0.5 million in 2007 to \$53.7 million in 2011. These figures were deemed reasonable projections for AAAALP's future earnings. For the horizon value, 2011's \$53.7 million was increased in perpetuity by a long-term growth rate of 4.0%. This rate was based on discussions with management, Value Line's long-term inflation projections, and the long-term outlook for the Partnership's industry. All of these net income numbers were then discounted back to their present values. A discussion of the income tax variable is presented in the Valuation section of this report, in conjunction with an argument for a pass-through premium.

**Derivation of the Required Rate of Return:** The discount rate selected represents the required rate of return that an investor would demand at a point in time in order to invest in AAAALP. The selected rate would need to account for the inherent risks associated with the Partnership.

**Weighted Average Cost of Capital:** The discount rate, or the rate of return that investors require, incorporates the following elements:

- A "risk-free rate," which generally is the rate available on instruments considered to have no default risk, such as U.S. Treasuries. The risk-free rate compensates the investor for renting out their money and for the expected loss of purchasing power (inflation) during the holding period.
- A premium for risk, which incorporates the degree of uncertainty as to the realization of the expected return. The risk premium includes: (1) systematic risk related to the movements in returns on the investment market in general; and (2) unsystematic risk, which is risk specific to the subject investment.
- A company's cost of debt.
- A company's capital structure, i.e. the percentage of total invested capital that is debt and equity.

This discount rate, or weighted average cost of capital ("WACC"), reflects current rates of return seen in the public capital markets plus a number of company- and industry-specific factors. Two benchmarks have been developed to assist in

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selection of the discount rate for AAAALP. These benchmarks are the build-up and Capital Asset Pricing Model (“CAPM”) methods.

In order to determine an appropriate required rate of return, i.e. discount rate, for AAAALP, return information from Ibbotson and general market rates of return were considered.

**Cost of Equity:** The two benchmark methods were reviewed separately in order to derive the Partnership’s cost of equity.

Build-Up Method: The expected equity discount rate to be derived for an entity represents the required rate of return that an investor would demand at a point in time in order to hold its equity. This expected equity discount rate incorporates an expected equity risk premium, which can be defined as the additional return an investor expects to receive to compensate for the additional risk associated with investing in equities as opposed to investing in riskless assets.

The expected equity risk premium is an essential component of most cost of equity estimation models, including the CAPM and build-up approach. It is important to note that the expected equity risk premium, as used in standard valuation models, is a forward looking concept, i.e., it should reflect the best estimate of what investors think the equity risk premium will be going forward. Unfortunately, the expected equity risk premium is not directly observable in the market, but must be estimated by analyzing and adjusting historical equity return data. [See *Stocks, Bonds, Bills and Inflation, Chapter Five*, Ibbotson Associates<sup>8</sup>]

Ibbotson Associates (“Ibbotson”) analyzes and presents historical annual equity rate of return data.<sup>9</sup> Ibbotson considers historical equity returns and long term trends in price/earnings (“P/E”) ratios. The expected equity risk premium should also consider the impact of investment horizon on realized equity premiums; specifically the arithmetic mean of multi-year holding periods differs from and is lower than the arithmetic mean of one-year holding periods based upon historical equity returns. According to Ibbotson’s studies, the expected return of the market (specifically the S&P 500) in excess of the risk-free rate (the equity risk premium) based on a study of actual returns of one-year holding periods from January 1926 to December 2006,

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<sup>8</sup> *Stocks, Bonds, Bills and Inflation: Valuation Edition 2007 Yearbook*, Ibbotson Associates, 2007, Chicago, Illinois.

<sup>9</sup> *Ibid.*

is 6.35%<sup>10</sup>. Given the aforementioned data and analysis, Empire has selected a 6.0% expected equity risk premium as appropriate as of the Valuation Date.

Ibbotson also identifies a small-company premium based on a market value-weighted index of micro capitalization stocks (non-beta adjusted) which trade on the NYSE, the AMEX and the NASDAQ. This latter 1.03% premium recognizes that equity holders demand higher returns from companies that are riskier by virtue of their smaller revenue base and capitalization. As of December 2006, Ibbotson identified micro capitalization stocks as stocks of companies with market capitalizations between \$2.86 billion and \$4.09 billion (decile 4<sup>11</sup> of a size-weighted portfolio of NYSE, AMEX and NASDAQ publicly traded companies)<sup>12</sup>. Since the risk-free rate (using twenty-year Treasuries as a proxy) was 5.17% at the Valuation Date, the total required return for small capitalization companies was 12.20%. Please see Exhibit F-1.

CAPM: As noted, the Partnership's cost of equity estimate has also been developed with the CAPM. The CAPM is a model that is commonly used to obtain discount rates for valuation purposes. The basic logic of the CAPM model is that a project's risk premium is determined by the sensitivity of its cash flows to changes in aggregate wealth ("systematic risk," measured by *Beta*). This model has been one of the primary underpinnings of applied work in finance due to its simple, intuitive logic and ease of application.

The model used to develop our estimates of cost of equity is as follows:

$$K_e = R_f + R_p (\beta) + R_{sm}$$

Where:

$K_e$	=	Cost of Equity
$R_f$	=	Risk free rate of return
$R_p$	=	Market Risk Premium
$R_{sm}$	=	Small Company Risk Premium
$\beta$	=	Sensitivity of the security to changes in the market

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<sup>10</sup> *Ibid*, Supply Side Equity Risk Premium, Table 5-6, page 98.

<sup>11</sup> The decile selection was based on the assumption that AAVLP was a part of Apollo, a business with aggregate value appropriate for decile 4.

<sup>12</sup> *Ibid*, Chapter Seven, Table 7-2, page 131.

The cost of equity,  $K_e$  was identified based upon publicly available information. *Betas* of a group of selected U.S.-traded guideline companies were obtained from the Bloomberg Network. These firms are in similar lines of business to that of AAAALP. Since we are measuring the carried fee income portion of the business we selected companies that earn much of their fees from carry income. Brief descriptions of these companies are provided in Exhibit F-2. The betas were first unlevered based upon the respective firms' capital structures, then relevered based upon AAAALP's expected long-term debt-to-equity ratio. The debt-to-equity ratio utilized for the Partnership was 0% debt to 100% equity and was based upon the range of debt-to-equity ratios of the public companies as well as the Partnership's own debt-to-equity ratio. Management noted that while the Partnership had some debt on its balance sheet it year end 2006, it had none at the Valuation Date. Please see Exhibit F-3.

The resulting cost of equity of 11.00% is based upon a selected (unlevered) beta factor of 0.80 and capital structure of 0% debt and 100% equity. Please see Exhibit F-4. It should be noted that a beta factor of 0.80 was selected because the companies that most resembled AAAALP had betas that were below the average of the sample.

Selected Base Cost of Equity: As can be seen in the following table, taking all of these factors into account, the base cost of equity selected for AAAALPs was 12.0%. Since the revenue generated by the Partnership is based on carry payments, which tend to have more risk than management fees, Empire selected an equity rate that was toward the higher end of the range indicated by the two methods.

**Table III**  
**Equity Discount Rate**

Method	Equity Rate
Build-Up	12.20%
CAPM	11.00%
<b>Concluded Base Equity Rate</b>	<b>12.00%</b>

Market Indices and Benchmarks: As a benchmark reference for the industry in general, for the one year period ending March 31, 2007, Cambridge Associates LLC provided the data in Table III on U.S. private equity returns. Additionally, over the past ten years, Cambridge Associates LLC reported the information on private equity funds as presented in the following tables.

**Table IV**  
**U.S. Private Equity Index<sup>®</sup> Compared**  
**To Other Market Indices – One Year Return**  
**As of March 31, 2007**

Index	Return %
U.S. Private Equity Index <sup>®</sup>	28.63
Dow Jones Industrial Average	13.83
Russell 1000 <sup>®</sup>	11.84
S&P 500	11.83
Dow Jones Wilshire 5000	11.33
Dow Jones Small Cap	6.50
Dow Jones Top Cap	15.55
Lehman Brother Gov't Corp Bond Index	6.38
Russell 2000 <sup>®</sup>	5.91
Nasdaq Composite	3.50

**Table V**  
**Private Equity Returns**  
**As of March 31, 2007**

Vintage Year	Mean Net to Limited Partners (%)	Median Net to Limited Partners (%)	Number of Funds
1996	10.34	8.01	37
1997	6.39	6.02	46
1998	8.23	9.63	48
1999	14.40	12.15	55
2000	18.57	14.65	69
2001	33.40	19.54	16
2002	29.16	22.10	33
2003	36.11	24.68	20
2004	23.39	13.80	56
2005	15.52	(5.76)	57
2006	(1.96)	(10.17)	32

Additionally the following portfolios were reviewed for the period of 1990 through 2005, as presented in the CISDM study, most recently updated August 2006.

**Table VI**  
**Private Equity Portfolio Performance 1990 - 2005**

<b>Portfolio/Index</b>	<b>Average Annual Return</b>	<b>Standard Deviation</b>
Cambridge Associates Private Equity Index	14.48%	9.54%
Cambridge Associates Venture Capital Index	21.14%	27.81%
Cambridge Associates Private Equity Portfolio <sup>13</sup>	17.81%	17.22%
Wilshire Private Equity Portfolio	21.13%	42.57%
Post Venture Capital Index	16.22%	34.88%
S&P 500	11.33%	15.45%
Lehman U.S. Aggregate	7.25%	4.23%
Lehman High Yield	9.10%	8.83%

The market indices and benchmarks represent net returns to limited partners invested in private equity funds. The limited partnership interest being valued is of the Investment Partnership's general partner. There is no direct relationship between the applicable discount rate for AAAALP and a fund's net return to limited partners. However, there is an indirect relationship since the returns generated by Fund VI present a return basis for its limited partners allowing a comparison of Fund VI's investment returns and performance to the market indicators.

Company/Industry Specific Risk Adjustments: In order to reflect AAAALP's industry and partnership specific risks, an additional risk adjustment must be considered for application to the equity discount rate of 12.0% as discussed above. This adjustment considers, among other factors:

- The nature and risk of the Partnership's (as the Investment Partnership's general partner) ability to identify suitable follow-on investment and exit opportunities;
- AAAALP's reliance on its key personnel for future success and upon their access to investment professionals and partners. The departure of any of AAAALP's directors or senior managers, or of a significant number of the investment professionals or partners of AAAALP, would almost certainly have a material adverse effect on its ability to achieve its investment objectives.

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<sup>13</sup> The Cambridge Associates Private Equity Portfolio is a 50/50 portfolio of the Cambridge Associates Venture Capital and Private Equity indices.

- The market for investment opportunities is intensely competitive and has increased over time as investors, in general, have become more sophisticated. This particular factor was discussed in more detail in the industry outlook. Briefly, however, a number of entities compete to make the same types of investments in middle-market companies. Apollo competes with public and private funds, including other business development companies, commercial and investment banks, commercial financing companies, and, to the extent they provide an alternative form of financing, other private equity funds.
- There are few barriers to entry into the private equity industry.
- Fund VI's investment focus in middle-market companies involves a number of specific risks, including:
  - These companies may have limited financial resources and may be unable to meet their obligations under their debt securities.
  - They typically have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns.
  - They are more likely to depend on the management talents and efforts of a small group of persons; therefore, the loss of one or more of these persons could have a material adverse impact.
  - They generally have less predictable operating results, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position.
- Fund VI and any subsequent funds may face restrictions on their ability to liquidate an investment in a portfolio company to the extent that AAAALP or an affiliated manager has material non-public information regarding a portfolio company.
- The respective histories of previous funds run by the Apollo Group.
- The Partnership's small capitalization.

In addition, the Partnership only received a carried interest on certain Investment Partnership investments, namely those of Fund VI and any successor funds to Fund

VI. In addition, the carried interest was payable only after the Investment Partnership's limited partners had achieved their preferred return. In total, the factors discussed increase the risk of AAAALP. Therefore, a risk adjustment of 6% is warranted to reflect AAAALP's industry and partnership-specific risk at the Valuation Date. Increasing the base cost of equity by 6% results in a cost of equity of 18.0% (12% + 6%). Please see Exhibit F-5.

**Cost of Debt:** The following table presents market-based yields by credit rating as of the Valuation Date.

**Table VII**  
**Market Ratings and Yields**  
**As of June 6, 2007**

Rating <sup>14</sup>	Yield
AAA	5.63%
AA	5.78%
A	5.87%
BBB	6.19%
BB	6.90%
B	7.57%
CCC	9.25%
CC	19.49%

Based on a number of factors including: (1) a survey of market yields; (2) the nature and history of AAAALP; and (3) the Partnership's asset base upon which to lend upon, a pre-tax cost of debt of 8.0% was selected as reasonable for AAAALP as of the Valuation Date. Therefore, based on a tax rate of 42%, the after tax cost of debt was 4.6% ( $0.08 \times [1 - 0.42]$ ).

**Concluded Discount Rate:** Additionally, market participants were reviewed in order to develop a WACC-based discount rate for AAAALP. Development of a WACC requires that the cost of debt and the cost of equity for the company be derived separately. These costs are then weighted in proportion to the market value of each component of the entity's capital structure.

The WACC, i.e. discount rate, for AAAALP was calculated by using the required rates of return derived for the Partnership's equity, of 18.0%, and (after-tax) debt, of 4.64%, weighted by its capital structure. Again, the selected capital structure

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<sup>14</sup> Standard & Poor's credit rating scale; Data compiled from the Bloomberg Network.

for the Partnership was 0% debt to 100% equity. As shown in Exhibit F-5, AAAALP's WACC calculated to be 18.0%, rounded.

**Summary:** The earnings derived from the five-year detailed projections and horizon value for carried interest fees were discounted to their present value for an aggregate value of \$237,498,721 for the Partnership as of the Valuation Date. Again, please see Exhibit E.

#### **D. Pass-Through Premium**

As previously stated, AAAALP is a limited partnership for federal, state, and local income tax purposes. As such, the absence of taxes at the Partnership level is a consideration in the valuation of its capital. Thus far in this report, a fully marketable, minority interest, "C" corporation ("C-Corp") equivalent value has been derived. In this section of the report a specific pass-through adjustment is calculated for AAAALP. Based on the analysis of AAAALP, as outlined in this report, a pass-through adjustment was deemed appropriate.

**Calculation of Pass-Through Adjustment:** It is Empire's opinion that the appropriate way to account for a partnership's lack of tax at the partnership level is to, first, value it as a C-Corp and then make a separate, quantifiable pass-through adjustment to derive fair market value. This method starts with the tax affecting of the Partnership's earnings at a C-Corp equivalent rate, which allows the value derived from the income approach to be consistent with the required rate of return derived from publicly traded companies (i.e., both on an after-tax basis).

The maximum pass-through adjustment can be represented by the equation  $1 \div (1 - \text{tax rate}) - 1$ , where the tax rate represents the dividend tax rate. It should be noted that AAAALP's income is comprised primarily of carried interest fee income which may be taxes as capital gains. The highest personal federal tax rate was 35% as of the Valuation Date. According to management, partners in this Partnership were generally paying personal taxes on this income at an approximate rate at full federal, state and local blended rate of 42%. This implies a 7% premium over the maximum 35% federal rate for the blended state and local taxes.

Relative to a C-Corp, partnership distributions would not be subject to the dividend distribution taxes that a C-Corp shareholder would pay. Therefore, the resulting savings can be calculated as shown. Under the tax code applicable as of the Valuation Date, the dividend tax rate was 15% at the federal level. In New York State the highest individual tax rate is 6.85%. However, because there is a credit on federal income taxes for any state income tax paid, the effective state rate becomes 4.45% ( $6.85\% \times [1 - 35\%]$ ). Similarly, in New York City the highest

individual tax rate is 3.65%. However, because there is a credit on federal income taxes for any local income tax paid, the effective local rate becomes 2.37% ( $3.65\% \times [1 - 35\%]$ ). Adding the federal rate of 15.0% to the effective state and local rates of 4.45% and 2.37% results in a maximum pass-through adjustment of 22%, rounded.

This calculation contains certain simplifying assumptions. As such, certain characteristics may not be captured by this formula alone due to these simplifying assumptions. To the extent that any characteristics have not been accounted for directly in the formula they have been accounted for in the pass-through adjustment selected. Finally, it is important to note that all of the variables used in this valuation process are interdependent (i.e., if one variable is changed, then each of the other variables may need to be modified to reach a reasonable valuation conclusion). For a further discussion of this formula and its underlying assumptions, please see Addendum 4.

**Pass-Through Entity Factors:** When concluding an applicable pass-through adjustment, there are several specific factors that must be considered. These factors include, but are not limited to: (1) the level of value (control or minority); (2) limitations imposed by a limited partnership agreement concerning the ability of its partners to cause the partnership to lose its pass-through status; and (3) the level of distributions compared to the partners' tax liability. The background on each of these factors is discussed in detail in Addendum 4.

- **Level of Value:** In the case of AAAALP, the valuation is of a non-controlling (i.e., limited partnership) interest. In a controlling interest valuation, transaction values typically include all premiums, pass-through or otherwise, since all types of buyers are typically involved. Since this is a non-controlling interest, there is an unrealized benefit from the tax savings not already incorporated in the income approach. Therefore, the application of a pass-through adjustment to the non-controlling interest being valued is warranted.
- **Agreement:** Again, the interest being valued is a limited partnership interest. There is limited likelihood that the entity will lose its pass-through status unless it was sold to a publicly traded C-Corp or the tax laws were changed regarding these types of entities, neither of which was likely as of the Valuation Date. This situation supports a pass-through adjustment closer to the higher end of the maximum adjustment calculated above.

- **Distributions:** The Partnership was relatively new as of the Valuation Date. Further, AAAALP reported a loss for 2006. As such, the Partnership did not have a history of making distributions in excess of its partners' individual tax obligations. In addition, future expected returns were dependent on an as yet unknown economic environment. While the Partnership's expected future distributions support an enhancement in the pass-through adjustment calculated above, going forward significant risk exists that this could change. This supports a lower pass-through adjustment.

**Conclusion of Pass-Through Adjustment:** Taking these and other factors into consideration, it was determined that an adjustment below the maximum is warranted. Therefore, a reduction in the pass-through adjustment to 15% was deemed appropriate.

Applying a pass-through adjustment of 15% to the previously derived fully marketable minority interest C-Corp equivalent value of \$237,498,721 results in a fully marketable minority interest Partnership value of \$273,123,529. Again, please see Exhibit E. A 24.64% interest equates to \$67,297,638 ( $\$273,123,529 \times 0.2464$ ), before consideration of any illiquidity associated with the interest.

#### **E. Lack of Marketability**

By definition, equity interests in closely-held business entities cannot be considered as marketable as the equity interests of publicly traded companies.

A number of studies have compared private stock transactions (at the minority interest level) for companies which subsequently went public as well as the discounts applicable to the restricted stocks of public companies. These studies are crucial to valuation theory because: (1) they present empirical proof that a lack of marketability discount exists and is factored into determinations of value in the public markets; and (2) they establish historic ranges for such discounts. The results from the studies, which are summarized in Addendum 5 as an attachment to this report, are consistent, i.e., mean or median lack of marketability discounts typically fall between 25% and 45%. It follows reasonably that, if such lack of marketability discounts can be demonstrated for privately held stock, then lack of marketability discounts should apply equally to all types of closely-held business forms.

In sum, investors reward liquidity. An investor owning equity in a public company can, with relative assurance, sell quickly if he desires to do so and/or situations

develop which are not to his liking, and this capability substantially improves value. An investor with ownership in a private company rarely enjoys such liquidity.

In assessing the discount for lack of marketability applicable to a limited partnership interest in AAAALP, a number of specific factors were considered, including the following: (1) the impact of distributions; (2) information access and reliability; (3) the potential of near-term liquidation; and (4) any restrictions on transfer and withdrawal. In addition, a closer look at the Restricted Stock Studies as they influence a decision for AAAALP was also made.

- Impact of Distributions: Distributions are very important to an investor in any closely-held company because they provide a means for him to receive a return on investment without having to sell it. During the review period, the Partnership did not make any distributions, however, it had no positive earnings from which to make those distributions. This situation was projected to change significantly by the end of 2007. Nevertheless, the current situation supports a discount for lack of marketability toward the lower end of the established range.
- Information Access & Reliability: With regard to ownership rights, clearly the GP has complete access to all pertinent information about the Partnership's investments and prospects. A purchaser of a limited partnership interest in AAAALP has the right to receive the financial information necessary to file his personal income tax return and, as noted, information on the Partnership's net profits or losses. Further, financial information regarding the Investment Partnership is available on its website and is updated quarterly. Still, a LP in the Partnership has not right to challenge the information provided or obtained. These issues argue for a discount for lack of marketability toward the lower end of the established range.
- Potential of Near-Term Liquidation: The factors that would cause the Partnership's dissolution were discussed previously and none were considered likely in the near term. This would argue for a discount for lack of marketability in the middle of the established range.
- Restrictions on Transfer & Withdrawal: As discussed, the AAAALP Partnership Agreement states that approval of the GP is necessary before a LP may transfer his interest to a non-partner or related party. While a LP may request a full or partial withdrawal from the Partnership, he may only do so after the Fund GP Book Account for that Class of Shares has been

extinguished, which could take several years. These restrictions support a discount for lack of marketability toward the upper-to-middle of the established range.

- Restricted Stock Studies: Addendum 5 includes findings from restricted stock studies. Keeping in mind that limited partners may not withdraw at will from the Partnership, it is useful to consider the impact of holding periods on the appropriate discount for lack of marketability. The inability to monetize an investment generally increases with holding period. Addendum 6 discusses the data in more detail. Overall, the restricted stock studies demonstrate that discounts do exist to compensate investors for their relative inability to liquidate an investment over the course of a given holding period. This factor is offset to some extent by the fact that distributions have historically been paid. Nevertheless, there is no guarantee that limited partners will continue to receive them, and the inability to withdraw and receive fair market value for one's interest is a detriment. The pending Fortress and Blackstone IPOs imply that liquidity for firms like Apollo may be increasing, and Apollo is certainly a well-recognized name in the investment community. All in all, the discount for lack of marketability based on the restricted stock studies would be toward the low end of the range.

**Incremental Lack of Control:** It is clear that control in any closely-held entity alters the nature of the benefits, both tangible and intangible, which do accrue from ownership. Still, the lack of control suffered by limited partners is normally more than that endured by general partners, managing members, or minority shareholders. In a Partnership, then, its structure, the valuation methodology employed, and its agreement's terms are reviewed in order to measure the benefits and costs of owning a non-controlling interest in that particular entity.

Regarding AAAALP, it bears restating that the AAAALP Partnership Agreement specifies that it is a limited partnership. A limited partner, as noted above, lacks any ability to control the Partnership's governance. Unlike a minority shareholder, who can gain a controlling position by acquiring more than 50% of a company's voting equity, the only way to control the Partnership on a daily operating basis is to become its GP. Given that the GP was already in place at the Valuation Date, it is unlikely that an unspecified party will become the Partnership's sole GP in the near future.

**Discount Summary:** Regarding AAAALP, the following points bear reiteration:

- The AAAALP Partnership Agreement governing the Partnership specifies that it is a limited partnership; the GP has full, complete, and exclusive discretion to manage and control its business.
- As invested at the Valuation Date, it was likely that the Partnership will have cash flow available for distribution.
- The AAAALP Partnership Agreement places restrictions on a limited partner's ability to withdraw or transfer his interest in the Partnership, whereas, shareholders of the publicly traded companies have no limitation or restriction on their right to sell their units.
- It was unlikely that AAAALP will be terminated within the next several years.

In conclusion, some discount must be allocated against the pro rata freely tradeable value derived above in order to quantify the fair market value of a limited partnership interest. After assessing all factors, it was determined that a 20% discount should be applied to the freely tradeable value of a limited partnership interest in AAAALP. This is consistent with the pass-thru adjustment considered earlier as well as the fact that such an interest lacks most voting rights and other elements of control, and its holder may find it difficult, if not impossible, to transfer his interest in, or withdraw from, the Partnership if such a course should become desirable.

Therefore, in our opinion the freely tradeable value of \$67,297,638 for a 24.64% limited partnership interest should be reduced by 20% to account for the interest's lack of marketability under the terms of the AAAALP Partnership Agreement. This calculation results in a fair market value of \$53,800,000 ( $\$67,297,638 \times [1.00 - 0.20]$ ), rounded, for a 24.64% limited partnership interest in AAAALP as of the Valuation Date. Again, please see Exhibit E.

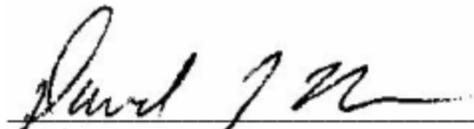
Carlyn McCaffrey, Esq.  
October 4, 2007  
Page 39

## Valuation Summary

Given the foregoing review and analysis, and subject to the attached Statement of Limiting Conditions, it is our opinion that the fair market value of a 24.64% limited partnership interest in AAA Associates, L.P. is reasonably stated as \$53,800,000 as of June 6, 2007, for use by your client, Leon Black, for gift tax reporting purposes.

Respectfully submitted,

## Empire Valuation Consultants, LLC



David J. Thompson  
Valuation Associate



Natasha Thibault, ASA  
Senior Valuation Associate

REVISED DRAFT  
FOR DISCUSSION PURPOSES ONLY



Andrea Hock, ASA  
Managing Director



Scott A. Nammacher, ASA, CFA  
Managing Director

## STATEMENT OF LIMITING CONDITIONS

**Confidentiality/Advertising:** This report and supporting documentation are confidential. Neither all nor any part of the contents of this appraisal shall be copied or disclosed to any party or conveyed to the public orally or in writing through advertising, public relations, news, sales, or in any other manner without the prior written consent and approval of both Empire Valuation Consultants, LLC and its client.

**Litigation Support:** Depositions, expert testimony, attendance in court, and all preparations/support for same, arising from this appraisal shall not be required unless arrangements for such services have been previously made.

**Management:** The opinion of value expressed herein assumes the continuation of prudent management policies over whatever period of time is deemed reasonable and necessary to maintain the character and integrity of the appraised business entity as a going concern.

**Information and Data:** Information supplied by others that was considered in this valuation is from sources believed to be reliable, and no further responsibility is assumed for its accuracy. Information used was limited to that available on or before the Valuation Date, or which could be reasonably ascertained as of that date. We reserve the right to make such adjustments to the valuation herein reported as may be required by consideration of additional or more reliable data that may become available subsequent to the issuance of this report.

**Purpose:** All opinions of market value are presented as Empire Valuation Consultants, LLC's considered opinion based on the facts and data obtained during the course of the appraisal investigation. We assume no responsibility for changes in market conditions which might require a change in appraised value. The value conclusion derived in this appraisal was for the specific purpose and date set forth in this appraisal and may not be used for any other purpose.

**Fee:** The fee established for the formulation and reporting of these conclusions is not contingent upon the value or other opinions presented.

**Interest:** Neither the appraiser nor any officer or employee of Empire Valuation Consultants, LLC has any interest in the property appraised.

**Unexpected Conditions:** We assume that there are no hidden or unexpected conditions of the assets valued that would adversely affect value.

## **Addendum 1-2**

**Non Appraisal Expertise:** No opinion is intended for matters which require legal or specialized expertise, investigation or knowledge, beyond that customarily employed by appraisers.

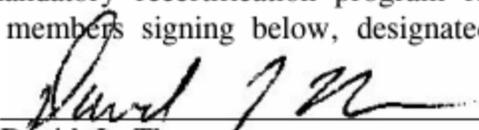
**Hazardous Substances:** Hazardous substances, if present within the facilities of a business, can introduce an actual or potential liability that will adversely affect the marketability and value of the business or its underlying assets. In the development of our opinion of value, no consideration has been given to such liability or its impact on value unless otherwise indicated in the report.

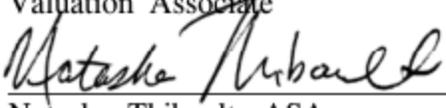
## CERTIFICATION OF APPRAISERS

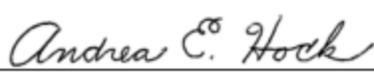
We the appraisers certify that, to the best of our knowledge and belief:

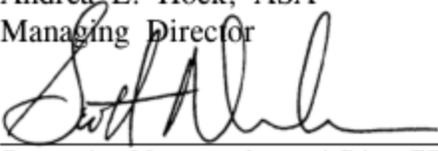
1. Our analyses, opinions and conclusions were developed, and this report was prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
2. All statements of fact contained in this report are true and correct.
3. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, unbiased professional analyses, opinions, and conclusions.
4. Neither Empire nor any of its employees has, to the best of our knowledge, either a present or intended financial interest in the entity that is the subject of this report, in any affiliates that may exist, or with respect to the parties involved.
5. We have no bias with respect to the entity that is the subject of this report or to the parties involved with this assignment.
6. Empire's engagement in this assignment was not contingent upon developing or reporting predetermined results.
7. The professional fee paid to Empire for the preparation of this report is not contingent upon its conclusion, including: developing or reporting a predetermined value or direction of 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.
8. No one provided significant business appraisal assistance to the persons signing this certification, unless specifically stated herein.

The American Society of Appraisers has a mandatory recertification program for all of its Accredited Senior Appraisers. The senior members signing below, designated by the "ASA," are in compliance with that program.

  
\_\_\_\_\_  
David J. Thompson  
Valuation Associate

  
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Natasha Thibault, ASA  
Senior Valuation Associate

  
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Andrea E. Hock, ASA  
Managing Director

  
\_\_\_\_\_  
Scott A. Nammacher, ASA, CFA  
Managing Director

October 4, 2007

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### **Valuation Services**

**Empire Valuation Consultants, LLC** provides valuations to business owners, attorneys, accountants, commercial bankers, investment bankers, trust departments, insurance agents, and financial planners, among others. **Empire's** consultants have prepared or managed the preparation of over 7,500 appraisals for the following reasons:

- Buy/Sell Agreements
- Gifting Programs
- Estate Taxes
- Mergers & Acquisitions
- Blocks of Publicly Traded Securities
- Employee Stock Ownership Plans (ESOPs)
- Redemptions
- Recapitalizations
- Going Private Transactions
- Stock Option Plans
- Dissenting Shareholder Suits
- Fairness Opinions
- Intellectual Property
- Purchase Price Allocation

### **Other Financial Services**

#### **Litigation Support & Expert Testimony**

**Empire** can assist you with research and litigation support and its professionals are available to provide expert testimony in matters involving questions of valuation.

#### **ESOP Feasibility Studies & Preliminary Valuations**

**Empire** is available to work with our client's team of financial advisors or participate in independent feasibility studies and preliminary valuation reviews in connection with ESOP formation planning.

**DAVID J. THOMPSON**

**Academic Degrees**

- M.B.A. University of New South Wales & University of Sydney, Australian Graduate School of Management, Finance, Dean Scholarship winner 2005
- Ed.M. University of Buffalo, Mathematics Education, 1997
- B.A. University of Buffalo, Mathematics, with distinction 1994

**Employment**

Empire Valuation Consultants, Rochester, New York  
Valuation Associate, 2006-Present

Idea Connections Consulting, Inc., Rochester, New York  
Vice President of Operations, 2002-2003 and 2005-2006

IKON Office Solutions, Buffalo New York  
Senior Application Developer, 1998-2002

**Experience**

Mr. Thompson joined Empire in 2006, bringing with him strong operational, managerial and consulting experience, as well as significant quantitative and financial analysis skills.

While at Idea Connections he was responsible for financial analysis and projections, effective cost control, project management and the negotiations for the separation of the group from its parent company. His work at both Idea Connections and IKON provided a rich exposure to a multitude of different businesses and the factors that drive the operations of an effective company.

## NATASHA THIBAUT, ASA

### Academic Degrees

M.B.A.	Rochester Institute of Technology, 1998
B.S.	Rochester Institute of Technology, Accounting, 1992

### Employment

Senior Valuation Associate, Empire Valuation Consultants, Rochester, New York, 1998-present

Controller, The Salvation Army, Rochester, New York, 1996-1998

Assistant Controller, The Salvation Army, Rochester, New York, 1994-1996

### Experience

Ms. Thibault has earned the designation Accredited Senior Appraiser (ASA), designated in Business Valuation, from the American Society of Appraisers by meeting its testing and experience requirements. Ms. Thibault brings to Empire her strong analytical, financial, and accounting skills. While employed at The Salvation Army, she was responsible for a variety of accounting and forecasting duties. Ms. Thibault's strengths include financial statement analysis, as well as a comprehensive knowledge of not-for-profit organizations.

Since joining Empire, Ms. Thibault has been involved in the valuation of various equity interests in corporations, partnerships, and limited liability companies, operating in a variety of industry sectors. These valuations have been performed for estate tax and gift tax planning, issuance of fairness opinions, employee stock ownership plans, potential sale or buyout, and other corporate planning and reporting purposes.

**ANDREA E. HOCK, ASA**

**Academic Degrees**

- M.B.A. Rochester Institute of Technology, Finance, 1985
- M.A. University of Florida, French Literature, 1974
- B.A. Mercer University, summa cum laude, French, 1972

**Employment**

- Managing Director, Empire Valuation Consultants, Rochester, New York, 2000-present
- Senior Valuation Associate, Empire Valuation Consultants, Rochester, New York, 1993-2000
- Valuation Analyst, Empire Valuation Consultants, Rochester, New York, 1989-1993
- Financial Manager, Joan Hantz Graphic Design, Rochester, New York, 1987-1988
- Claims Representative, Social Security Administration, Rochester, New York, 1978-1989

**Experience**

Ms. Hock is an Accredited Senior Appraiser (ASA) of the American Society of Appraisers, Business Valuations. She is currently a Vice President, and former Chapter President and Secretary, for the Western New York Chapter of the ASA. Ms. Hock has over fourteen years of business valuation experience. She has been involved in the valuation of a wide variety of corporations, partnerships, and business assets for employee stock ownership plans, fairness opinions, solvency opinions, recapitalizations, estate and gift taxes, and other purposes.

As financial manager of a graphics design firm, Ms. Hock became familiar with proposal writing, financial planning, bookkeeping and tax accounting. Her experience with the government provided her with a background in a wide variety of federal and state services and regulations.

**SCOTT A. NAMMACHER, ASA, CFA**

**Academic Degrees**

- M.B.A. New York University Graduate School of Business, Finance, 1985
- B.S. University of Minnesota, Business, 1977

**Employment**

Principal and Managing Director, Empire Valuation Consultants, LLC, New York, New York, 1992-Present

Manager, Financial Valuations, Arthur Andersen & Co., New York, 1990-1991

V.P., Marigold Capital Development, Investment Banking Div. of Marigold Enterprises, Greenwich, Connecticut, 1989-1990

Manager - Domestic Finance, PepsiCo, Inc. Purchase, New York, 1985-1989

**Experience**

Mr. Nammacher is an Accredited Senior Appraiser (ASA) of the American Society of Appraisers and is a Chartered Financial Analyst (CFA). He has over 20 years of experience in financial consulting and business valuations. He has valued the equity, debt, warrants, NOLs, etc. of publicly and privately held businesses for acquisitions, divestitures, stock repurchases, estate and gift tax reporting, buy/sell agreements, recapitalizations, and general corporate planning purposes. Mr. Nammacher has also developed business plans and financing packages, and has been involved in completed transactions totaling over \$1.5 billion. In addition, he played key roles in the successful launch of a new business publication.

Mr. Nammacher has testified as an expert witness in U.S. Tax Court, U.S. Bankruptcy Court, Delaware Chancery Court and other courts and arbitration settings around the country, and published a book and several articles on "junk bonds." He also received the prestigious "Graham & Dodd Scroll Award" from the *Financial Analysts Journal* for outstanding financial writing relating to a cover story he co-authored.

He is currently an elected member of the American Society of Appraisers' Business Valuation Committee, the oversight entity for the business valuation arm of the ASA. He has spoken on valuation issues around the country, chaired an annual valuation conference in New York City for over 12 years. He is co-chair of the first joint AICPA/ASA valuation conference ever presented.

## Valuation of Pass-Through Entities

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A pass-through entity can have positive and negative impacts on the valuation of a minority interest in a closely-held company or partnership depending on the specific facts pertinent to the entity. In the majority of cases, the pass-through status has a net positive economic impact to the fair market value of a minority interest, but the net effect can vary materially between owners of the same company, and between potential buyers of a minority interest in the company. Therefore, the net economic impact cannot be modeled precisely. However, an average net benefit or detriment can be reasonably estimated.

It is recognized that a pass-through entity can have a positive economic impact on value at the minority interest level. The issue becomes how to accurately quantify the impact. There are numerous articles and studies that have attempted to quantify this impact for an S-Corp by applying various simplifying assumptions. These articles and studies concluded maximum S-Corp economic benefits to a minority shareholder in the 15% to 30% range, depending on the assumed tax rate. It stands to reason that a similar economic benefit would accrue to owners of pass-through entities as well as S-Corps.

**Quantifying the Pass-Through Adjustment:** When assessing the impact of the pass-through status on the fair market value of a company's equity, the appraiser must first review and consider all relevant factors. Then based on these factors, the appraiser must decide if the pass-through status provides a net benefit to fair market value. If there is a net benefit, the benefit must be quantified. However, there are circumstances when the pass-through status does not provide a net benefit and a pass-through adjustment is not applicable.

Economically, the two primary benefits of the pass-through status are: (1) the elimination of double taxation on distributions; and (2) the reduction in personal capital gains taxes when the interest is sold due to the step-up in tax basis associated with retained earnings. Therefore, because of these benefits, the pass-through adjustment becomes a function of the savings associated with the net reduction of dividend and capital gains taxes.

One of the benefits of the pass-through status is to avoid the double taxation of a company's earnings when it pays a distribution. Under a standard C-Corp, the company's earnings are taxed at the corporate level and then the shareholder is taxed again when those earnings are paid out as a dividend. For a pass-through entity, the investor pays personal income taxes on his pro rata share of the company's earnings, but does not pay additional taxes on any distributions. Therefore, if a pass-through entity makes a distribution equal to the investor's personal tax liability then the net cash retained by the company is the same as

## Addendum 4-2

that of a C-Corp that does not pay a dividend. This assumes that the individual tax rate and C-Corp tax rates are essentially equivalent. Currently, the top marginal federal tax rate was 35% for individuals and 34% for corporations. Therefore, the economic benefit to the minority S-Corp shareholders is when the company pays a distribution greater than the amount needed to pay taxes (i.e., greater than the marginal C-Corp tax rate).

Another prospective benefit is that the investor's tax basis increases for any earnings that have not been distributed. This benefit effectively lowers the investor's capital gains tax liability when the interest is sold. Currently, capital gains are taxed at a 15% rate for federal taxes and as ordinary income for state taxes. However, this economic benefit is only realized if and when the investor sells his interest. Therefore, because of the loss of double taxation and the step-up in tax basis, the pass-through adjustment becomes a function of the savings associated with not paying dividend and capital gains taxes, as well as any differences between the corporate and individual tax rates.

Assuming that corporate and individual income tax rates are the same, the maximum pass-through adjustment can be represented by the equation  $1 \div (1 - \text{tax rate}) - 1$ , where the tax rate represents the weighted average of the dividend and capital gains tax rates applicable at the valuation date.

**Underlying Assumptions:** Inherent in this calculation are several underlying assumptions that are important in understanding the pass-through adjustment. They include:

- This formula assumes that the economic benefit on dividends and capital gains tax avoidance are realized in current dollars. However, the capital gains benefit may not be realized until many years in the future and it is possible that it may never be realized at all. Accordingly this simplifying formula tends to bias upward the economic benefit of the step-up in basis.
- The calculation assumes that capital appreciation is correlated dollar-for-dollar to the increase in retained earnings. However, most company's fair market value appreciation is dependent on factors other than just retained earnings. Further, over time, the fair market value of a minority interest may go down even if an investor's equity account increases. This assumption generally indicates that the pass-through adjustment is biased upward.
- The calculation assumes that an investor is indifferent between receiving a company's earnings through distributions or capital appreciation (i.e., retained earnings). Again, because the capital gains benefit is recognized on an ongoing basis, the actual timing of the benefit is not taken into

### Addendum 4-3

account. In reality, because of this timing difference, a minority investor in a pass-through entity only realizes the full benefit of the calculated pass-through adjustment when the company pays out 100% of its taxable earnings as a distribution. If a company distributes less than 100% of its taxable earnings, the economic benefit of the pass-through status is reduced.

- Corporate and personal tax rates are equal. Under current applicable federal tax brackets the highest personal tax rate was 35% which is roughly equivalent to the highest federal corporate tax rate (i.e., 34%). Since the concept of a hypothetical willing buyer prevents the selection of a specific buyer and their tax status, it is assumed that the highest personal tax bracket is appropriate. To the extent that an individual's tax rate is higher than the corporate tax rate, the pass-through adjustment will be lower and vice versa.

As discussed, the pass-through adjustment formula contains certain simplifying assumptions. It is important to understand these assumptions and their impact on the pass-through adjustment calculation. Based on the specific facts and circumstances surrounding the company being valued, the calculated pass-through adjustment should be modified.

The pass-through adjustment formula outlined above provides a maximum potential adjustment. However, the adjustment that is applicable to an interest being valued is generally less than the maximum implied by the calculation. When concluding an applicable pass-through adjustment, the following factors must be considered:

- **Level of Value:** One factor that complicates the determination of the fair market value of an interest in a closely-held business is the issue of control. On a 100% control basis, there is no market evidence that suggests that an arms length-willing buyer will pay a premium in the acquisition of a closely-held company simply because of the pass-through status. If that were true then all C-Corp owners would convert to pass-through entities before they sold their company.

The efficient market theory can be cited to argue against the existence of an pass-through adjustment on a 100% control basis. If such an adjustment existed and was automatically realized, then arbitragers would buy C-Corps, convert to pass-through entities, and sell the company at a profit. Proponents of the efficient market theory note that a competitive, efficient market would not allow such arbitrage opportunities to exist. The competitive market for the acquisition of C-Corps would be priced up to the point where no premium remained.

#### Addendum 4-4

It is also arguable that the application of a pass-through premium is in effect a partial reduction of a lack of control discount. This is because a controlling investor controls the distribution policy of a company as well as other factors. These control rights can be restricted through the Operating Agreement. However, this is only done if the controlling investor were willing to relinquish part of their control.

Therefore, a pass-through adjustment is generally applicable when valuing a minority interest. However, when valuing a controlling interest (especially a controlling interest that owns less than 100%) the methodology used to derive the control value should be considered when deciding if an adjustment is appropriate. Since the adjustment is arguably a partial reduction in the lack of control discount, any applicable control premium, either directly applied or inherent in the methodology, should incorporate an adjustment when and if appropriate. Nevertheless, the application of an adjustment should not be made such that the value of an pass-through entity (on a 100% controlling interest basis) is greater than an equivalent C-Corp.

- **Distributions:** The amount of distributions paid to investors of pass-through entities compared to their tax liability is a significant factor in determining the appropriateness of a pass-through adjustment. In general, if all other factors are equal, distributions in excess of the amount required for the tax liability would support the application of a positive adjustment. This is because shareholders would be subject to one level of taxation, instead of two. This is the principal component of a positive pass-through adjustment because the economic benefit is realized as the excess distributions are made. However, if a company does not make sufficient distributions to cover the investor's tax liability then a lower or possibly no adjustment would be appropriate. In some cases where minimal or no distributions are made and the investors have "phantom income", it could be argued that the pass-through status has a negative impact on fair market value. The maximum adjustment would be applicable in those instances where a company is making distributions equal to 100% of taxable income. When distributions are less than 100% of taxable income, a reduction in the maximum pass-through adjustment should be applied.
- **Owners' Compensation:** In some valuations, when deriving a company's cash flow base, an adjustment is made to owners' compensation to a level deemed appropriate for a C-Corp. This adjustment results in derivation of a cash flow base that represents the cash flow available for potential distributions. In these cases, it can be argued that the company's historical owners' compensation policy has consisted of two components: market based salary and discretionary

## Addendum 4-5

compensation. The discretionary compensation, which was adjusted for in deriving the company's cash flow base, represents funds available for potential distributions. As a pass-through entity, the issues regarding potential excess compensation challenges that applied to C-Corps are eliminated. Accordingly, the company and its investors have elected to distribute cash flow through the payment of owners' compensation rather than through distributions. As such, the company has distributed substantially all of its taxable earnings through discretionary compensation. In so doing, the Company has paid out a significant portion of its taxable earnings, which could not have been done as a C-Corp without some level of double taxation. In this type of situation an argument can be made for a reduction to the maximum potential pass-through adjustment.

- **Step-up in Tax Basis:** Again, the maximum economic value of the pass-through status exists when a company pays out 100% of earnings annually in distributions. If the company pays out less than 100% of earnings, then an investor receives a step-up in their tax basis equal to the increase in their equity account. The economic value of this step-up in tax basis is only realized when the investor sells his stock and the sale price is more than his equity account. Accordingly, the net present value of the economic value of the step-up in tax basis is speculative. If the sale of stock is five to ten years in the future then the current economic value of the tax basis step-up will be significantly reduced. Accordingly, the economic value attributed to distributions more than the pass-through taxes is realized immediately in today dollars; whereas the economic value of the remaining undistributed earnings is speculative in timing and amount. To the extent that a company distributes less than 100% of its taxable income an argument can be made to reduce the pass-through adjustment below the calculated maximum.

After assessing all factors pertaining to the company being valued, a modification to the maximum calculated pass-through adjustment may be supported. It is important to consider all the factors outlined above before selecting an appropriate adjustment. Without properly taking these factors into account, the value of the pass-through entity will be misstated.

## Studies of Lack of Marketability Discounts

### Summary of Restricted Stock Studies & Initial Public Offering Studies

Study	Years Covered in Study	Median Discount
SEC, Overall Average <sup>a</sup>	1966-1969	25.8 <sup>b</sup>
SEC, Non-reporting OTC Companies <sup>a</sup>	1966-1969	32.6 <sup>b</sup>
Gelman <sup>c</sup>	1968-1970	33 <sup>b</sup>
Trout <sup>d</sup>	1968-1972	33.5
Moroney <sup>e</sup>	Unknown <sup>f</sup>	35.6 <sup>b</sup>
Maher <sup>g</sup>	1969-1973	35.4 <sup>b</sup>
Standard Research Consultants <sup>h</sup>	1978-1982	45.0
FMV Opinions, Inc. (2 Year Holding Period) <sup>i</sup>	1979-1997	23
Willamette Management Associates <sup>j</sup>	1981-1984	31.2
Silber <sup>k</sup>	1981-1988	33.8 <sup>b</sup>
Management Planning, Inc.	1980-1985	30-35 <sup>b</sup>
Management Planning, Inc.	1980-1996	27.1 <sup>b</sup>
Empire Valuation Consultants, LLC <sup>l</sup>	1983-1993	29.1 <sup>b</sup>
Emory <sup>m</sup>	1980-1981	66
Emory <sup>m</sup>	1985-1986	43
Emory <sup>m</sup>	1987-1989	45
Emory <sup>m</sup>	1989-1990	40
Emory <sup>m</sup>	1990-1992	40
Bruce Johnson <sup>n</sup>	1991-1995	20.2
Emory <sup>m</sup>	1992-1993	44
Emory <sup>m</sup>	1994-1995	45
Emory <sup>m</sup>	1995-1997	42
Columbia Financial Advisors <sup>o</sup>	1996-1997	21
Columbia Financial Advisors <sup>o</sup> (1-Year Period)	1997-1998	13
Emory <sup>m</sup>	1997-2000	52
Emory <sup>m</sup>	1998-2000	47
FMV Opinions, Inc. (1 Year Holding Period) <sup>p</sup>	1997-2000	25.9

a "Discounts Involved in Purchases of Common Stock (1966-1969)," *Institutional Investor Study Report of the Securities and Exchange Commission*, H.R. Doc. No. 64, Part 5, 92d Congress., 1st Session. 1971, pp. 2444-2456.

b Mean discounts.

c Milton Gelman, "An Economist-Financial Analyst's Approach to Valuing Stock of a Closely Held Company," *Journal of Taxation*, June 1972, pp. 353-354.

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

e Robert E. Moroney, "Most Courts Overvalue Closely Held Stocks," *Taxes*, March 1973, pp. 144-154.

f Although the years covered in this study are likely to be 1969-1972, no specific years were given in the published account.

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

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

i Lance Hall and Timothy Polacek, "Strategies for Obtaining the Largest Valuation Discounts," *Estate Planning* (Jan./Feb. 1994); pp. 38-44

j Willamette Management Associates study (unpublished).

## Addendum 5-2

- k Silber, William L., "Discounts on Restricted Stock: The Impact of Illiquidity on Stock Prices," *Financial Analysts Journal*, July-August 1991, pp. 60-64.
- l Empire Valuation Consultants, LLC study (unpublished).
- m Emory, John D., *Business Valuation Review*, ten marketability studies by the same author from September 1980 to October 2002, the latest entitled "Discounts for Lack of Marketability Emory Pre-IPO Discount Studies 1980-2000, As Adjusted October 10, 2002." (Medians)
- n "Restricted Stock Discounts: 1991-1995," *Shannon Pratt's Business Valuation Update* (March 1999): 1-3, "Quantitative Support for Discounts for Lack of Marketability," *Business Valuation Review* (Dec. 1999): 152-155
- o *Shannon Pratt's Business Valuation Update* (May 2000): 1-5
- p Lance Hall, "Why are restricted stock discounts actually larger for one-year holding periods?," *Shannon Pratt's Business Valuation Update* (September 2003): 1-4

Numerous empirical studies on lack of marketability discounts have been conducted during the past twenty years. The following discussion summarizes the results of the most commonly referenced studies.

**1. Institutional Investors Study:** The Securities and Exchange Commission ("SEC") published study # 77-287 in 1971, called the "Institutional Investors Study." The Institutional Investors Study examined the amount of discount at which transactions in restricted stock, or letter stock, took place compared to the prices of identical but unrestricted stock on the open market from 1966 through 1969. The table below segments the data observed by the SEC according to the size of the discount.

Discount (Premium)	Number of Transactions	Percent of Study Total
-15.0% to 0.0%	26	6.5%
0.1% to 10.0%	67	16.8%
10.1% to 20.0%	78	19.6%
20.1% to 30.0%	77	19.3%
30.1% to 40.0%	67	16.8%
40.1% to 50.0%	35	8.8%
50.1% to 80.0%	48	12.1%
-15.0% to 80.0%	398	100.0%

The study shows that the discounts on the letter stocks were the least for New York Stock Exchange ("NYSE") listed stocks, but increased, in order, for American Stock Exchange ("ASE") listed stocks, Over-the-counter ("OTC") reporting companies and OTC non-reporting companies. For OTC non-reporting companies, the largest number of restricted stock transactions fell in the 30% to 40% discount range. Slightly over 56% of the OTC non-reporting companies experienced discounts greater than 30% on the sale of their restricted stock. A little over 30% of the OTC reporting companies experienced discounts over 30%, and over 52% experienced discounts over 20%.

The magnitude of the discount for restricted securities from the trading price of the unrestricted securities was generally related to the following factors:

***Earnings***

Earnings played the most significant role in determining the discounts at which these stocks were sold from the current market price. The degree of risk of an investment is determined more by earnings patterns, rather than sales patterns.

***Sales***

Companies with the largest sales volumes received the smallest discounts and the companies with the smallest sales volumes received the largest discounts.

***Trading Market***

Discount rates were greatest on restricted stocks with unrestricted counterparts traded over-the-counter, followed by those with unrestricted counterparts listed on the ASE, while the discount rates for those stocks with unrestricted counterparts listed on the NYSE were the smallest.

***2. Gelman Study:*** Milton Gelman conducted a study analyzing the prices paid by four closed-end investment companies specializing in restricted securities investments. Based on an analysis of 89 transactions between 1968 and 1970, Gelman found both the mean and median discounts to be 33%. Almost 60% of the transactions were at discounts of 30% or more, and over one-third were at discounts of 40% or more.

***3. Trout Study:*** Robert Trout studied 60 transactions involving the purchase of restricted stock by mutual funds between 1968 and 1972. He observed a mean discount of 34%.

***4. Moroney Study:*** In an article published in 1973, Robert Moroney presented the results of his study of the prices paid in 146 transactions for restricted securities by 10 registered investment companies. The mean discount in these transactions was 35.6%, and the median discount was 33%.

***5. Maher Study:*** In 1976, Michael Maher published the results of a study of restricted stock discounts in transactions taking place from 1969 to 1973. He found that the mean discount was 35.4%.

***6. FMV Restricted Stock Study:*** FMV Opinions gathered 248 transactions and a median discount of 23% was observed. After May 1997, the holding period under SEC Rule 144 changed from two years to one. FMV Opinions gathered 182 restricted stock transactions occurring between 1997 and 2000 and surprisingly the median discount increased, although the holding period decreased, to 25.9%.

***7. Standard Research Consultants Study:*** In 1983, Standard Research Consultants conducted a study of 28 private placements of common stock from October 1978 through June 1982. A median discount of 45% was observed.

***8. Willamette Management Associates Study:*** Willamette Management Associates has performed several studies on the prices of private stock transactions relative to their prices observed in a subsequent public offering of the same securities. The median discount of its studies was 31.2%.

**9. Silber Study:** In 1991, William Silber published the results of a study of restricted stock discounts in 69 transactions taking place between 1981 and 1988. He found that the mean discount was 33.8%. This study found larger discounts when the size of the restricted stock block was large in proportion to the total shares outstanding. Additionally, the study indicated that firms with higher revenues, earnings and market capitalizations are associated with lower discounts.

**10. Management Planning, Inc. Study:** Management Planning, Inc. (“MPI”) conducted an analysis of 115 private transactions involving actively traded industrial corporations. The vast majority of the transactions occurred at discounts to the public market prices. The discounts ranged from 1% to 86%, with the normal distribution centered in the 30% to 35% range.

MPI found that many of the relatively high discounts observed involved the common stocks of companies that were not profitable or had very low revenues, which is consistent with the findings of the SEC Study. MPI eliminated all transactions involving companies with revenues less than \$3,000,000, thereby reducing the test population to 31 transactions. Of these 31 transactions, 29 occurred at a discount, some of which were nearly 60%.

As in the SEC Study, MPI analyzed the pricing data in relation to several variables believed to impact the magnitude of the discounts. MPI concluded the following:

- Private transactions of larger companies (as measured by either revenue or earnings) have lower discounts than smaller companies, on average.
- Private transactions of companies with stronger growth (as measured by either revenues or earnings) have lower discounts than companies with slower growth, on average.
- Private transactions of companies with better revenue or earnings stability have smaller discounts than those of companies with less stability, on average.
- Private transactions that involve blocks that are relatively small, compared to trading volume or the number of shares outstanding, have lower discounts than blocks of stock that are large relative to trading volume and shares outstanding, on average.
- Private transactions that occurred in a strong market have lower discounts than transactions that took place in declining or weaker markets, on average.
- Private transactions occur at lower discounts in cases where the publicly traded counter-part showed more price stability than in cases where there was less price stability, on average.

**11. Empire Valuation Consultants, LLC (“Empire”) Study:** Empire conducted an analysis of 106 private placements between February 1983 and June 1993 involving restricted shares of publicly-traded common stocks. Its unpublished study concluded that the price differentials between the price of the restricted shares and the market price of the publicly-traded equivalent securities ranged from a 29.8% premium to a 80.0% discount, with a mean discount of 29.1%.

**12. Emory Studies:** John D. Emory, previously of Robert W. Baird & Co. Inc., and now of Emory Business Valuation, LLC, conducted several studies over the past 20 years which relate the prices at which private transactions take place before the initial public offering (“IPO”) to the price at which the stock was offered subsequently to the public. About 2,300 IPO prospectuses were reviewed from 1980 through 2000, and a total of 543 qualifying transactions were identified. These transactions involved the sale of restricted stock that was sold five months or less before the IPO transaction. Although the median discounts varied during this period, the most recent data indicated a median discount of 47% for both options and shares sold.

Taken as a whole, the studies regarding the marketability of restricted equity interests conclude a broad range of mean and median discounts that generally falls between 26% and 45%. While the publicly-traded counterpart of a restricted stock has a known price, the companies who later underwent IPOs had no established benchmarks at the time of their private transactions. Therefore, the IPO studies generally produce a higher discount for lack of marketability due to the greater uncertainty regarding, if and when, the stock will ever be public.

**13. Bruce Johnson Study:** Mr. Johnson conducted a restricted stock study in which he examined 72 transactions that occurred between 1991 and 1995 resulting in a 20.2% median discount.

**14. Columbia Financial Advisors Study:** CFAI conducted a study of the sale of restricted securities in the U.S. in which they examined only private common equity placements over the period Jan. 1, 1996 through April 30, 1997. The resulting median discount was 23%. A similar study was repeated over the period May 1997 through December 1998 and the median discount was 13%.

## RESTRICTED STOCK STUDIES

Given a lack of withdrawal rights, it was determined that limited partners' investments in the Partnership were similar to restricted stocks. Restricted stocks are those that have been issued, but not registered under the United States Securities Act of 1933, as amended (the "Securities Act"). Following the date of issue, these stocks are subject to a lock-up period before they can be freely traded.

Accordingly, restricted stock studies were sought for use in determining the discounts appropriate for application to each of these investments. A number of restricted stock studies are summarized in the table below and are more fully described in Addendum 5 to this report. Data from these studies was used to estimate reasonable holding period discounts applicable to the Partnership.

**Table I**  
**Summary of Restricted Stock Study Data**

Study	Years Covered	# of Transactions	Mean Discount	Median Discount
<b><u>Two-Year Holding Period</u></b>				
SEC, Overall Average	1966-1969	398	24.0%	25.8%
SEC, Non-Reporting OTC Companies	1966-1969	112	N/A	32.6%
Gelman	1968-1970	89	33.0%	33.0%
Trout	1968-1972	60	33.5%	N/A
Moroney	Unknown	146	35.6%	33.0%
Maher	1969-1973	34	35.4%	33.3%
Standard Research Consultants	1978-1982	28	N/A	45.0%
Williamette Management Assoc.	1981-1984	33	N/A	31.2%
Silber	1981-1988	69	33.8%	35.0%
FMV Opinions, Inc.	1979-1992	100+	23.0%	N/A
Management Planning, Inc.	1980-1996	49	27.7%	28.8%
Bruce Johnson	1991-1995	72	N/A	20.2%
Columbia Financial Advisors	1996-1997	23	<u>21.0%</u>	<u>14.0%</u>
		<b>Low</b>	<b>21.0%</b>	<b>14.0%</b>
		<b>High</b>	<b>35.6%</b>	<b>45.0%</b>
		<b>Median</b>	<b>33.0%</b>	<b>32.6%</b>
		<b>Average</b>	<b>29.7%</b>	<b>30.2%</b>
<b><u>One-Year Holding Period</u></b>				
Columbia Financial Advisors	1997-1998	15	13.0%	9.0%
FMV Opinions, Inc.	1997-2000	182	N/A	<u>25.9%</u>
		<b>Average</b>		<b>17.5%</b>

## Addendum 6-2

The restricted stock studies demonstrate that discounts do exist to compensate investors for their relative inability to liquidate an investment over the course of a given holding period. The statistics associated with the studies fell within a reasonably close range, although variation of implied discounts was noted within each of the studies. Variations in observed discounts were generally attributed to company-specific (i.e., investment specific) factors. The information above also supports the notion that discounts declined when holding periods were reduced, which can be anticipated based on accepted financial theory.

Based on these studies, it was determined that the discounts appropriate for lock-up periods of two years could be as high as 33%. While datapoints underlying the specific studies suggested that discounts could range much higher, it was considered that such high levels of discounts were frequently observed with investments that were subject to high levels of stock price volatility or business risk. As a result, the overall median restricted stock discount of approximately 33% for a two-year holding period was considered a reasonable upper boundary for use in this analysis.

Against the backdrop of the restricted stock studies, together with the experience of Empire's principals, a range of discounts was estimated that could be considered reasonably appropriate for various lock-up periods up to two years, as detailed in Table II.

**Table II**  
**Estimated Lock-up Period Discounts**

<b>Lock-up Period</b>	<b>Estimated Discount Range</b>
0-1 Months	1-5%
1-6 Months	5-7%
6-12 Months	7-10%
13-18 Months	11-25%
19-24 Months	26-33%

The estimated breakdown is further supported by the restricted stock discounts associated with a one-year holding period, as summarized by two studies in the table on the preceding page. In particular, the Columbia Financial Advisors' 1997-1998 study suggests a median discount over a one-year holding period of approximately 10%. While the FMV Opinions, Inc. 1997-2000 study suggests a higher level of discount for a one-year holding period, the authors of that study indicated that high levels of volatility were observed, contributing to the higher-than-expected level of discount. It should be recognized that these estimated ranges are

### **Addendum 6-3**

likely to overlap; i.e., the holding period discount ultimately appropriate to a specific investment is dependent on the attributes of that particular investment.

The level of holding period discount will generally be impacted by the length of the expected holding period, the asset price volatility, and other investment-specific factors. In the context of this analysis, investment-specific factors could include: (1) the Funds' investment strategy; (2) the speed and ease with which management can harvest the investments made; (3) the marketplace for IPOs and mergers and acquisitions; (4) the level of focus management maintains of this particular Fund, given new funds being initiated; and (5) other timing and market specific factors.

**AAA ASSOCIATES,**

**COMPARATIVE INCOME STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31,**

	<u>HISTORY</u> <u>2006</u>
Investment Income	53,277
<b>TOTAL REVENUES</b>	<u>53,277</u>
Professional and Other Fees	74,262
<b>Total Operating Expenses</b>	<u>74,262</u>
<b>NET OPERATING INCOME</b>	(20,985)
Interest Expense	(36,052)
<b>Total Other Income (Expense)</b>	<u>(36,052)</u>
<b>PRE-TAX INCOME</b>	(57,037)
Provision (Benefit) for Taxes	0
<b>NET INCOME</b>	<u><u>(57,037)</u></u>

**AAA ASSOCIATES,**

**COMMON-SIZED INCOME STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31,**

	<u>HISTORY</u> <u>2006</u>
Investment Income	100.0%
<b>TOTAL REVENUES</b>	<u>100.0%</u>
Professional and Other Fees	139.4%
<b>Total Operating Expenses</b>	<u>139.4%</u>
<b>NET OPERATING INCOME</b>	-39.4%
Interest Expense	-67.7%
<b>Total Other Income (Expense)</b>	<u>-67.7%</u>
<b>PRE-TAX INCOME</b>	-107.1%
Provision (Benefit) for Taxes	0.0%
<b>NET INCOME</b>	<u><u>-107.1%</u></u>

**AAA ASSOCIATES,**

**COMPARATIVE BALANCE SHEETS  
FOR THE YEARS ENDED DECEMBER 31,**

	<u>HISTORY</u> <u>2006</u>
<b><u>ASSETS</u></b>	
Cash & Equivalents	0
Investment in AAA Investments, LP	1,052,615
<b>Total Current Assets</b>	<u>1,052,615</u>
<b>TOTAL ASSETS</b>	<u>1,052,615</u>
<b><u>LIABILITIES &amp; EQUITY</u></b>	
Accrued Expenses	74,262
Accrued Interest	36,052
<b>Total Current Liabilities</b>	<u>110,314</u>
Notes Payable	1,000,000
<b>Total Other Liabilities</b>	<u>1,000,000</u>
<b>TOTAL LIABILITIES</b>	<u>1,110,314</u>
Partners' Capital Accounts	(57,699)
<b>Total Equity</b>	<u>(57,699)</u>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<u>1,052,615</u>

**AAA ASSOCIATES, .**

**COMMON-SIZED BALANCE SHEETS  
FOR THE YEARS ENDED DECEMBER 31,**

	<u>HISTORY</u> <u>2006</u>
<b><u>ASSETS</u></b>	
Cash & Equivalents	0.0%
Investment in AAA Investments, LP	100.0%
<b>Total Current Assets</b>	<u>100.0%</u>
<b>TOTAL ASSETS</b>	<u><u>100.0%</u></u>
<b><u>LIABILITIES &amp; EQUITY</u></b>	
Accrued Expenses	7.1%
Accrued Interest	3.4%
<b>Total Current Liabilities</b>	<u>10.5%</u>
Notes Payable	95.0%
<b>Total Other Liabilities</b>	<u>95.0%</u>
<b>TOTAL LIABILITIES</b>	<u>105.5%</u>
Partners' Capital Accounts	-5.5%
<b>Total Equity</b>	<u>-5.5%</u>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<u><u>100.0%</u></u>

**AAA ASSOCIATES,**

**COMPARATIVE CASH FLOW STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31,**

	<u>HISTORY</u> <u>2006</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	
Net Income	(57,037)
Adjustments to reconcile Net Income to Net Cash Provided from Operating Activities	
Change in accrued interest	36,052
Change in accrued expenses	74,262
<b>Net Cash Provided By (Used In) Operating Activities</b>	<u>53,277</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	
Purchase of general partner interest in AAA Investments , LP	(1,000,000)
Unrealized gain in investment in AAA Investments, LP	(53,277)
<b>Net Cash Provided By (Used In) Investing Activities</b>	<u>(1,053,277)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	
Issuance of Note Payable	1,000,000
<b>Net Cash Provided By (Used In) Financing Activities</b>	<u>1,000,000</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	0
Beginning Cash	0
Ending Cash	<u>0</u>

**AAA INVESTMENTS**  
**SCHEDULE OF INVESTMENTS**  
**AS OF MARCH 31, 2007**

TYPE OF INVESTMENT	FAIR VALUE	
Apollo Strategic Value Offshore Fund, Ltd.:		
Class A - Series 1	554,815,000	
Class S - Series 2	61,547,000	
Class S - Series 1	7,389,000	
Subtotal SVF Fund	<u>623,751,000</u>	49.3%
Co-investments in Portfolio Companies of Apollo Investment Fund VI:		
Momentive Performance Materials Holdings, Inc	56,644,000	
Rexnord Corporation	54,714,000	
Berry Plastics Group, Inc	43,249,000	
CEVA Logistics	41,871,000	
Jacuzzi Brands	13,369,000	
Verso Paper Holdings LLC	11,974,000	
Subtotal Fund VI	<u>221,821,000</u>	17.5%
AP Investment Europe Limited	<u>353,627,000</u>	27.9%
Apollo Asia Opportunity Offshore Fund, Ltd.	<u>66,257,000</u>	5.2%
<b>TOTAL INVESTMENTS</b>	<b><u>1,265,456,000</u></b>	

Subsequent to March 31, 2007 and through May 18, 2007, the Investment Partnership made additional coinvestments in four portfolio companies, aggregating to \$228.3 million as follows:

- (1) A co-investment of approximately \$131.2 million in Realogy Corporation a leading provider of residential real estate and relocation services in the world.
- (2) A co-investment of approximately \$34.4 million in Oceania Cruise Lines, a leading cruise line focused on the destination-oriented, upper premium cruise market. An additional co-investment of \$62 million is scheduled in the future.
- (3) A co-investment of approximately \$35.9 million in Countrywide, the leading provider of residential real estate services in the UK.
- (4) A co-investment of approximately \$26.8 million in Noranda Aluminum Holdings Corporation, a leading integrated producer of value-added primary aluminum products as well as high quality rolled aluminum coils.

**AAA ASSOCIATES,**  
**SUMMARY OF DISCOUNTED FUTURE CASH FLOWS**  
**AS OF JUNE 6, 2007**

		PROJECTED CASH FLOWS					Horizon
		2007	2008	2009	2010	2011	
Anticipated Carried Interest*		\$1,534,286	\$5,538,596	\$26,299,943	\$100,222,824	\$168,386,228	
Pro Rata Share of Direct Interest Returns**	0%	\$0	\$0	\$0	\$0	\$0	
Aggregate Taxable Cash Flows		\$1,534,286	\$5,538,596	\$26,299,943	\$100,222,824	\$168,386,228	\$168,386,228
Less: Operating Expenses	45.0%	(\$690,429)	(\$2,492,368)	(\$11,834,975)	(\$45,100,271)	(\$75,773,802)	(\$75,773,802)
Operating Income		\$843,857	\$3,046,228	\$14,464,969	\$55,122,553	\$92,612,425	\$92,612,425
Less: Tax	42%	(\$354,420)	(\$1,279,416)	(\$6,075,287)	(\$23,151,472)	(\$38,897,219)	(\$38,897,219)
After-Tax Cash Flows		\$489,437	\$1,766,812	\$8,389,682	\$31,971,081	\$53,715,207	\$53,715,207
Horizon Value - (Gordon Growth Model)***							\$399,027,249
Long-Term Growth Rate	4.0%						
Discount Rate	18%						
Days		208	573	938	1,303	1,668	1,668
Present Value Factors		0.9100	0.7712	0.6535	0.5538	0.4694	0.4694
Present Value of After-Tax Cash Flows		\$445,383	\$1,362,528	\$5,483,004	\$17,707,139	\$25,211,943	\$187,288,723
Sum of Present Value of After-Tax Cash Flows		\$237,498,721					
Pass-through premium	15%	\$35,624,808					
<b>Aggregate Marketable Value of Invested Capital</b>		<b>\$273,123,529</b>					
Less: Debt Outstanding		\$0					
Aggregate Marketable Value of Equity		\$273,123,529					
Pro Rata Partner Interest	24.64%	\$67,297,638					
Discount for Lack of Marketability	20%	(\$13,459,528)					
Pro Rata, Fair Market Value of Partner's Capital		\$53,838,110					
<b>Pro Rata, Fair Market Value of Partner's Capital, rounded</b>		<b>\$53,800,000</b>					

\*Carried interest is derived from AIV Funds VI and VII. It is anticipated that a share of the carried interest for all future funds will be attributable to AAA Associates, LP

\*\*AAA Associates does not participate in any investment returns generated by the underlying funds, per the notes to the audited 2006 financial statements

\*\*\* Gordon Growth Model:  $\text{Horizon Value} = \text{Horizon Cash Flow} \times (1 + \text{growth rate}) / (\text{discount rate} - \text{growth rate})$

**AAA ASSOCIATES, .**

**BUILD APPROACH EQUITY RATE  
CARRY FEE CASH FLOWS  
AS OF JUNE 6, 2007**

Risk-free Rate (20 years)	5.17%
Equity Risk Premium	6.00%
Size Premium (Beta Adjusted)	<u>1.03%</u>
<b>Build-up Equity Rate of Return</b>	<b>12.20%</b>



**AAA ASSOCIATES,**  
**GUIDELINE COMPANY SAMPLE - DESCRIPTIONS**  
**AS OF JUNE 6, 2007**

COMPANY	DESCRIPTION
<b>Blackrock, Inc.</b>	BlackRock, Inc. operates as an investment management firm in the United States with \$1.125 trillion of assets under management as of December 31, 2006. Its investment management services primarily consist of the active management of fixed income, cash management and equity client accounts, the management of open-end and closed-end mutual fund families, and other non-United States equivalent retail products serving the institutional and retail markets, and the management of alternative funds developed to serve various customer needs. It also offers risk management, investment system outsourcing and financial advisory services to institutional investors under the BlackRock Solutions brand name.
<b>Eaton Vance Corp.</b>	Eaton Vance Corp. is principally engaged in the business of managing investment funds and providing investment management and counseling services to high-net-worth individuals and institutions. The Company's products and services include Company-sponsored open-end and closed-end funds, private funds for high-net-worth and institutional investors, retail managed accounts and separately managed accounts for institutional and high-net-worth investors. As of October 31, 2006, Eaton Vance managed \$128.9 billion in assets. The Company conducts its investment management business through its three wholly owned subsidiaries, Eaton Vance Management (EVM), Boston Management and Research (BMR) and Eaton Vance Investment Counsel (EVIC), and its three majority owned subsidiaries: Atlanta Capital Management, LLC (Atlanta Capital), Fox Asset Management LLC (Fox Asset Management) and Parametric Portfolio Associates LLC (Parametric Portfolio Associates).
<b>Franklin Resources, Inc.</b>	Franklin Resources, Inc. is an investment management company. Through its wholly owned direct and indirect subsidiaries, Franklin Resources, Inc. provides investment management and fund administration services to open-end and closed-end investment companies, institutional accounts, high-net-worth families, individuals and separate accounts in the United States and internationally. Franklin Resources, Inc. also provides investment management services and other related services, including shareholder services, transfer agency, underwriting, distribution, custodial, trustee and other fiduciary services. In the company's secondary business and operating segment, banking/finance, it provides clients with select retail banking and consumer lending services through its bank subsidiaries.
<b>Nuveen Investments, Inc.</b>	Nuveen Investments, Inc. is primarily engaged in asset management and related research, as well as the development, marketing and distribution of investment products and services for the affluent, high-net-worth and institutional market segments. Nuveen Investments distributes its investment products and services, including individually managed accounts, closed-end exchange-traded funds and open-end mutual funds to affluent and high-net-worth market segments through unaffiliated intermediary firms, including broker-dealers, commercial banks, affiliates of insurance providers, financial planners, accountants, consultants and investment advisors. The company also provides managed accounts and partnerships to several institutional market segments.
<b>T. Rowe Price Group, Inc.</b>	T. Rowe Price Group, Inc. is a financial services holding company that provides investment advisory services to individual and institutional investors in the sponsored T. Rowe Price mutual funds and other investment portfolios. The Company operates its investment advisory business through its subsidiary companies, primarily T. Rowe Price Associates, Inc., T. Rowe Price International Funds, Inc. and T. Rowe Price Global Investment Services Limited.
<b>Legg Mason Inc.</b>	Legg Mason, Inc. is a global asset management company. Acting through its subsidiaries, the Company provides investment management and related services to institutional and individual clients, company-sponsored mutual funds and other investment vehicles. The Company offers these products and services directly and through various financial intermediaries. It divides its business into three divisions: Mutual Funds/Managed Services, Institutional and Wealth Management. Within each of its divisions, the Company provides its services through a number of asset managers, which are individual businesses, each of which is housed in one or more different subsidiaries, which typically market their products and services under their own brand name. During the fiscal year ended March 31, 2006, the Company acquired Permal Group Ltd, a global funds-of-hedge funds manager. It also exited from the non asset management businesses.
<b>Allied Capital Corp.</b>	Allied Capital Corporation is a business development company (BDC) engaged in the private equity business. The Company provides long-term debt and equity capital primarily to private middle market companies in a variety of industries. These investments are long-term in nature and are privately negotiated. From time to time, it may invest in companies that are public but lack access to additional public capital. It primarily invests in the American entrepreneurial economy. The Company does not provide seed or early-stage capital.
<b>Harris &amp; Harris Group Inc.</b>	Harris & Harris Group, Inc. is a venture capital company specializing in tiny technology that operates as a business development company (BDC). The Company's investment focuses to achieve capital appreciation by making venture capital investments in early stage companies. As a venture capital company, the Company invests in and provides managerial assistance to its portfolio companies that have potential for growth. Harris & Harris Group makes initial venture capital investments exclusively in tiny technology, which it defines as nanotechnology, microsystems and microelectromechanical systems (MEMS).
<b>Alternative Investment Strategies</b>	Alternative Investment Strategies Ltd. is a closed-end investment company. The company's objective is to achieve returns with low volatility. It intends to achieve this by investing principally in a diversified portfolio of hedge funds. Close Fund Services Limited acts as the manager of the company.
<b>American Capital Strategies LTD</b>	American Capital Strategies, Ltd. ("American Capital") invests in and sponsors management and employee buyouts, invests in private equity-sponsored buyouts, provides capital directly to early stage and mature private and small public companies, invest in commercial mortgage-backed securities ("CMBS") and collateralized debt obligation ("CDO") securities, and invest in investment funds managed by the company. American Capital provides senior debt, mezzanine debt and equity to fund growth, acquisitions and recapitalizations. The company, through its asset management business, is also a manager of debt and equity investments in private companies. American Capital provides capital directly to private and small public companies for growth, acquisitions or recapitalizations.
<b>Candover Investments plc</b>	Candover Investments plc is a United Kingdom-based independent trust that organizes and invests principally in large European buyouts. It is engaged in the identification, implementation and monitoring of large buyouts and buyins. Candover Investments plc makes an investment either under a co-investment agreement with third-party funds or its own account. The third-party managed funds are managed by Candover Partners Limited.
<b>3i Group plc</b>	3i Group plc is an investment trust engaged in private equity and venture capital activities. It focuses on buyouts, growth capital and venture capital, and invests across Europe, the United States and Asia. Its Buyouts business line invests in European mid-market buyout transactions with a value of up to €1 billion and targets around 15 investments per year. Its Growth Capital business makes minority investments across a range of sectors, business sizes and funding needs, and targets investments of between €10 million and €150 million.
<b>Man Group plc.</b>	Man Group Plc is a holding company. Through its subsidiaries, the Company operates as a provider of alternative investment products and solutions, as well as acts a futures broker. Man Investments, the Asset Management division of the Company, provides access for private and institutional investors worldwide to hedge fund and other alternative investment strategies through a range of products and solutions designed to deliver absolute returns with a low correlation to equity and bond market benchmarks. Man Financial, the Brokerage division, acts as a broker of futures, options and other equity derivatives for both institutional and private clients, and acts as an intermediary in the metals, energy and foreign exchange markets. Man Financial provides intermediary and matched principal broking and other related services to a worldwide client base, which ranges from financial institutions, asset managers and industrial groups to professional traders and private clients.
<b>Partners Group Holding</b>	Partners Group Holding is a Switzerland-based financial company. It is a global alternative asset management firm. It invests in private equity, hedge funds and private debt. The Group manages a range of funds, structured products and customized portfolios for an international clientele of institutional investors, private banks and distribution partners. Partners Group Holding is headquartered in Zug, Switzerland and has offices in New York, London, Singapore and Guernsey.
<b>SVG Capital</b>	SVG Capital plc is a private equity investor and fund management business. SVG Capital invests in a portfolio of private equity funds, the majority of which are advised by Permira. In addition, the Company invests in private equity funds that invest in Japan, North America, Asia and the life sciences sectors, and in unquoted and quoted businesses through specialist funds and co-investments alongside these funds. SVG Capital's fund management business, SVG Advisers, structures, markets, manages and advises products for investment in private and public equity using private equity techniques.
<b>Fortress Investment Group LLC</b>	Fortress Investment Group LLC (Fortress) is a global alternative asset manager with approximately \$26 billion in assets under management as of September 30, 2006. The Company raises, invests and manages private equity funds, hedge funds and publicly traded alternative investment vehicles. Fortress earns management fees based on the size of its funds, incentive income based on the performance of the Company's funds, and investment income from Fortress' principal investments in those funds.

**AAA ASSOCIATES,**  
**DISCOUNT RATE CALCULATION**  
**AS OF JUNE 7, 2007**  
**BETA CALCULATION**

Company Name	Symbol	Beta1	Share Price	Shares		LT Debt	Preferred	MVIC	Tax Rate	Debt/Equity
				Outstanding	MV of Equity					
<i>(Stocks traded on U.S. stock exchanges)</i>										
Blackrock, Inc	BLK	0.94	149.36	116.35	17,378.0	803.2	0.1	18,181.3	38.2%	4.6%
Eaton Vance Corp	EV	1.11	42.60	125.74	5,356.5	-	-	5,356.5	37.5%	0.0%
Franklin Resources, Inc	BEN	1.26	127.61	249.58	31,848.9	1,012.3	-	32,861.2	35.9%	3.2%
Nuveen Investments, Inc	JNC	0.99	53.15	79.22	4,210.5	594.7	-	4,805.3	39.8%	14.1%
T. Rowe Price	TROW	1.38	49.94	265.65	13,266.6	-	-	13,266.6	37.7%	0.0%
Legg Mason	LM	1.17	97.08	131.78	12,793.2	1,112.6	-	13,905.8	38.3%	8.7%
Allied Capital Corp	ALD	0.87	32.08	152.12	4,880.0	1,891.5	-	6,771.5	35.0%	38.8%
Harris and Harris Group, Inc	TINY	1.55	11.06	21.34	236.0	-	-	236.0	35.0%	0.0%
American Capital Strategies LTD	ACAS	0.89	45.37	157.50	7,145.8	4,006.0	-	11,151.8	41.3%	56.1%
<i>(Stocks traded on the London Stock Exchange)</i>										
Candover Investments plc	CDI	0.50	43.01	21.86	940.1	-	-	940.1	NA	0.0%
3i Group plc	III	1.27	22.91	382.65	8,766.3	3,888.1	-	12,654.4	0.2%	44.4%
Man Group plc.	EMG	0.82	11.14	1,880.07	20,940.6	1,254.0	-	22,194.6	8.4%	6.0%
SVG Capital	SVI	0.67	18.01	138.81	2,500.1	-	-	2,500.1	NA	0.0%
<b>Average</b>		<b>1.03</b>			<b>10,020.2</b>	<b>1,120.2</b>	<b>0.0</b>	<b>11,140.4</b>	<b>31.6%</b>	<b>13.5%</b>

**Unlevered Beta Calculation**

$$B_u = \frac{B}{1 + ((1-t)(D/E))}$$

Using Beta, tax rate and the industry's debt to equity ratio, the reported betas are first unlevered below and then relevered in the calculation to the right.

Blackrock, Inc	=	0.91
Eaton Vance Corp	=	1.11
Franklin Resources, Inc	=	1.23
Nuveen Investments, Inc	=	0.91
T. Rowe Price	=	1.38
Legg Mason	=	1.11
Allied Capital Corp	=	0.69
Harris and Harris Group, Inc	=	1.55
American Capital Strategies LTD	=	0.67
Candover Investments plc	=	0.50
3i Group plc	=	0.88
Man Group plc.	=	0.78
SVG Capital	=	0.67
<b>Average</b>	<b>=</b>	<b>0.95</b>
<b>Selected</b>	<b>=</b>	<b>0.80</b>

**Relevered Beta Calculation**

$$B = \frac{B_u}{1 + ((1-t)(D/E))}$$

B	=	0.80
B <sub>u</sub>	=	0.80
D/E	=	0.0%
t	=	42.0%
B	=	0.80

**Industry Debt/Total Capital Calculations**

Debt/Total Inv. Capital	0.0%
Equity/Total Inv. Capital	100.0%

**Tax Rate Calculation**

Combined Tax Rate	42.00%
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**Notes:**

<sup>1</sup> Source: Bloomberg Network

Fortress Investment Group LLC - Insufficient trading data to calculate Beta

Partners Group - Insufficient trading data to calculate Beta

**AAA ASSOCIATES,**  
**DISCOUNT RATE CALCULATION**  
**CARRIED INTEREST CASH FLOWS**  
**AS OF JUNE 6, 2007**  
**CAPM SUMMARY**

The cost of equity capital using the Capital Asset Pricing Model (CAPM) is as follows:

$$Re = Rf + (\beta \times (Rm - Rf)) + Rsm$$

Where:	Rf	=	Return on a risk-free asset
	$\beta$	=	Beta - a measure of the systematic risk of the firm compared to the risk of an investment in a fully diversified stock market portfolio
	Rm - Rf	=	The market risk premium defined as the expected return required for investing in a fully diversified portfolio (Rm) less the risk-free rate (Rf)
	Rsm	=	Small stock premium
	Rcs	=	Company and industry specific risk

We then calculated the WACC as follows:

Variable	Value	Source
Rd =	8.00%	Company's marginal cost of debt
t =	42.00%	Company's Marginal Tax Rate
Rf =	5.17%	20-yr treasury strip bond rate
Rm - Rf =	6.00%	Equity Risk Premium
$\beta$ =	0.80	Computed Beta, see Exhibit F-3
D % =	0.0%	Comparables Debt/Capital Ratio
E % =	100.0%	Comparables Equity/Capital Ratio
Rsm	1.03%	Ibbotsons Size Related Company Stock Premium (Decile 4)

$$Re = Rf + (\beta \times (Rm - Rf)) + Rsm + Rcs$$

$$= 5.17\% + [ 6.00\% \times 0.80 ] + 1.03\%$$

$$Re = 11.00\%$$

**AAA ASSOCIATES,**  
**WACC SUMMARY CONCLUSION**  
**AS OF JUNE 6, 2007**

The Weighted Average Cost of Capital (WACC) is calculated as follows:

$$\text{WACC} = R_D (1 - t) D\% + (R_E * E\%)$$

Where:  $R_D$  = Cost of interest bearing debt capital  
 $t$  = Marginal tax rate  
 $D\%$  = Percentage of debt included in capital structure  
 $R_E$  = Cost of equity capital  
 $E\%$  = Percentage of equity included in capital structure

The cost of equity capital was estimated using the methods described in the following pages.

<b>Equity Rate</b> Method	Equity Rate
Capital Asset Pricing Model (see Exhibit F-3 and F-4)	11.00%
Build-Up Approach (see Exhibit F-1)	12.20%
Selected Base Equity Rate	12.00%
Company/Industry Specific Risk	6.00%
Company Specific Cost of Equity	18.00%

<b>WACC Calculation</b>		
Selected Equity Rate:	18.0%	(see above)
Selected Debt Rate:	8.0%	
Selected Debt/Total Capital Ratio:	0.0%	
Selected Tax Rate:	42.0%	

$$\begin{aligned} \text{WACC} &= [ 8.0\% * (1 - 0.42) ] * 0.00 + [ 18.0\% * 1.00 ] \\ &= [ 4.6\% * 0.00 ] + [ 18.0\% * 1.00 ] \\ &= 0.0\% + 18.0\% \\ &= 18.0\% \end{aligned}$$

<b>Selected WACC:</b>	<b>18.0%</b>
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