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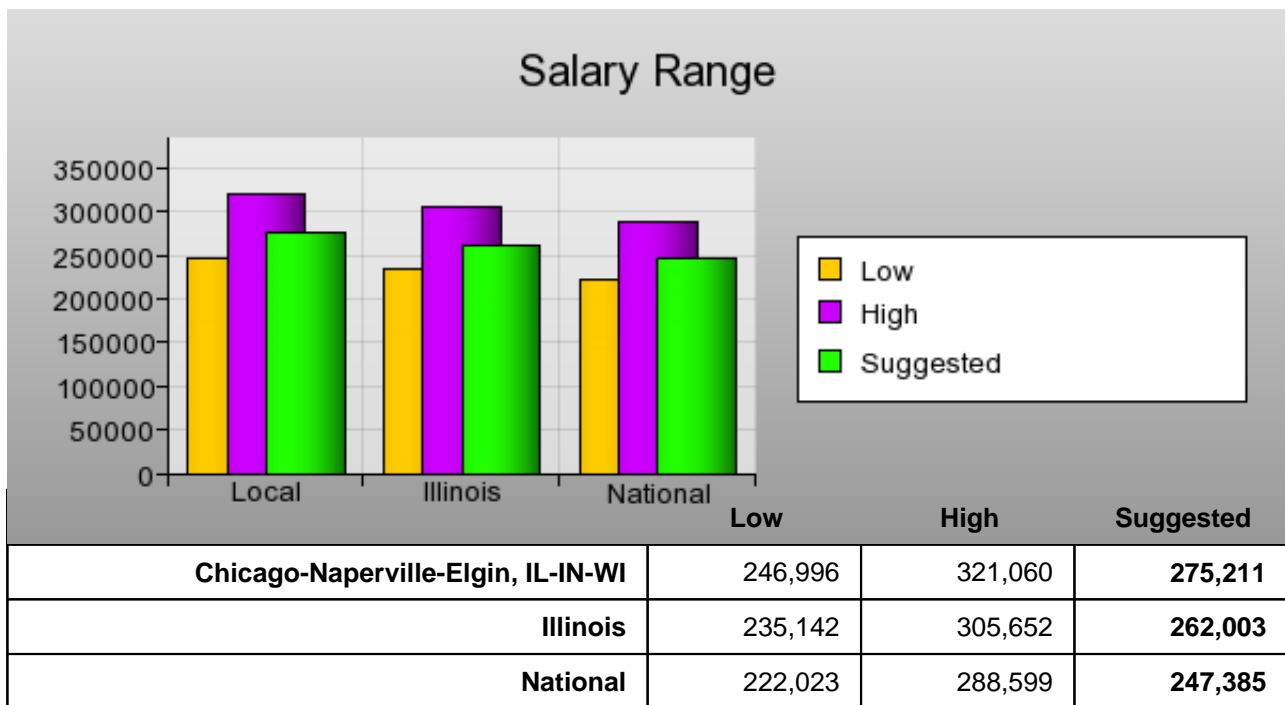
Tax & Valuation

Report for Scott Stone of Stone Concrete, Inc.

Your estimated annual Reasonable Compensation: \$275,211

Thank you for entrusting Paul Hamann of Potomac Tax and Valuation, PC with your Reasonable Compensation analysis. This report provides a reasonable estimate of the value of services rendered to your company based on the duties and responsibilities that you perform annually. The valuation of most businesses requires the owner(s) and key managers to have their compensation *Normalized*. Reasonable Compensation is defined as "The hypothetical replacement cost of an owner or key manager of a business."

Your suggested salary range: \$222,023 to \$321,060 with a suggested salary of \$275,211 was determined to be Reasonable Compensation based on your role in the company, industry, size of the business, time devoted to the business, your experience and location. Any wage selected within the suggested range or expanded geographical area(s) is acceptable and within a 90% confidence interval.





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Report for Scott Stone of Stone Concrete, Inc.

Business Summary:

Calculated for: Scott Stone

Company: Stone Concrete, Inc.

Interview completed: 20XX-03-25 13:59:14

Report calendar year: 20XX

NAICS industry: 238000 - Specialty Trade Contractors

MSA Location: Chicago-Naperville-Elgin, IL-IN-WI

State: Illinois

Occupation: Chief Executives*

Number of Employees (FTE): 25-75

Adjusted Gross Profit: 1m-5m**

Business Performance vs. Peers: Above Average

Owner Experience and/or Proficiency Level: High

Time Dedicated to the Business: Workaholic (65+ hr/week)

* Chief Executives - Determine and formulate policies and provide overall direction of companies or private and public sector organizations within guidelines set up by a board of directors or similar governing body. Plan, direct, or coordinate operational activities at the highest level of management with the help of subordinate executives and staff managers.

** Adjusted Gross Profit is gross revenue less the direct cost of producing this income. The direct cost of producing income is all expenses that have a one to one relationship to producing income. This concept is like but not identical to gross profit.



How was my "Annual Salary" or "Reasonable Compensation" calculated?

Potomac Tax and Valuation, PC relies on data provided by Reasonable Compensation Reports, Inc., Bureau of Labor Statistics and U.S. Census data to calculate a concise, independent, unbiased, Reasonable Compensation figure.

This report determines Reasonable Compensation based on your company's industry, size and performance and your role, experience and time devoted to the company, generating an annual salary that would be reasonable to "replace" yourself within your business.

Your annual salary or Reasonable Compensation represents an estimate of the amount it would cost to "replace" you, based on:

- Your answers to our interview
- Bureau of Labor Statistics data
- Census data
- Reasonable Compensation Reports data

Your Reasonable Compensation figure includes taxable Medicare wages & bonuses, healthcare and flexible spending accounts (FSA). It does not include non-taxable fringe benefits such as vehicle or vehicle allowance, stock options, company loans and other items not reported on a W-2 as taxable compensation.

Your actual replacement salary could vary considerably from our estimate, especially if the information you provided differs from your actual duties, industry and size.

Methodology

This report uses the Market Approach to determine a Reasonable Compensation figure. The Market Approach compares the business owner's compensation to compensation within the industry. The market approach focuses as much as possible on the owner's business and the specific position being analyzed (often the CEO or General Manager who also owns the business). The question to be answered is: How much compensation would be paid for this same position, held by a non-owner in an arms-length employment relationship at a similar company?

The Market Approach generally works best for medium and large businesses where the business owner provides only one duty: management of the business.

For more information on Methodologies:

- [Job Aid for IRS Valuation Professionals](#)
- Reasonable Compensation Reports, Inc. Methodology Report (available upon request)



Other considerations before deciding on a final Reasonable Compensation figure

For the majority of businesses owners (and key managers), the Reasonable Compensation figure calculated in this report should not require adjustments. However there are circumstances, rules and situations Potomac Tax and Valuation, PC may take into consideration before recommending a final Reasonable Compensation figure. The list below is not exhaustive and Potomac Tax and Valuation, PC may make adjustments for circumstances and situations not listed.

- Compensation of Non-Owner Employees
- Salary History
- Travel Requirements
- Personal Guarantee of Debt
- Key Relationships and/or Contracts
- Financial Condition of Company
- Distribution History

The courts have used a variety of factors to "stress test" Reasonable Compensation figures. Four well recognized lists of factors are below. Potomac Tax and Valuation, PC may stress test your Reasonable Compensation figure against some or all of the factors used by the courts and the IRS and recommend adjustments

1. The IRS Nine Factors Considered by Tax Courts: [IRS Fact Sheet 2008-25](#)
2. The Tax Court's Five-Factor Test: [LabelGraphics, Inc. v. Commissioner, T.C. Memo 1998-343 \(Sept. 28, 1998\)](#)
3. The Tax Court's Ten-Factor Test: [Brewer Quality Homes, Inc. v. Commissioner, T.C. Memo 2003-200 \(July 10, 2003\)](#)
4. Summary of Court Factors used to "Stress Test" Reasonable Compensation Figures: [Summary](#)

Additional Resources:

- [Job Aid for IRS Valuation Professionals](#)
- [Reasonable Compensation: Application and Analysis](#) for Appraisal, Tax and Management Purposes. By Ronald L. Seigneur and Kevin R. Yeanoplos