Fair Market Asset Valuation

Summary Report

Valuation of a 100% Asset Interest in:

[redacted]

As of December 31, 2015

Prepared by:

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May 23, 2016

[redacted]

[redacted]

Dear [redacted],

We have been engaged to determine the Fair Market Value of the Assets of [redacted] on a control marketable basis. The valuation was prepared to determine the market value of the company to prepare the business for sale. The valuation was prepared as of December 31, 2015, which is the most recent date that financial information was available. This report is a limited scope valuation and is subject to the Statement of Contingent and Limiting Conditions.

The term "Fair Market Value" is defined by the American Society of Appraisers as "the amount at which property would change hands between a willing seller and a willing buyer when neither is acting under compulsion and when both have reasonable knowledge of the relevant facts". The value takes into consideration that reasonable time is allowed for exposure in the open market.

We have performed a valuation engagement and present our summary report in conformity with the "Statement of Standards for Valuation Services" ("SSVS") No. 1 of the American Institute of Certified Public Accountants. SSVS defines a valuation engagement as "an engagement to estimate value in which a valuation analyst determines an estimate of the value of a subject interest by performing appropriate procedures, as outlined in the AICPA Statement on Standards for Valuation Services, and the valuation analyst is free to apply the valuation approaches and methods he or she deems appropriate in the circumstances. The valuation analyst expresses the results of the valuation engagement as a conclusion of value, which may either be a single amount or a range.

Based on review of the financial information provided, it is our estimate that the Fair Market Value of the assets of [redacted] as of December 31, 2015 is:

Breakdown of Tangible and Intangible Assets	
Tangible Assets at Fair Market Value	**$887,000**
Intangible Assets and Goodwill at FMV	**$583,000**
Fair Market Value of Total Assets	**$1,470,000**

The Fair Market Value was determined based on the assets included with the sale and the normalization of the income statements provided. The information provided in this report by management, employees and third parties was believed to be reliable.

Certification:

We hereby certify to the best of our knowledge and belief:

The statements of fact contained in this report are true and correct.

The reported analysis, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are the personal, impartial, unbiased and professional opinions and conclusions of the undersigned.

We have no personal interest or bias with respect to the subject matter of this report or the parties involved.

Our compensation for the engagement is no way contingent upon the value reported or upon a predetermined value.

No one provided professional assistance to the person(s) signing this report.

Sincerely,

Chris Maddy, MBA, MS
Managing Partner and Senior Quantitative Analyst
Macroval

Purpose and Objective

We have been engaged to estimate the Fair Market Value of 100% of the tangible and intangible assets of [redacted] of December 31, 2015. This valuation was performed for the purpose of providing an independent valuation to assist the client in the potential sale of the company. Our report is subject to the attached Statement of General Assumptions and Limiting Conditions. The report is intended for the use by the subject company, its owners and professional advisors and shall not be disseminated to any party other than the client or an intended user.

Definition of Fair Market Value

The most widely recognized and accepted standard of value is Fair Market Value. For purposes of this valuation, we define Fair Market Value as "the amount at which the property would change hands between a willing seller and a willing buyer when neither is acting under compulsion and when both have reasonable knowledge of the relevant facts". This definition comports to that found in the tax code and in Revenue Ruling 59-60.

Scope of the Engagement

This valuation is a summary report providing an estimate of value of the Fair Market Value of [redacted]. At the request of the client; we have forgone a Comprehensive Narrative Report under Revenue Ruling 59-60. We have not performed a site survey; however we have been provided sufficient information from our client with respect to the facilities and characteristics of the subject company and we did not include a formal industry analysis. There were no restrictions or limitations on the scope of work or data available for our analysis. We have relied on the financial information and normalization adjustments provided by the client. We have not audited the ledgers, journals and financial data supporting the financial statements. In preparing the summary report we reviewed the following financial information, documents and web sites:

• 2012 Income Tax Return
• 2013 Financial Statement Compilation
• 2014 Financial Statement Compilation
• 2015 Balance Sheet
• 2015 P&L Detail
• The Equity Risk Premium at http://pages.stern.nyu.edu/~adamodar/
• The small company risk premium from Ibbotson Associates Stocks, Bonds, Bills and Inflation 2005 Yearbook
• Pratt's Stats databases to obtain comparable private sale information
• 20-year treasury bond rate of 2.24% from the U.S. Dept. of the Treasury

Pertinent Company Information

The company began operations and incorporated in [redacted]. [redacted] owns an 80% interest, and [redacted] owns a 20% interest. The company is a Fire Protection Equipment Suppliers and Installers firm. The company's primary SIC code is: 238220 Plumbing, heating, and air-conditioning contractors described by the U.S. Census Bureau as follows:

U.S. Census Bureau

PLUMBING, HEATING, AND AIR-CONDITIONING CONTRACTORS

This industry comprises establishments primarily engaged in installing and servicing plumbing, heating, and air-conditioning equipment. Contractors in this industry may provide both parts and labor when performing work. The work performed may include new work, additions, alterations, maintenance, and repairs.

The company's market area is [redacted].

Summary of Indicated Value by Asset Classification

Our opinion of Fair Market Value was determined on a going concern basis stated as the gross asset value of the company's Tangible and Intangible Assets. Value as a going concern is defined as a mass assemblage of income producing assets valued in continued use. However, the actual value can only be determined by bona fide negotiations between a willing buyer and seller in an arm's length transaction. Our analysis is based upon accepted valuation approaches as well as economic conditions present at the date of the valuation. It is our opinion that the Fair Market Value of 100% of [redacted] as of December 31, 2015 is:

Breakdown of Tangible and Intangible Assets	
Tangible Assets at Fair Market Value	$887,000
Intangible Assets and Goodwill at FMV	$583,000
Fair Market Value of Total Assets	**$1,470,000**

The Tangible Assets included in the sale are presented on page 11 of this report. These assets consist of Computer, furnishings, plant/warehouse furniture and fixtures, equipment, and vehicles. Intangible Assets are nonphysical assets such as franchises, trademarks, patents, copyrights, goodwill, equities, mineral rights, securities, and contracts (as distinguished from physical assets) that grant rights and privileges and have value for the owner.

Value Synthesis and Summary of Indicated Values

In the Fair Market Valuation Analysis section of the report there are detailed explanations of the methodologies used to derive the value conclusion. We considered the Asset, Income and Market Approaches in estimating the value of the subject company. A summary of the various methods used in the valuation and the respective weighting of each approach is presented below:

Summary of Valuation Approaches & Methods

Asset Approach	Indicated Value	Weighted Percentage	Weighted Value
Book Value Method	N/A	0.0%	$0
FMV of Tangible Assets	$887,000	0.0%	$0
Income Approach			
Single Period Capitalization	$696,888	10.0%	$69,689
Excess Earnings Method	$1,889,893	25.0%	$472,473
Market Approach			
MVIC/Revenue Indicated	$1,107,660	10.0%	$110,766
MVIC/SDCF Indicated	$1,430,152	20.0%	$286,030
MVIC/Normalized EBITDA	$1,509,776	35.0%	$528,422
FMV of Total Assets		100.0%	$1,467,380
Fair Market Value of Total Assets Rounded			$1,470,000

Indicated Value and Hypothetical Financial Structure

Financial structure can be broken down into three distinct components including a down payment by the purchaser, seller financing, and commercial financing. Any payables or debt assumed by the buyer in the transaction will reduce the net proceeds received by the seller. Seller financing can contribute to successfully closing the transaction. Normally, the owner will provide some level of seller financing and the financing will consist of both seller and bank financing. Additionally, buyers may assume existing debt or accounts payable of the seller. Below is a proposed structure for the transaction:

Financial Structure		
Equity Down Payment	25.0%	$367,500
Seller Financing	25.0%	$367,500
Assumed Payables	15.3%	$225,000
Commercial Financing	34.7%	$510,000
Fair Market Value of Total Assets	100.0%	$1,470,000

Price Validation & Analysis of Return on Down Payment

We tested the final indication of value with a Price Validation & Analysis of the Return on Down Payment to determine if the buyer can actually afford to purchase the business under the proposed structure. The Price Validation compares the expected sustainable cash flow of the company with the debt service on the proposed financing, capital expenditures, and a normal replacement salary to determine if there is a reasonable return on the purchaser's down payment. This is a means of testing if the indicated value is reasonable. If the cash flow remaining after debt service provides what a buyer believes to be a reasonable return on the down payment required, then a buyer will feel justified in taking on the risk of owning the new business. If a buyer cannot pay for the business out of the operational cash flows of the company and receive a reasonable return, the business will not be attractive to a typical buyer.

The following projections are based upon the indicated Fair Market Value of the subject assets. Certain assumptions were made with respect to a hypothetical down payment and debt structure as well as estimating a term and interest rate to determine the debt service on the proposed financing. The chart below shows the estimated Return on Down Payment available to a buyer after the required debt service, capital expenditures and a normal salary are met:

Price Validation & Analysis of Return on Down Payment

Debt Service Assumptions:	
Interest Rate	8.0%
Weighted Average Term in Years	5
Structure of Financing	
Fair Market Value of Assets	$1,470,000
Less: Down Payment	($367,500)
Assumed Payables	$225,000
Total Seller and Commercial Finance Debt	$877,500
Analysis of Cash Outflow:	
Estimated Annual Sustainable Cash Flow:	$621,805
Less: Annual Debt Service	($213,510)
Less: Annual Capital Expenditures	($10,000)
Less: Owner/Manager Salary:	($150,000)
Total Cash Outflow Requirements:	($373,510)
Cash Flow Remaining	$248,295
Annual Return on Down Payment (1st Year)	**67.6%**

Presented below is a chart showing the estimated cash remaining after the proposed Debt Service is paid as well as a Loan Amortization schedule for the proposed debt. The cash available after debt service can be used for capital expenditures, working capital needs and a salary for the new owner:

Debt Service and Loan Amortization Analysis

Debt Service Assumptions:

Annual Interest Rate	8.0%
Weighted Average Finance Term in Years	5
Estimated Annual Sustainable Cash Flow	$621,805
Estimated Annual Growth in Cash Flow	0.0%
Monthly Payment	($17,793)
Annual Payment	($213,510)

Structure of Financing

Buyer Cash Down Payment	25.0%	$367,500
Commercial Financing, Assumed Debt	34.7%	$510,000
Seller Financing	25.0%	$367,500
Assumed Payables	15.3%	$225,000
Fair Market Value of Assets	100.0%	$1,470,000
Total Debt Financed	59.7%	$877,500

Debt Service — **Five Year Amortization**

Year	1	2	3	4	5
Estimated Cash Flow	$621,805	$621,805	$621,805	$621,805	$621,805
Annual Debt Service	($213,510)	($213,510)	($213,510)	($213,510)	($213,510)
Capital Expenditures	$10,000	$10,000	$10,000	$10,000	$10,000
Cash Flow After Debt & CAPEX	$418,295	$418,295	$418,295	$418,295	$418,295
Beginning Principal Balance	$877,500	$728,816	$567,792	$393,403	$204,539
Annual Principal Payments	$148,684	$161,024	$174,389	$188,864	$204,539
Ending Principal Balance	$728,816	$567,792	$393,403	$204,539	$0

Normalization of Historical Financial Information

Financial Statement Adjustments, frequently called "normalization adjustments" are intended to adjust the company's Balance Sheets and Income Statements from a tax or accounting perspective to an economic basis.

To normalize the Balance Sheet, non-operating assets are typically removed from the assets to be transferred in a sale. The tangible assets must be converted from a book basis to their respective Fair Market Value. Current Assets, such as Accounts Receivable and Inventory (assuming a FIFO method), are typically stated at market value; however, adjustments may be needed for un- collectable accounts receivable or obsolete inventory. Fixed assets and other depreciable assets create a more complex task in trying to estimate Fair Market Value and may require the services of an Equipment Appraiser to determine the market value if they are significant to the transaction. For this report, the business owner estimated the Fair Market Value of the tangible assets.

The normalization process of the Income Statement involves adjusting items that are not considered to be normal operating expenses (non-recurring expenses). Additionally, adjustments are made for discretionary expenses such as Owner's perquisites and compensation, over or under payment of Rent and excess Family Salaries. The discretionary cash flow items are then added to the Earnings before tax, interest and depreciation to determine Seller's Discretionary cash flow. The business owner provided us with perks, benefits and non-recurring expenses which are not necessary to operate the business. As part of due diligence, it is recommended that a buyer verify the source data of the respective normalization adjustments to substantiate their validity.

Once the financial statements have been normalized, the appraiser uses the adjusted information as a basis for the valuation. This information can then be used to forecast the future operating results of the business as well as analyze the economic return of the owner.

Presented below is an analysis of the Tangible Assets and Liabilities Included in the Sale. Next, Normalized Income Statements are presented showing comparative Revenue, Seller Discretionary Cash Flow and EBITDA analysis.

Tangible Assets as of: December 31, 2015

Book Value of Assets Transferred	**$1,621,378**		
Assets	**Book Value†**	**Adjusted**	**Estimated Fair Market Value**
Account Receivable (MONTH AVERAGE)	$1,456,788	($606,788)	$850,000
Office - Computer, Furnishings	$16,473	($13,973)	$2,500
Plant / Warehouse Furniture and Fixtures	$1,600	$3,400	$5,000
Equipment	$19,326	($7,326)	$12,000
Vehicles (2 - service van & truck)	$127,191	($109,691)	$17,500
Total Tangible Assets	**$1,621,378**	**($734,378)**	**$887,000**
Liabilities to be Assumed			
Accounts Payable (MONTH AVERAGE)	$596,778	($371,778)	$225,000
Total Liabilities Assumed	**$596,778**	**($371,778)**	**$225,000**
Net Tangible Assets	**$1,024,600**	**($362,600)**	**$662,000**

Normalized Cash Flow

Historical Operating Results with Normalization of Earnings

Fiscal Years Ending	12/31/2012	12/31/2013	12/31/2014	12/31/2015*
Net Revenues	$2,988,988	$2,483,214	$1,562,916	$4,261,322
Growth Rate	**N/A**	**-16.92%**	**-37.06%**	**172.65%**
Historical Cash Flow:				
Earnings Before Tax	$7,919	$99,698	($139,604)	$280,345
Depreciation and Amortization	$5,394	$27,326	$22,630	$0
Interest Expense	$8,293	$9,507	$8,960	$0
EBITDA (Accounting Basis)	$21,606	$136,531	($108,014)	$280,345
Normalization Adjustments:				
Owners Salary +Bonus	$258,745	$146,165	$216,180	$297,791
Owner's Vehicles(Lease/Gas/Insur/Maint)	$7,000	$7,000	$7,000	$7,180
Owner's Medical, Life & Disability Insurance	$13,000	$14,000	$15,000	$16,357
Owner's Travel and Entertainment	$9,397	$14,726	$12,987	$16,672
Donations	$6,880	$2,835	$5,619	$3,460
Normalization Adjustments Total	$295,022	$184,726	$256,786	$341,460
Total Add Backs	$308,709	$221,559	$288,376	$341,460
Seller's Discretionary Cash Flow (SDCF)	$316,628	$321,257	$148,772	$621,805
Less: Normalized Manager/Owner Salary	($150,000)	($150,000)	($150,000)	($150,000)
Normalized EBITDA	$166,628	$171,257	($1,228)	$471,805

	Revenue	SDCF	Normalized EBITDA
Actual Results for FYE 2015	$4,261,322	$621,805	$471,805
Values Used in the Report(1):	$2,769,151	$363,945	$213,945

SDCF = Seller's Discretionary Cash Flow is EBITDA plus all normalization adjustments.
EBITDA=Earnings before interest, income tax, depreciation and amortization.
(1) Values used in the Market Approach and SDCF in the Price Validation.

*FYE 2015 results based on P&L as of 3/1/2016

Qualifications of the Valuator and Support

Christopher Maddy, MBA, MS

Professional Background:

Macroval
Managing Partner, Sr. Quantitative Analyst

Christopher is Managing Partner and Lead Analyst at Macroval. He is an experienced practitioner of Applied Information Economics and is an expert in the measurement of intangibles and intangible assets. He has a quantitative educational background and several years of experience as an analyst in the retail, marketing and high-tech industries. As a well-rounded generalist in modeling, he is a highly sought advisor for quantitative modeling, as well as for developing spreadsheet applications in Excel and VBA programs. His professional development interests include learning new modeling techniques and implementing automation in decision-systems.

Christopher performs consulting in the measurement of intangibles, quantitative finance and spreadsheet programming, and has consulted professionally as an employee and as an independent consultant. Mr. Maddy's educational credentials include a B.S. in Chemical Engineering from the University of Iowa, an MBA from Boise State University, and a M.S. in Finance from the University of Utah. He taught preparatory courses for the GMAT exam and was the instructor for several classes in Business Statistics while pursuing MBA studies.

Education:

- B.S., Chemical Engineering. University of Iowa, 2000
- M.B.A., Boise State University, 2006
- M.S. Finance, University of Utah, 2009
- Relevant Graduate Coursework Includes: Financial Accounting, Managerial Accounting, International Economics, Econometrics I, Econometrics II
- Level 4 Applied Information Economics Certification

Projects:

- Professional provider of innovative economic business valuations
- Lead Analysis of dollar-intensive, high-risk decisions in IT security, Mining, Sustainable Agriculture, high-tech, educational measurement, and government engagements
- Develop and deliver workshops in Applied Information Economics and Subjective Assessment Training

Thomas Verdier

Professional Background:

Macroval
Managing Partner, Associate Analyst

Thomas Verdier is Managing Partner and Associate Analyst at Macroval. He brings an expertise in decision psychology and measurement of intangibles from both his professional and academic career. His quantitative background includes positions in academic psychology, applied forensic psychology, and management consulting. He's also experienced in marketing for small businesses and start-ups.

Thomas performs consulting in the measurement of intangibles and decision science. He's a certified practitioner of Applied Information Economics and has worked closely on publications with thought leaders in the space. His educational credentials include a B.A. in Psychology from the University of Rhode Island, graduate coursework in decision science and statistics, and publications in various psychology journals. He worked as a licensed Mortgage Loan Officer during his undergraduate studies.

General Assumptions and Limiting Conditions

This Limited Scope Fair Market Analysis Valuation Report has been made with the following general assumptions and limiting conditions:

1. Financial Statements, operating results, proprietary business information and a breakdown of the estimated fair market values of the tangible assets were provided by owners, management or their representatives and were accepted without further verification. We have not audited or reviewed the financial information provided; accordingly, we take no responsibility for the accuracy of the financial information provided to us.

2. The information provided to us by others is believed to be reliable unless otherwise stated.

3. We assume no responsibility for the legal description or matters including legal or title considerations. Title to the subject assets, properties or business interests is assumed to be good and marketable unless otherwise stated.

4. The subject assets, properties or business interests are appraised free and clear of any or all liens or encumbrances unless otherwise stated. A willing buyer is assumed to negotiate full protection against undisclosed, unknown, or contingent liabilities.

5. We have not inspected the property, machinery, equipment, inventory or any other tangible assets of the company.

6. The valuation assumes the business will be competently managed and maintained by financially sound owners and that the company will maintain the integrity of the assets through the conclusion of a sale with cooperative transition of ownership.

7. This report is not to be construed directly or indirectly as a recommendation to invest, divest, or lend. Our analysis is our independent opinion of value for the purpose described herein, based upon the information and explanations provided to us and is subject to the assumptions and qualifications noted herein. Potential investors and / or lenders should perform or obtain their own analysis of the financial position of the subject company for their own particular purpose.

8. The opinions of value are predicated on the financial structure and operations of the company as of the date of this appraisal. No responsibility is assumed for changes in market or economic conditions subsequent to the date of this appraisal. Opinions of value are estimates and no guarantee is made that the subject assets will sell for the stated amount.

9. By accepting this report, the client agrees that neither the appraiser nor any of its agents or employees will be required to give testimony, appear in court or any other legal proceedings unless specific prior financial arrangements have been made.

10. This report is intended for use by the client and for distribution to prospective purchasers of the company under the obligations of a confidentiality agreement. It is not intended to be circulated or published to other parties or the general public and may not be reproduced for any purpose other than noted herein, without our prior

written consent. We do not assume any liability or responsibility for losses incurred as a result of the circulation, publication, reproduction or use of this report contrary to the provisions of these assumptions and limiting conditions.

11. It is assumed that there are no regulations of any government entity to control or restrict the use of the underlying assets, unless specifically referred to in the report. We also assume that all required licenses, certificates of occupancy, consents or legislative or administrative authority from any local, state, or national government or private entity or organization have been or can be obtained for any use on which the opinion of value contained in this report is based.

12. Unless otherwise provided for in writing and agreed to by both parties in advance, the extent of the liability for the completeness or accuracy of the data, opinions, comments and conclusions shall not exceed the amount paid to the appraisers for professional fees, and then only to the party(ies) for whom this report was originally prepared. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense.

13. Valuation reports may contain prospective financial information, estimates, or opinions that represent the view of the appraiser about reasonable expectations at a particular point in time. However, such information, estimates or opinions are not offered as assurances that a particular level of profit will be achieved or that specific events will occur.

14. We reserve the right to review all calculations included or referred to herein and to revise our opinion in light of any facts, trends or changing conditions that existed at the valuation date of which we are made aware of subsequent to the date herein. However, we will not be under any obligation to do so, unless prior arrangements have been made in writing relative to such additional services.

15. The analyses, opinions and conclusions presented in this report apply to this engagement only and may not be used out of the context presented herein. This report is valid only for the effective date(s) specified herein and only for the purpose(s) specified herein.

National Economic Outlook

The Federal Reserve Board

http://www.federalreserve.gov/monetarypolicy/beigebook/files/Beigebook_20160413.pdf

April 13, 2016
Summary

Prepared at the Federal Reserve Bank of Minneapolis and based on information collected before April 7, 2016. This document summarizes comments received from business and other contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

Reports from the twelve Federal Reserve Districts suggest that national economic activity continued to expand in late February and March, though the pace of growth varied across Districts. Most Districts said that economic growth was in the modest to moderate range and that contacts expected growth would remain in that range going forward. Consumer spending increased modestly in most Districts and reports on tourism were mostly positive. Labor market conditions continued to strengthen and business spending generally expanded across most Districts. Demand for nonfinancial services grew moderately overall. Manufacturing activity increased in most Districts. Construction and real estate activity also expanded. Credit conditions improved, on net, in most Districts. Low prices weighed on energy and mining output as well as prospects for agricultural producers. Overall, prices increased modestly across the majority of Districts, and input cost pressures continued to ease.

Consumer Spending and Tourism

Consumer spending in most Districts increased modestly in late February and March, and retailers generally remained optimistic about the outlook for growth over the remainder of the year. Several Districts cited the continuation of generous discounts and promotions, favorable credit conditions, and low gasoline prices as factors supporting a steady pace of growth in consumer spending. However, contacts in the Chicago District again expressed disappointment that low gas prices and improving labor markets were not providing more of a boost to consumer spending. The Kansas City, Philadelphia, Richmond, and San Francisco Districts reported increases in spending on nondurable goods and services, while some Districts noted higher sales in select categories of durable goods, such as furniture. Auto sales remained strong in several Districts, and the Cleveland, Chicago, and New York Districts reported that leasing activity increased.

Reports on tourism were mostly positive across the Districts, and contacts were largely optimistic about near term prospects. Business and leisure travel remained strong in Atlanta, while business travel was up in Boston and leisure travel was up in Chicago and Richmond. Hoteliers in the Richmond District reported both a strong close to the winter season and a strong start to the spring season. In addition, ski resorts in the Kansas City District reported robust activity. In contrast, contacts in the Atlanta, Boston, Minneapolis, and New York Districts noted fewer international visitors.

Hiring and Business Spending

Labor market conditions continued to strengthen in late February and March. Most Districts again reported job gains, with only Cleveland indicating a decline in overall employment. Service industry employment rose in Boston, New York, Philadelphia, Richmond, St. Louis, and Dallas. Retail payrolls expanded in Richmond, but declined in Dallas. Growth in employment at financial firms was subdued in New York and employment declined in Cleveland. Manufacturing payrolls rose in Boston, Richmond, and Atlanta, but fell in Philadelphia and Cleveland. Energy companies continued to reduce their workforces, with reports of layoffs coming from Cleveland, Atlanta, St. Louis, Minneapolis, and Dallas. Several Districts indicated that contacts had difficulty filling certain positions in a number of low- and high-skilled occupations. Notably, contacts reported difficulty finding quality retail workers (Boston), low-skilled manufacturing workers (Boston and Chicago), construction workers (Cleveland, Richmond, Atlanta, and San Francisco) and skilled professionals in occupations such as information technology, accounting, engineering, and customer service (Richmond and Atlanta).

Business spending generally expanded across most Districts. Districts reporting on inventories indicated that they generally were in line with sales. Retailers in Boston, New York, and Chicago said that inventories for most items were at desirable levels, though contacts in New York, Chicago, and Dallas noted that the mild weather resulted in excess stocks of winter-related items. Manufacturers in Boston and Chicago said inventories were comfortable, while manufacturers in Atlanta said they were somewhat elevated.

Capital spending increased on balance in most Districts, with scattered reports of spending for capacity expansion. Retailers in Boston and San Francisco were spending for replacement, and some contacts in Boston were aggressively expanding capacity. Manufacturers in several Districts reported increases in capital outlays (Boston, Cleveland, Chicago, St. Louis, and Minneapolis). Capital spending remained modest for manufacturers in San Francisco and for refiners in Dallas, and declined further for manufacturers in Kansas City. Outlays for oil and gas extraction were mixed. Contacts in Cleveland reported ongoing expansion (though at a slower pace), while there was little growth in Atlanta and Dallas, and declines in Kansas City. District reports mentioned a variety of other sectors where capital investment had expanded: tourism (Philadelphia and Atlanta), construction and finance (Cleveland), professional, high-tech, and wholesale trade (Kansas City), and pharmaceuticals (San Francisco). In contrast, capital spending by transportation contacts declined in Cleveland and Kansas City.

Nonfinancial Services

Growth in demand for nonfinancial services picked up to a moderate rate and contacts expected this pace of growth to continue. Several Districts reported increases in demand for professional and business services. Contacts in the Boston, Kansas City, and Minneapolis Districts reported moderate increases in demand for information technology, architecture, or legal services and the Boston District reported some growth in demand for consulting. Activity in the health care sector grew at a solid pace in a number of Districts. Contacts in the San Francisco District reported robust demand for health care services (resulting in capacity shortages at some facilities) and contacts in the Richmond District reported a late surge in demand for healthcare services because of a flu and norovirus outbreak. Results were also mostly positive for staffing firms. Transportation activity rose moderately, with several Districts reporting increases in freight volumes. Port contacts in the Richmond District cited record import volumes in February that moderated in March, as well as a modest rise in exports in part because of stronger shipments of agricultural and forest products. San Francisco noted an increase in cargo volumes. Kansas City indicated that transportation and wholesale trade activity had increased sharply, and the Atlanta and Richmond Districts cited notable increases in truck tonnage. In contrast, the Atlanta and Dallas Districts each reported additional decreases in rail cargo, and contacts in the Cleveland and Dallas Districts said that ongoing softness in the energy and steel sectors continued to weigh on freight volumes.

Manufacturing

Manufacturing activity increased in most Districts in late February and March. Contacts described the overall pace of growth as moderate in Richmond and Chicago, while growth was more modest in Philadelphia, St. Louis, and San Francisco. Only Cleveland and Kansas City reported declines in activity. By industry, district reports indicated that the strongest performers were autos (Cleveland, Richmond, Chicago, and Dallas), aerospace (Philadelphia, Cleveland, and Chicago), and computers and electronics (Boston and Dallas). There also were solid gains in construction materials (Philadelphia, Cleveland, and Chicago), food processing (Richmond and Dallas), defense (Chicago), and pharmaceuticals (San Francisco). Results were mixed for producers of paper products, metals, and chemicals. Demand was weak according to plastics manufacturers in Richmond and Kansas City. Demand for steel changed little according to contacts in Cleveland and Chicago, but declined in Kansas City. Several Districts reported weak overall demand for heavy machinery, with Chicago and Minneapolis noting softer demand for agricultural and mining machinery than for construction machinery.

Suppliers for the oil and gas industry consistently reported weak demand (Philadelphia, Cleveland, Richmond, Chicago, St. Louis, and Dallas), and some contacts in Chicago and Dallas indicated they were trying to adjust their product offerings toward other industries. Expectations for future manufacturing growth were mixed. In general, contacts' outlooks were optimistic in Boston, Philadelphia, Cleveland, and Richmond, but pessimistic in Atlanta, Minneapolis, and Dallas.

Construction and Real Estate

Construction and real estate activity generally expanded in late February and March, and contacts across Districts maintained a positive outlook for the rest of the year. Residential real estate activity strengthened, on balance, with robust growth in San Francisco, Cleveland, and Boston, but more mixed reports from Dallas, Kansas City, and Atlanta.

Several Districts credited a mild winter for stronger home sales, and the pace of home price increases picked up in a number of Districts. Multi-family construction remained strong in most Districts. Chicago, Cleveland, and St. Louis also noted some improvement in demand for single-family home construction, and a contact in San Francisco reported backlogs of more than six months for new single-family units. Commercial real estate activity generally increased, with leasing activity and rents rising in many Districts: particularly strong leasing was noted in retailing in Chicago and in the industrial sector in Dallas. Vacancy rates either moved lower or were unchanged in most Districts. Most Districts reporting on nonresidential construction said that demand increased. Contacts in

Boston said the education, health care, hospitality, retail, and office sectors all contributed to its recent construction boom. Nonresidential contractors in Cleveland cited broad-based demand, with particular strength in education and healthcare projects, where several builders expressed concern about their capacity to take on additional projects. In contrast, Chicago noted continued weak demand for industrial construction, and Philadelphia reported fewer starts of new nonresidential projects.

Banking and Finance

Credit conditions improved, on net, in most Districts, with the exception of Dallas where contacts indicated that the lending outlook remained cautious. Overall, the lending environment remained competitive. Contacts in Richmond said that competition continued to intensify with reports of compression on net interest margins along with an ongoing trend toward bank consolidation. San Francisco said vigorous competition for borrowers was holding down profit margins for some institutions. Boston described the commercial real estate environment as particularly competitive. Business lending grew across several Districts. Commercial and industrial loan demand continued to increase in New York, Philadelphia, St. Louis, and Cleveland. A majority of Districts also noted continued growth in lending for commercial real estate, though Cleveland indicated that the pace of growth had slowed. For consumer lending, New York, Cleveland, and San Francisco all reported increased demand for residential mortgages, while Dallas indicated that growth in mortgage loan volumes had slowed. San Francisco also reported strong growth for revolving credit, and Chicago indicated that credit card utilization rates increased. The Chicago and Philadelphia Districts also cited a pickup in auto loan demand. Reports on changes in credit quality were mixed. Philadelphia and Atlanta noted improvements in credit quality, and Cleveland, New York and Dallas reported that delinquency rates remain low. In contrast, contacts in Dallas said that loan quality continued to mildly deteriorate because of ongoing stress in the energy sector, while contacts in Atlanta said that financial institutions in areas dependent on energy faced continued risk, with some adding to loan loss reserves.

Agriculture and Natural Resources

Agricultural conditions were mixed across the Districts. Contacts in Chicago, St. Louis, Minneapolis, Kansas City, and Dallas reported poor prospects for agricultural profitability because product prices remained low and input costs remained relatively high. Contacts across Districts noted that compared with a year ago, prices were lower for cotton, corn, soybeans, wheat, hay, rice, cattle, chickens, eggs, hogs, and milk. However, contacts also reported some relief in input costs since the previous period, with lower costs for diesel, fertilizer, and farmland rents. That said, costs for chemicals went up and seed costs remained elevated. There were typical seasonal increases in fieldwork in Richmond and Chicago. Earlier flooding made fieldwork more difficult in parts of the Richmond and Atlanta Districts, but harm from flooding in St. Louis was limited. San Francisco reported improved agricultural activity as ample rains enhanced growing conditions and reduced the impacts of the ongoing drought in California. Contacts in Dallas said beef production was higher than a year ago. The elevated dollar held back agricultural exports according to contacts in San Francisco.

Natural resource reports ranged from mixed to negative across Districts. Oil and gas production continued to fall in Atlanta, Kansas City, and Dallas, though contacts in some Districts reported signs that the declines were close to an end. Contacts in Cleveland and

Atlanta noted that natural gas prices were under pressure because the warm winter left inventories elevated. Cleveland and Dallas reported that persistently low energy prices were hurting the financial positions of energy firms. Coal output declined in Richmond and St. Louis. In contrast, some idled iron mines in Minneapolis reported plans to reopen soon. San Francisco contacts reported solid domestic timber demand but those in Minneapolis indicated that the warm winter slowed logging activity.

Prices and Wages

Retail prices increased modestly across the majority of the Districts while input cost pressures continued to decline in late February and March, driven importantly by low energy prices. Transportation costs fell, as freight companies passed lower fuel costs through to shipping rates. The Cleveland District reported that diesel fuel surcharges have been largely eliminated. Residential construction contacts in the Philadelphia and Cleveland Districts reported that low energy prices have significantly reduced costs for petroleum-based materials such as shingles. Contacts in San Francisco said that lower fuel prices have improved airline profit margins. Several District reports indicated that contacts generally expect energy and raw material prices to remain at low levels, though a manufacturer in the Minneapolis District expected steel prices to increase later this year.

Wages increased in all but one District (Atlanta), and several Districts reported signs of a pickup in wage growth over the last survey period. New York, St. Louis, Minneapolis, and San Francisco reported moderate wage growth, while wage pressures were characterized as mild in Chicago, mostly contained in Kansas City, and stable in Atlanta. The strongest wage pressures were for occupations where labor shortages are pressing and turnover is elevated. Contacts in the Boston, Cleveland, and St. Louis Districts cited sizeable wage increases for workers in fields such as information technology services and skilled construction and manufacturing trades. In addition, some firms in Philadelphia indicated that they had raised their starting wages in order to attract higher quality workers, and Chicago noted an increase in the number of contacts who raised wages for low-skilled entry-level workers.

Regional Economic Outlook

The Federal Reserve Board

April 13, 2016

Federal Second District – New York

Economic activity in the Second District has grown at a modest pace since the last report, and labor markets have continued to strengthen. Businesses across a broad array of sectors, including manufacturing, report some pickup in activity. Selling prices were little changed, though businesses report continued upward pressure on input prices. Consumer spending has been steady, and tourism activity has picked up slightly. Residential real estate markets improved modestly, while commercial real estate markets were mixed.

Finally, banks report further strengthening in loan demand and improvement in delinquency rates.

Consumer Spending

Retailers report that sales were generally steady in February and March, with same-store sales little changed from comparable 2015 levels. Retail contacts indicate that the unseasonably mild winter led to an overhang of winter apparel inventory, but otherwise weather was not much of a factor. One major retail chain indicates that sales were on plan in February but slipped below plan in March, while another describes sales as below plan in both months. Retailers in upstate New York report that consumer spending has remained restrained, despite a pickup in shopper traffic. The ongoing shift toward on-line shopping has continued to constrain traditional retail sales. Inventories are generally reported at or near desired levels, aside from an overhang of cold-weather merchandise, which is being whittled down by steep discounts and promotions. Tourism activity has picked up modestly but remains sluggish.

New vehicle sales in upstate New York are reported to be steady to up modestly, at a high level in February and March. Sales have been buoyed by a combination of mild weather, attractive lease options, and low gas prices in early March. However, sales of used vehicles remain soft. Auto dealers describe wholesale and retail credit conditions as favorable. The Conference Board's March survey shows consumer confidence in the Middle Atlantic states (NY, NJ, PA) retreating modestly, after climbing to an 8-month high in February.

Construction and Real Estate

The District's housing markets have improved modestly in the latest reporting period, though rental markets have softened; multi-family residential construction has continued to strengthen. In general, sales activity was buoyed by mild weather in both February and March. Housing markets in upstate New York picked up somewhat in March, with strengthening sales and scattered reports of bidding wars, and real estate agents expect 2016 to be a strong year. Northern New Jersey's market for single-family homes continues to improve modestly; despite strong demand and lean inventories, prices are being restrained by a sizable overhang of distressed properties, which is coming down only gradually. New York City's co-op and condo market has generally continued to strengthen, particularly in Brooklyn, as both activity and prices have risen moderately. However, these trends do not hold for the high end of the market, where a glut of new development has put downward pressure on prices. Rental markets have softened, most notably at the high end. While rents remain on a moderate upward trajectory in Brooklyn and parts of northern New Jersey, rents across most of the region have retreated and, in most areas, are now down from a year ago.

Commercial real estate markets have been mixed in recent weeks. Office markets across the District were mostly steady in the first quarter, though asking rents have moved up modestly in Brooklyn, Queens, and northern New Jersey. The market for retail space has weakened, with vacancy rates rising to multi-year highs in New York City, as well as in northern New Jersey and upstate New York. In contrast, the market for industrial space has strengthened: vacancy rates are at or near multi-year lows across most of the District, while rents are running 5-10 percent ahead of a year ago. Industrial and warehouse construction has picked up in northern New Jersey, but elsewhere commercial construction activity remains sluggish.

Other Business Activity

Business contacts across the District report a rebound in business activity, following a brief slump early this year. Both manufacturing and service-sector contacts report little change in selling prices. In contrast, service-sector firms report continued upward cost pressures, and manufacturing contacts note some pickup in input prices.

The labor market has been increasingly robust in recent weeks, with labor shortages in certain areas and some acceleration in wages. Two major New York City employment agencies report continued improvement in hiring activity and moderate increases in salaries. One notes that more candidates are getting multiple job offers and that employers are becoming less picky about prospective hirees' skills and experience. However, a major employment agency in upstate New York reports some slowing in hiring and notes that employers have become more selective. Hiring remains subdued at manufacturing firms and large financial firms but brisk in most service industries. More service-sector contacts than in the last report expect to raise wages in the months ahead.

Financial Developments

Bankers report further strengthening in loan demand. In particular, bankers note a widespread increase in demand for residential mortgages, and continued growth in demand for commercial mortgages and C&I (commercial and industrial) loans. On the other hand, in the case of consumer loans, bankers report little change in demand. Banks report that credit standards were unchanged across all loan categories. Similarly, bankers indicate no change in spreads of loan rates over cost of funds across all loan categories except commercial mortgages, for which bankers reported narrower spreads. Bankers report declining delinquency rates on home mortgage loans, C&I loans and commercial mortgages, while they report steady delinquency rates on consumer loans.

Fair Market Value as the Standard of Value

Without defining the term "value", the conclusions reached in the valuation report are meaningless. First, we must determine the standard of value used for the appraisal. The most widely recognized and accepted standard of value is Fair Market Value. For purposes of this valuation, we define Fair Market Value as "the amount at which the property would change hands between a willing seller and a willing buyer when neither is acting under compulsion and when both have reasonable knowledge of the relevant facts". Court decisions also state that the hypothetical buyer and seller are assumed to be able to, as well as willing to, trade and to be well informed about the property. This definition comports to that found in the tax code and in Revenue Ruling 59-60. Additionally, the definition of Fair Market Value utilized in this report assumes a covenant not to compete between the seller and a willing buyer.

Economic analysis is necessary at the valuation date in order to determine how the investing public feels about future income of the business. Uncertainty about future income increases the risk and could affect the value of the business. The risk assessment will be used to adjust multiples derived from guideline companies (comps) or to adjust discount or capitalization rates. Revenue Ruling 59-60 cites eight factors influencing the value of a business:

1. The nature of the business and the history of the enterprise from its inception.
2. The economic outlook in general and the condition and outlook of the specific industry in particular.
3. The book value of the stock and the financial condition of the business.
4. The earnings capacity of the company.
5. The dividend paying capacity of the company.
6. Whether or not the enterprise has goodwill or other intangible business value.
7. Prior sales of stock and the size and block of stock to be valued.
8. The market price of stocks of corporations engaged in the same or similar line of business having their stocks actively traded in a free and open market, either on an exchange or over the counter.

Additionally, we have appraised the company's assets in continued use as a going concern. This premise assumes the business will continue to operate as an income producing entity. Our opinion of value has taken into consideration the relevant financial risks inherent to the business. These risks have been evaluated to produce a value that provides a reasonable return on investment to a prospective buyer. We have analyzed systematic risks inherent in the current business climate such as competition and general market conditions as well as risks specific to the subject business such as its customer base, asset management and operating history.

Fair Market Value speaks to a value that is appropriate to the market in general and does not take into consideration a value to a particular investor referred to as "Investment Value" or value to a strategic buyer often referred to as a "Synergistic Buyer". Synergistic buyers may pay a premium for the company due to the ability to reduce duplicated overhead or marketing efforts. An acquisition premium can only be quantified if a specific investor is known and their motivations for purchasing the business are examined. However, in determining the Fair Market Value of the company certain expenses were eliminated or adjusted by the business owner.

Valuation Theory and Approaches to Value

Theory surrounding the valuation of an interest in a business depends on the future benefits that will accrue to its owner. The value of the business interest depends upon an estimate of the future benefits and the required rate of return at which the future benefits are discounted or capitalized. Thus, determining the appropriate economic income or cash flow to capitalize is critical to the valuation. Review of historical financial data as well as the current trends and future prospects of the business are required to determine the appropriate economic income to capitalize in the single period income, capitalization of excess earnings and market approaches to value.

The American Society of Appraisers recognizes the Asset-Based Approach, the Income Approach and the Market Approach as the three generally accepted valuation approaches. In many ways these three approaches are interrelated. For instance, the Income Approach requires the estimate of a required discount or capitalization rate that is driven by forces in the marketplace. The appropriateness of each method is dependent on the appraiser's judgment and the relationship of the level of assets relative to the company's ability to generate cash flow. In the final value conclusion we have weighted the various approaches used to determine a final value estimate.

Asset-Based Approach

The Asset-Based approach is often called the "Cost Approach" or the "Replacement Cost Approach". In this approach, each component of the business is valued separately and the asset values are totaled. The Asset-Based Approach provides the appraiser with the cost of duplicating or replacing the assets of the company and is based on the assumption that a prudent investor would pay no more for an asset than its replacement cost. The Asset-Based Approach can be a reliable method for valuing tangible assets; however, the Asset-Based Approach may not recognize the full earning power of the total business enterprise.

Based on a review of the Company's operations, financial performance and the tangible assets included with the sale, we have determined that the highest and best use of the assembled assets is value in continued use as a going concern.

Below we will examine the Book Value Method and the Adjusted Book Value Method under the Asset-Based Approach.

Book Value Method

Business Financial statements are normally prepared in accordance with Generally Accepted Accounting Principles, which are prepared on the historical cost principle. After the assets are acquired, fixed assets are depreciated and goodwill, patents and other intangible assets are amortized. This method of accounting is typically used for tax purposes and may or may not give an accurate estimate of the fair market value of the assets. As such, Book Value is not a conceptually sound Asset-Based valuation method. Additionally, a well-run profitable business enterprise will be valued in excess of its underlying asset value.

For the Book Value Method, we reviewed the net asset values for the assets to be transferred with the sale as of the most recent balance sheet date.

Adjusted Book Value Method

The theory behind the Adjusted Book Value Method is that a buyer would not pay more for the business than the Fair Market Value of its underlying assets. Under this method the assets to be transferred with the sale are restated from their historical cost basis to Fair Market Value. This typically involves the identification and valuation of assets that may have been previously written off or expensed. Accounts receivable will need to be adjusted to net realizable value and inventory should be adjusted for obsolete or slow moving items. Additionally, work in process inventory should be valued. For example, the work in process of a professional firm is essentially unbilled receivables, whereas for a construction company there may be cost incurred in excess of billings. If machinery and equipment or real estate is a significant portion of the value of the business, an appraisal of those assets may be necessary.

With regard to valuing the individual assets, the appraiser must select the appropriate premise of value. The four premises of value are:

1. Value in continued use as a going concern.
2. Value in place, as a part of a mass assemblage of assets.
3. Value in exchange as part of an orderly liquidation.
4. Value in exchange as part of a forced liquidation.

We have determined that the appropriate premise of value is value in continued use as a going concern. This method assumes that the assets are sold in place as part of an income producing, going concern business enterprise. This approach is applicable to the identifiable assets of the business; however it may not recognize the full earning power of the business enterprise.

The Adjusted Book Value Method, as presented on page 11, indicates a value of $887,000.

Income Based Approach

The income approach estimates the value of a company based on the anticipated risk and return inherent in the investment. When a buyer purchases a business, what is being bought is a stream of prospective economic income. Economic income can be defined as any cash flow or benefit accruing to a business enterprise in exchange for goods, services or capital. The forecasted economic benefit or cash flow is capitalized or discounted at an appropriate rate to determine the estimated value of the business. Time in business, asset utilization, operating results and customer and supplier relationships all influence the amount of risk relative to a particular entity. Anticipated benefits are then converted to a value taking into consideration the expected growth, timing of benefits, risk profile and the time value of money. In determining the appropriate discount or capitalization rates, the appraiser should consider factors such as prevailing interest rates, expected rates of return required by investors on comparable investments and the specific risk characteristics of the subject company.

Cash Flow Basis

To create a basis for analysis of the cash flow statement, results from multiple years are combined in a weighted average. The details of the averaging scheme and the summary of basis values used in the income approaches to valuation are shown in the three tables that follow.

Report Basis Value: Weighted Average Net Revenue

Fiscal Years Ending	Net Revenues	Weight	Adjusted
12/31/2013	$2,483,214	1	$2,483,214
12/31/2014	$1,562,916	1	$1,562,916
12/31/2015*	$4,261,322	1	$4,261,322
Total		3	$8,307,452
			/3
Weighted Average Net Revenue			$2,769,151

Report Basis Values: Seller's Discretionary Cash Flow (SDCF) and Normalized EBITDA

	12/31/2013	12/31/2014	12/31/2015*	Total	
Weight	1	1	1	3	
Historical Cash Flow:				Total = Sum of Values x Weights	Weighted Average = Total / 4
Earnings Before Tax	$99,698	($139,604)	$280,345	$240,439	$80,146
Depreciation and Amortization	$27,326	$22,630	$0	$49,956	$16,652
Interest Expense	$9,507	$8,960	$0	$18,467	$6,156
EBITDA (Accounting Basis)	$136,531	($108,014)	$280,345	$308,862	$102,954
Owners Salary +Bonus	$146,165	$216,180	$297,791	$660,136	$220,045
Owner's Vehicles(Lease/Gas/Insur/Maint)	$7,000	$7,000	$7,180	$21,180	$7,060
Owner's Medical, Life & Disability Ins	$14,000	$15,000	$16,357	$45,357	$15,119
Owner's Travel and Entertainment	$14,726	$12,987	$16,672	$44,385	$14,795
Donations	$2,835	$5,619	$3,460	$11,914	$3,971
Normalization Adjustments Total	$184,726	$256,786	$341,460	$782,972	$260,991
Total Add Backs	$221,559	$288,376	$341,460	$851,395	$283,798
Seller's Discretionary Cash Flow (SDCF)	$321,257	$148,772	$621,805	$1,091,834	$363,945
Less: Normalized Manager/Owner Salary	($150,000)	($150,000)	($150,000)	($450,000)	($150,000)
Normalized EBITDA	$171,257	($1,228)	$471,805	$641,834	$213,945

*FYE 2015 results based on P&L as of 3/1/2016

Summary of Basis Values

Net Earnings	$2,769,151
Seller's Discretionary Cash Flow (SDCF):	$363,945
Normalized EBITDA:	$213,945

Single Period Capitalization Method

Capitalization is a process of converting economic income for a single period into a present value estimate of the enterprise value. This is performed by dividing the economic income by an estimated capitalization rate or a risk adjusted rate of return. Current, historical or expected economic income can be capitalized under this method. For the purpose of this valuation we capitalized the normalized earnings before interest, income tax, depreciation and amortization (EBITDA) for the most current Fiscal Year End. Accuracy under this method is dependent on current income levels being indicative of future results. The steps involved in using this method are:

1. Selection of the economic income benefit to be capitalized.
2. Estimating the capitalization rate.
3. Capitalizing the economic income stream to determine the estimated value of the business.
4. Adding non-operating assets such as real estate to determine the Fair Market Value of the entire business enterprise.

Selection of the Appropriate Economic Income Stream

The first step in the Single Period Capitalization Method is to determine the appropriate economic income stream to capitalize. Since we are valuing the gross assets of the company or "the business enterprise value" it is appropriate to add back the interest expense and normalize the earnings of the company. For the purpose of this valuation we capitalized the normalized earnings before interest, income tax, depreciation and amortization (EBITDA) for the most current Fiscal Year End. The selected Economic Income stream is presented below:

Single Period Capitalization Method

Selected Economic Income Stream	Normalized EBITDA
Earnings Before Income Tax	$80,146
Plus: Owners Salary +Bonus	$220,045
Owner's Vehicles(Lease/Gas/Insur/Maint)	$7,060
Owner's Medical, Life & Disability Insurance	$15,119
Owner's Travel and Entertainment	$14,795
Donations	$3,971
Depreciation and Amortization	$16,652
Interest Expense	$6,156
Less: Normalized Manager/Owner Salary	($150,000)
Normalized EBITDA to Capitalize	$213,945

EBITDA = Earnings before interest, income tax, depreciation and amortization.

Selection of an Appropriate Capitalization Rate

Next, we must estimate an appropriate capitalization rate so that we can convert the economic income to estimate the Fair Market Value of the business. The rates used to capitalize the benefit stream are determined from alternative investments in the market based on the risk factors attributable to the stream of economic income being capitalized. The capitalization rate is the required rate of return that an investor would demand, based on the risk associated with the benefit stream under consideration, to induce him or her to make the investment decision. This is based on the principle of substitution, which is based on the theory that no person will pay more for a property than he or she would have to pay for an equally desirable substitute. We have calculated a capitalization rate that reflects the rate of return available in the marketplace based on the risk characteristics inherent to the subject company.

The capitalization rate includes a “Risk Free” rate, “Systematic Risk” as determined by the marketplace and “Unsystematic Risk” inherent to the subject company. These components can be broken down further into a “Risk Free” rate, an ”Equity Risk Premium”, an element reflecting a “Small Stock Risk Premium” and a final adjustment reflecting judgments about the “Specific Company Risk Premium”. These are discussed in further detail below.

Risk Free Rate

The “Risk Free” rate, or safe rate, is a rate of return that an investor would receive when there is no risk of default. Typically the rate of return on U.S. Treasury Bonds is used as a “Risk Free” rate. For the purpose of this valuation we have used the 20-year Treasury Bond rate of 2.24%

Equity Risk Premium

Investors expect a higher rate of return to induce them to invest in Equity securities compared to treasury bonds. The “Equity Risk Premium” represents the premium that common stockholders require in the public marketplace over investors in long-term government bonds. Since equity securities are considered to be more risky by the investor, a higher rate of return is required. The “Equity Risk Premium” for May 1, 2016 of 4.56% was derived by Dr. Aswath Damodaran of New York University’s Stern School of Business.

Small Company Risk Premium

Investors in the public marketplace perceive that there is additional risk in small cap companies and research studies demonstrate evidence that smaller companies have higher rates of return than larger companies. The “Small Company Risk Premium” is the risk premium measured in the public marketplace for small publicly traded companies The “Small Company Risk Premium” of 9.9% was derived from Ibbotson Associates Stocks, Bonds, Bills and Inflation 2005 Yearbook. This represents the smallest quantile of the public market place, which represents the smallest 10% of publicly traded companies.

Specific Company Risk Premium

The "Specific Company Risk Premium" takes into consideration the analysis performed by the appraiser, including the operating performance, ratio analysis, industry risk, customer and supplier relationships, size of the company, management structure and other factors considered in assessing the risk related to the specific company. For the purpose of this report we used a "Specific Company risk Premium" of 10%.

Lastly, adjustments are made to convert the pre-tax earnings to net income to eliminate the tax effect and a long-term sustainable growth rate adjustment is factored into the capitalization rate. The capitalization rate for the subject company is presented below:

Build-Up Method to estimate the Capitalization Rate	
Risk-Free Rate	2.2%
Equity Risk Premium	4.6%
Small Company Risk Premium	9.9%
Specific Company Risk Premium	10.0%
Pre-Tax to Net Income Adjustment	4.0%
Pre-Tax Capitalization Rate	30.7%
Less: Long Term Sustainable Growth Rate	0.0%
Pre-Tax Capitalization Rate adjusted for Growth	**30.7%**

Single Period Capitalization Method Indicated Value

Next, we use the Capitalization Rate to convert the anticipated level of sustainable Economic Income into the indicated value. The indicated value under the Single Period Capitalization Method is presented below:

Single Period Capitalization Indicated Value	
Normalized EBITDA to Capitalize	$213,945
Pre-Tax Capitalization Rate:	30.7%
Single Period Capitalized Value	$696,888
Indicated Value	**$696,888**

Excess Earnings Method

The "Excess Earnings Method", also referred to as the "Formula" Method or "Treasury" Method, is one of the most widely used appraisal methods for small businesses. The "Excess Earnings Method" involves valuing the company's tangible assets at Fair Market Value and adding an amount that represents the company's intangible value. The intangible value of the business is estimated by deducting a reasonable return on the company's tangible assets from the economic income of the company and capitalizing the "Excess Earnings". We used the same Economic Income as was used in the Single Period Capitalization method presented on page 31. Below is an explanation of the steps involved in estimating the intangible value of the business using the Excess Earnings Method:

Methodology in Calculating the "Excess Earnings Method"

1. Estimate the Tangible Asset value of the company at Fair Market Value.
2. Estimate a normalized level of economic income. For the purpose of this valuation we capitalized the normalized earnings before interest, income tax, depreciation and amortization (EBITDA) for the most current Fiscal Year End.
3. Estimate a reasonable rate of return to support the Tangible Assets of the company.
4. This can equate to the company's borrowing rate plus a small premium for the equity investment and the risk associated with owning the assets. Multiply the tangible asset value from step 1 by the reasonable rate of return to estimate the amount of economic income attributable to the tangible assets. Subtract the amount of economic income attributable to the Tangible Assets from the normalized economic income estimated in step 2. The result of this step is called the "Excess Earnings".
5. Estimate an appropriate capitalization rate to apply to the excess earnings, which is the amount of earnings attributable to Intangible Assets. Then capitalize the "Excess Earnings" by the estimated capitalization rate to determine the intangible value of the business.
6. Add the tangible assets in step 1 to the intangible assets calculated in step 4. The result is the estimated value of the company.

Appropriate Rate of Return on Tangible Assets

The reasonable rate of return on the Tangible Assets should be based on the level of risk associated with the assets as well as returns available in the market. The more liquid the asset is the less risk there is in the ownership and a lower return would be justified. Conversely, underutilized fixed assets create a higher risk profile and would require a higher return. Thus, the estimated return on tangible assets is determined by reviewing the company's borrowing rates, the risk in ownership of the assets and the risk associated with the equity investment in acquiring the assets. Based on our analysis we used a 10% rate.

Excess Earnings Capitalization Rate

There is substantially less risk in the Tangible Assets of the company since they can be converted into cash, as in the case of accounts receivable, or liquidated in the case of inventory or fixed assets. However, in the absence of earnings, goodwill and other intangible assets have no liquidation value. Thus, a premium must be added when capitalizing the economic earnings attributable to intangible assets. A premium of 7.5% was added to the capitalization rate determined in the build-up method (presented in the Single Period Capitalization Method section on page 31.

Calculation of Excess Earnings Method Indicated Value

Presented below is a summary of the calculation of the indicated value under the Excess Earnings Method:

Excess Earnings Method Indicated Value		
Fair Market Value of Tangible Assets		$887,000
Normalized Annual Economic Income	$471,805	
Less: Earnings attributable to Tangible Assets	($88,700)	
$887,000 in Tangible Assets at 10%		
Equals: Excess Economic Earnings	$383,105	
Capitalization Rate for Excess Earnings	38.2%	
Indicated Value of Excess Earnings		$1,002,893
Excess Earnings Method Indicated Value		**$1,889,893**

Market Approach: The Guideline Company Method

The use of comparable sales of closely held businesses as a guide to business valuation is one of the most important techniques for valuing privately held businesses. The purpose of the Market Approach is to compare the subject company with sales of similar businesses to estimate the value of the subject company relative to its peers. Under The Guideline Company Method we compared the subject company's fundamental financial data with the guideline companies to determine the subject company's market value. The timing of the sale, size of the comparable companies, SIC code and the structure of the transaction must be analyzed and compared with the subject company financial data. The market approach emphasizes the principle of substitution, which assumes that an investor would gravitate toward the business with the lowest price if all other financial fundamentals and risks were the same.

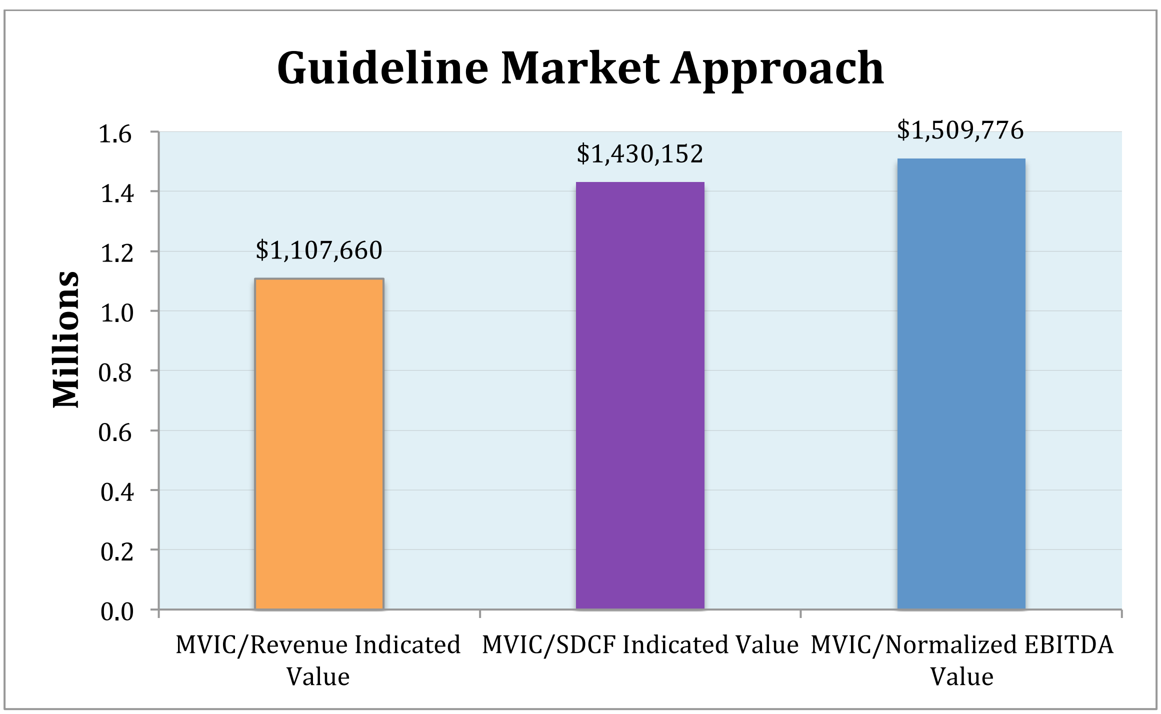
Private market transactions typically involve the sale of the entire entity so the values derived are on a control marketable basis. Additionally, the majority of private transactions are asset sales as opposed to stock sales. Thus, these transactions are reported based on the company's Market Value of Invested Capital (MVIC), which includes the equity and debt of the company. MVIC can also be referred to as "aggregate market value of capital structure" or "enterprise value". When valuing the Asset Value of the company it is appropriate to capitalize the interest as a component of the economic income.

MVIC to Revenue, MVIC to Seller Discretionary Cash Flow and MVIC to Normalized EBITDA (earnings before interest, income tax, depreciation and amortization) are the three most commonly used multiples. The Seller Discretionary Cash Flow and Normalized EBITDA multiples provide a more consistent approach in estimating the Asset Value of a company since they include interest and non-cash expenses. These methods eliminate inconsistencies in depreciation policies and differences in the capital structure from one business to another.

We utilized Pratt's Stats databases to obtain comparable private sale information. The results of our research and analysis are shown below:

Market Valuation Table

Revenue	**$2,769,151**		
SDCF		**$621,805**	
Normalized EBITDA			**$471,805**
Multiple	**0.40**	**2.30**	**3.20**
Derived Invested Capital Value	**$1,107,660**	**$1,430,152**	**$1,509,776**
Indicated Value	**$1,107,660**	**$1,430,152**	**$1,509,776**



Definitions

Adjusted Book Value

The book value that results after one or more asset or liability amounts are added, deleted or changed from their respective book amounts.

Appraisal

The act or process of determining value. It is synonymous with valuation.

Appraisal Approach

A general way of determining value using one or more specific appraisal methods. See Asset Based, Income Approach and Market Approach.

Appraisal Method

Within approaches, a specific way to determine value.

Asset Based Approach

A general way of determining a value indication of a business's assets and or equity interest using one or more methods based directly on the value of the assets.

Asset Sale

A form of business transfer where certain assets of the company are sold to a purchaser. The stock in the business is not transferred.

Book Value

With respect to assets, the capitalized cost of an asset less accumulated depreciation, depletion or amortization as it appears on the books of the enterprise. With respect to a business enterprise, the difference between total assets (net of depreciation, depletion and amortization) and total liabilities of an enterprise as they appear on the balance sheet. It is synonymous with net book value, net worth and shareholder's equity.

Business Appraiser

A person, who by education, training and experience is qualified to make an appraisal of a business enterprise and/or its intangible assets.

Business Enterprise

A commercial, industrial or service organization pursuing an economic activity.

Business Valuation

The act or process of arriving at an opinion or determination of the value of a business or enterprise or an interest therein.

Capitalization

1) The conversion of income into value. 2) The capital structure of a business enterprise. 3) The recognition of expenditures as a capital asset rather than a period expense.

Capitalization Rate

Any divisor (usually expressed as a percentage) that is used to convert income into value.

Capital Structure

The composition of a business entity's invested capital.

Cash Flow

Cash that is generated over a period of time by an asset, group of assets, or business enterprise. It may be used in a general sense to encompass various levels of specifically defined cash flows. When the term is used, it should be supplemented with a qualifier (for example "Discretionary" or "Operating") and be accompanied by a definition.

Control

The power to direct the management and policies of a business enterprise.

Cost Approach

A general way of estimating a value of an asset by quantifying the amount of money that would be required to replace the asset.

Cost of Capital

The expected rate of return (discount rate) that the market requires in order to attract funds in a particular investment.

Deal Structure

The breakdown of the consideration paid for a business. The components could include a cash down payment, assumption of liabilities, newly created debt, consulting agreements, covenants not to compete and any earn out provisions.

Discount Rate

A rate of return (cost of capital) used to convert a monetary sum, payable or receivable in the future, into its present value.

EBT

Earnings before income tax.

EBIT

Earnings before interest and income taxes.

EBITDA

Earnings before interest, income taxes, depreciation, and amortization.

Economic Life

The period of time which property may generate economic benefits.

Enterprise

See "Business Enterprise".

Equity

The owner's interest in the business after deducting the liabilities of the company.

Equity Risk Premium

The Equity Risk Premium represents the premium that common stockholders require in the public marketplace over investors in long-term government bonds.

Excess Earnings

The amount of anticipated economic income that exceeds a fair rate of return on the tangible assets of the business.

Excess Earnings Method

A specific way of determining the value of a business by capitalizing the excess earnings of the business and adding the tangible assets.

Forecasted Financial Results

The business owner's estimates of future performance with certain assumptions regarding revenue growth, gross profit margins and related expenses.

Forced Liquidation Value

Liquidation value where the assets are sold as quickly as possible with less than normal exposure to the market.

Going Concern

An operating business enterprise.

Going Concern Value

The value of a business as an operating entity. This includes intangible elements of the business resulting from having a trained work force, operational plant and the necessary licenses, systems and procedures in place.

Goodwill

An intangible asset which arises as a result of name, reputation, customer patronage, location, products and similar factors that have not been separately identified that contribute economic benefits.

Income Approach

A general way of determining value indication of a business, business ownership interest or security using one or more methods wherein a value is determined by converting anticipated benefits.

Intangible Assets

Non-physical assets such as franchises, trademarks, patents, copyrights, goodwill, mineral rights and contracts that grant rights, privileges or economic benefits to the owner.

Investment Risk

The degree of uncertainty as to the realization of expected returns.

Investment Value

The value to a particular investor based on their individual requirements and expectations. For example, synergies in a merger will create higher investment values. Synergies are not considered in Fair Market Value.

Liquidation Value

The net amount that can be realized if the business is terminated and the assets are sold piecemeal. Liquidation can be either "orderly" or "forced".

Liquidity

The ability to convert an asset into cash.

Market Approach

A general way of determining a value of a business, business ownership or security using one or more methods that compare the subject to similar businesses or business ownership interests that have been sold.

Market Multiple

A factor that can be applied to the subject company's operating performance indicators such as revenues, EBT, EBIT, EBITDA or SDCF to determine an indicated value. The subject company financial data is compared with transactions observed in the market to determine an appropriate multiplier.

Market Value of Invested Capital (MVIC)

MVIC includes the equity and debt of the company. MVIC can also be referred to as "aggregate market value of capital structure" or "enterprise value".

Non-Operating Assets

Assets not necessary to ongoing operations of the business enterprise.

Normalization Adjustments

Adjusting items in the financial statements that are not considered to be normal operating expenses. This includes adding back non-recurring expenses and eliminating non-operating income. These also include discretionary adjustments for expenses booked that are perks or benefits accruing to the business owner. Normalization creates economic financial statements that allow for comparisons with other investment opportunities.

Orderly Liquidation Value

Liquidation value where the assets are sold individually and enjoy normal exposure to the market.

Premise of Value

An assumption as to the set of actual or hypothetical transactional circumstances applicable to the subject valuation. For example, going concern versus a liquidation premise of value.

Present Value

The value today of a future stream of economic income discounted at a reasonable rate of return for the risk associated with the investment.

Rate of Return

An amount of income (loss) and/or change in value realized or anticipated on an investment, expressed as a percentage of that investment.

Replacement Cost New

The current cost of a similar new item having the nearest equivalent utility as the item being appraised.

Report Date

Date the conclusions were communicated to the client and the report was issued.

Residual Value

The prospective value as of the end of a discrete projection period in a discounted economic income model.

Return on Down Payment

The rate of return determined as the Normalized Seller Discretionary Cash Flow less Debt Service, less a normal owner/manager, less estimated capital expenditures divided by the hypothetical down payment. This estimates the annual return to the business owner on their down payment.

Risk Free Rate

The rate is a rate of return hat an investor would receive when there is no risk of default. Typically the rate of return on U.S. Treasury Bonds is used as for a “Risk Free” rate.

Seller Discretionary Cash Flow

All of the cash flow accruing to a business owner that can be used to pay debt or to be taken as salaries, perks or benefits. This includes expenses that are considered non-recurring as well as above market rent paid to the business owner and above market salaries paid to the business owner’s family.

Standard of Value

The identification of the type of value being utilized in a specific engagement. For example, Fair Market Value, Investment Value, Fair Value or Intrinsic Value.

Statement of Changes in Cash Flow

A financial statement that shows the changes that affect the cash account. These include both cash generated or used from the income statement as well the balance sheet and are categorized as either operating, investing and financing.

Stock Sale

A form of acquisition where all or a portion of the capital stock in a corporation is sold to the purchaser. The purchaser of the stock enjoys all of the rights and contractual relationships of the seller and assumes all of the assets, liabilities and contingent liabilities of the company.

Systematic Risk

The risk that is inherent to the investment in a security as defined by the market in general.

Tangible Assets

The physical assets of the business included a sale including accounts receivable, inventory, fixed assets, prepaid expenses, deposits etc.

Terminal Value

The prospective value as of the end of a discrete projection period in a discounted economic income model.

Unsystematic Risk

The risk associated with the subject company in addition to the risk in investing in publicly traded securities. This can also be referred to as the "Specific Company Risk Premium".

Valuation Date

The specific point in time that the opinion of value applies. Typically, this is the date of the estimated fair market value of the tangible assets as reported by the business owner or the date of the most recent financial data.

Valuation Approach

A general way of determining a value indication of a business, business ownership interest, security, or intangible asset using one or more valuation methods. Asset Based Approach, Market Approach and the Income Approach were used in this report.

Valuation Ratio

A factor wherein a value or price serves as the numerator and financial, operating or physical data serve as the denominator.

Working Capital

The amount by which current assets exceed current liabilities.