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ABC CORPORATION

VALUATION OF COMPANY

AS OF JANUARY 18, 20XX

REPORT DATE: MAY 27, 20XX

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May 27, 20XX

Jim Jones
Street Name
Anytown, CA ZIP

Re: Valuation of ABC Corporation

Dear Mr. Jones:

We have performed a valuation engagement and present our report in conformity with the "Statement of Standards for Valuation Services No. 1" (SSVS) of the American Institute of Certified Public Accountants. This document is an appraisal report to estimate the fair value of a 100% interest in ABC Corporation as of January 18, 20XX for financial reporting purposes. We determined the market value of invested capital and the common stock. The fair value, as determined within our report, shall not be used for other purposes or dates without our written consent.

The standard of value to be used in our analysis is *fair value*, which is defined as *the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date*.[1] This is sometimes referred to as "exit value."

The scope of our engagement did not include a physical visit to the Company's offices. The financial data for this appraisal was provided by Company's Management. This information has been accepted, without additional verification, as correctly reflecting the value and nature of the assets and is your responsibility.

In the opinion of the undersigned appraiser, using accepted methods of valuation, and subject to this report and the Statement of Limiting Conditions incorporated herein, the estimate of Fair Value of the Company's total invested capital is **$8,835,000** as of January 18, 20XX. The estimate of fair value of the common stock is **$10,000** as of January 18, 20XX.

We retain a copy of this letter in our files, together with the field data from which it was prepared. We consider these records confidential, and we do not permit access to them by anyone without your authorization.

[1] Accounting Standards Codification 820 (formerly FAS 157).

USPAP (Uniform Standards of Professional Appraisal Practice) Certification

I certify that to the best of my knowledge and belief that:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and they are my personal, unbiased, professional analyses, opinions, and conclusions.
- I have no present or prospective interest in or bias with respect to the property that is the subject of this report, and we have no personal interest or bias with respect to the parties involved.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in 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.
- My analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*, the *Business Valuation Standards* of the *American Society of Appraisers,* and *the American Institute of Certified Public Accountants' Statement on Standards for Valuation Services*;
- The appraiser has NOT made a personal inspection of the subject business.
- No person except the undersigned participated materially in the preparation of this report.

Sincerely yours,

U.S. Valuations,
a division of New York Business Valuation Group, Inc.

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Daniel T. Jordan, ASA, CBA, CPA, MBA
Accredited Senior Appraiser

Table of Contents

1. INTRODUCTION

Background

ABC Corporation ("ABC" or "the Company"), is a Delaware C Corporation, incorporated on July 19, 20XX. It owns a chain of dry cleaning business, operating 71 locations in 5 states. It emerged from bankruptcy in 20XX.

On January 18, 20XX and February 24, 20XX, the Company issued warrants and restructured the debt. Due to the debt and equity transactions, you need a valuation of the Company for financial reporting purposes.

Purpose of Report

This document is an appraisal report to estimate the fair value of a 100% interest in ABC Corporation as of January 18, 20XX for financial reporting purposes. We determined the market value of invested capital and the common stock.

Intended Users

The intended users of our report are the Company's Management, the Company's auditors, and professional advisors. Anyone else is not an intended user. The report may be shown to the professional advisors and the IRS.

While it might seem logical that there is only one fair market value of an asset, that is not true. Value only has meaning in the context of a scenario, with its facts, assumptions, and the purpose of the valuation. Thus, our Valuation may not be used for other purposes, valuation dates, size interests, or by other users without our written permission. Using our appraisal work in an unauthorized manner could be misleading and dangerous. The client agrees to indemnify U.S. Valuations and its owner, against any losses arising from unauthorized use of our report.

Standard of Value

The standard of value to be used in our analysis is *fair value*, which is defined as *the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date*.[1] This is sometimes referred to as "exit value."

Premise of Value

Our opinion of Fair Market Value relied on a "value in use" or going concern premise. This premise assumed that the Company is an ongoing business enterprise with management operating in a rational way with a goal of maximizing shareholder value.

[1] Accounting Standards Codification 820 (formerly FAS 157).

Scope of Work

In accordance with the business valuation standards promulgated by the American Society of Appraisers and the Appraisal Foundation, we have prepared an appraisal. The objective of an appraisal is to express an unambiguous opinion as to the value of a business, business ownership interest, or security, which opinion is supported by all procedures that the appraiser deems to be relevant to the valuation and is based on all relevant information available as of the valuation date.

To gain an understanding of the operations and financial condition of the Company, we reviewed the Company's financial statements and other corporate information as made available to us. To understand the environment in which the Company operates, we studied economic conditions as of the valuation date and their impact on the subject Company.

As discussed in more detail later in this report, we considered all valuation methodologies and applied the most appropriate methodologies from the income, asset, and market approaches to derive an opinion of value of the subject equity interest. Our conclusion of value reflects these findings, our judgment and knowledge of the marketplace, and our expertise in valuation.

No Auditing Procedures

In performing this Appraisal, we relied on the accuracy and reliability of the Company's financial statements and other financial data. We did not audit, compile, or review financial statements or other data, and we do not express an opinion or any form of assurance on them. Our study is not designed to disclose any errors in the financial statements, nor any fraud or defalcations.

Valuation Considerations

The valuation of closely held securities and other fractional interests requires consideration of all relevant factors that may influence the market price. The factors recognized by tax courts, the Internal Revenue Service, and professional investors generally include the following:

- The nature and history of the business enterprise
- The outlook of the economy and the specific industry
- The book value and financial condition of the business
- The earnings capacity of the business
- The dividend paying capacity of the business
- The nature and value of the tangible and intangible assets (goodwill) of the business
- The market price of securities of publicly traded corporations engaged in the same or similar lines of business
- The marketability, or lack thereof, of the securities
- The existence, if any, of a control premium with regard to the block of securities being valued

- Sales of the stock (or partnership or LLC interest) and the size of the block of the stock to be valued

These considerations are outlined and described in Revenue Ruling 59-60, 1959-1 CB 237, as modified by Revenue Ruling 65-193, 1965-2 CB 370, and Revenue Ruling 77-287, IRB 1977-33. Although Revenue Ruling 59-60 specifically addresses itself to stock valuations for gift and estate tax purposes, the principles set forth may be applied to a wide spectrum of valuation problems, including those related to stockholder buy/sell agreements, mergers and acquisitions, Employee Stock Ownership Plans, corporate reorganizations, marital dissolutions, and bankruptcies. This report will discuss these factors and address other items relevant to the subject interests to determine their effect upon the fair market value of the subject interests.

Sources of Data

- Unaudited consolidated financial statements FYE September 30, 20XX-20XX and January 31, 20XX, provided by Company's Management.
- Projections (20XX-20XX), prepared by Company's Management.
- Various correspondences (phone calls, emails, questionnaires) with Tim P., Bradly S., Alex B., Tim S., and Darleen A.
- Economic statistics published by the government or other sources.
- Other sources specified herein.

3. Economic Outlook

General Economy

Table 3.1 contains forecasts for major economic indicators from the "Survey of Professional Forecasters" by the Federal Reserve Bank of Philadelphia.

Table 3.1: Economic Indicators Forecast[2]

	2013	2014
Real GDP Growth	1.5%	2.6%
PCE Price Index	1.2%	1.8%
CPI Inflation	1.3%	1.8%
Unemployment Rate	7.5%	7.1%
3-Month Treasury	N/A	N/A
10-Year Treasury	N/A	N/A

Table 3.2 displays various key interest rates as of December 31, 2013.

Table 3.2: Key Interest Rates[3]

Financial Instrument	12/31/13
Euro Dollar Deposits: 3 Month	0.27%
Euro Dollar Deposits: 6 Month	0.42%
Prime Rate	3.25%
T-Bonds: 1 Year	0.13%
T-Bonds: 20 Year	3.72%
Corporate Bonds: Moody's Aaa	4.57%
Corporate Bonds: Moody's Baa	5.37%

Recent Economic and Financial Developments[4]

Gross Domestic Product

Output appears to have risen further in the first half of 2013 despite the substantial drag on economic growth from federal fiscal policy this year and the restraint on export demand from subdued foreign growth. Real gross domestic product (GDP) increased at an estimated annual rate of 1-3/4% in the first quarter of the year, the same as the average pace in 2012, though available indicators point at present to a somewhat smaller gain in the second quarter. Economic activity so far this year has been supported by the continued expansion in demand

[2] Released on August 16, 2013. Available at http://www.phil.frb.org/research-and-data/real-time-center/survey-of-professional-forecasters/2013/survq313.cfm
[3] Released on January 6, 2014. Available at http://www.federalreserve.gov/Releases/H15/20140106/
[4] Monetary Policy Report to the Congress, dated July 17, 2013, http://www.federalreserve.gov/monetarypolicy/mpr_20130717_summary.htm

by U.S. households and businesses, including what appears to be a sustained recovery in the housing market. Private demand has been bolstered by the historically low interest rates and rising prices of houses and other assets, partly associated with the FOMC's continued policy accommodation.

In addition, some of the other headwinds that have held back the economy in recent years have dissipated further. Risks of heightened financial stresses in Europe appear to have diminished somewhat, consumer confidence has improved noticeably, and credit conditions in the United States generally have eased. Nonetheless, tight credit conditions for some households are still likely restraining residential investment and consumer spending, and uncertainty about the foreign outlook continues to represent a downside risk for U.S. financial markets and for sales abroad.

Job Market

The labor market has continued to improve gradually. Gains in payroll employment averaged about 200,000 jobs per month over the first half of 2013, slightly above the average increase in each of the previous two years. The combination of this year's output and employment increases imply that gains in labor productivity have remained slow. According to the latest published data, output per hour in the nonfarm business sector rose at an annual rate of only ½% in the first quarter of 2013, similar to its average pace in both 2011 and 2012.

Meanwhile, the unemployment rate declined to 7-1/2% in the second quarter of this year from around 8-1/4% a year earlier. A variety of alternative, broader measures of labor force underutilization have also improved over the past year, roughly in line with the official unemployment rate.

While the unemployment rate and total payroll employment have improved further, the labor force participation rate has continued to decline, on balance. As a result, the employment-population ratio, a measure that combines the unemployment rate and labor force participation rate, has changed little so far this year. To an important extent, the decline in the participation rate likely reflects changing demographics--most notably the increasing share in the population of older persons, who have lower-than-average participation rates--that would have occurred regardless of the strength of the labor market. However, it is also likely that some of the decline in the participation rate reflects an increase in the number of workers who have stopped looking for work because of poor job prospects.

Although labor market conditions have improved moderately so far this year, the job market remains weak overall. The unemployment rate and other measures of labor underutilization are still well above their pre-recession levels, despite payroll employment having now expanded by nearly 7 million jobs since its recent trough and the unemployment rate having fallen 2-1/2 percentage points since its peak. Moreover, unemployment has been unusually concentrated among the long-term unemployed; in June, the fraction of the unemployed who had been out of work for more than six months remained greater than one-third, although this share has continued to edge down. In addition, last month, 8 million people, or 5% of the workforce, were working part time because they were unable to find full-time work due to economic conditions.

Inflation

The price index for personal consumption expenditures (PCE) increased at an annual rate of just ½% over the first five months of the year, down from a rise of 1-1/2% over 2012 and below the FOMC's long-run objective of 2%. The very low rate of inflation so far this year partly reflects declines in consumer energy prices, but price inflation for other consumer goods and services has also been subdued. Consumer food prices have remained largely unchanged so far this year, and consumer prices excluding food and energy increased at an annual rate of 1% in the first five months of this year after rising 1-1/2% over 2012. With wages growing slowly and materials prices flat or moving downward, firms have generally not faced cost pressures that they might otherwise try to pass on.

Housing Sector

Activity in the housing market has continued to strengthen, supported by low mortgage rates, sustained job gains, and improved sentiment on the part of potential buyers. In the Michigan survey, many households report that low interest rates and house prices make it a good time to buy a home; a growing percentage of respondents also expect that house price gains will continue. Reflecting the improving demand conditions, sales of both new and existing homes have continued to move up, on net, this year. Construction of new housing units has also trended up over the past year, contributing to solid rates of increase in real residential investment in the first half of 2013. Even so, the level of construction activity remains low by historical standards. The steep rise in mortgage interest rates since May could temper the pace of home sales and construction going forward, though the pace of purchase mortgage applications so far has shown no material signs of slowing, even as the pace of refinancing applications has tailed off sharply.

Economic Outlook

Participants projected that, conditional on their individual assumptions about appropriate monetary policy, the economy would grow at a faster pace in 2013 than it had in 2012. They also generally judged that growth would strengthen further in 2014 and 2015, in most cases to a rate above their estimates of the longer-run rate of output growth. Most participants noted that the high degree of monetary policy accommodation assumed in their projections, continued improvement in the housing sector and the accompanying rise in household net worth, and the absence of further fiscal tightening should result in a pickup in growth; however, they pointed to the foreign economic outlook as an ongoing downside risk.

The central tendency of participants' projections for real GDP growth was 2.3 to 2.6 percent for 2013, 3.0 to 3.5 percent for 2014, and 2.9 to 3.6 percent for 2015. Most participants noted that their projections were little changed since March, with the downward revisions to growth in 2013 reflecting the somewhat slower-than-anticipated growth in the first half. The central tendency for the longer-run rate of growth of real GDP was 2.3 to 2.5 percent, unchanged from March.

Participants anticipated a gradual decline in the unemployment rate over the forecast period; a large majority projected that the unemployment rate would not reach their estimates of its longer-run level before 2016. The central tendencies of participants' forecasts for the unemployment rate were 7.2 to 7.3 percent at the end of 2013, 6.5 to 6.8 percent at the end of 2014, and 5.8 to 6.2 percent at the end of 2015. These projections were slightly lower than in March, with participants reacting to recent data indicating that the unemployment rate had declined by a little more than they had previously expected. The central tendency of participants' estimates of the longer-run normal rate of unemployment that would prevail under appropriate monetary policy and in the absence of further shocks to the economy was 5.2 to 6.0 percent, the same as in March. Most participants projected that the unemployment rate would converge to their estimates of its longer-run normal rate in five or six years, while some judged that less time would be needed.

All participants marked down their projections for both PCE and core PCE inflation in 2013, reflecting the low readings on inflation so far this year. Participants generally judged that the recent slowing in inflation partly reflected transitory factors, and their projections for inflation under appropriate monetary policy over the period 2014-15 were only a little lower than in March. Participants projected that both headline and core inflation would move up but remain subdued, with nearly all projecting that inflation would be equal to, or somewhat below, the FOMC's longer-run objective of 2 percent in each year. Specifically, the central tendency of participants' projections for overall inflation, as measured by the growth in the PCE price index, moved down to 0.8 to 1.2 percent in 2013 and was 1.4 to 2.0 percent in 2014 and 1.6 to 2.0 percent in 2015. The central tendency of the forecasts for core inflation shifted down slightly in 2013 and 2014, to 1.2 to 1.3 percent and 1.5 to 1.8 percent, respectively; the central tendency in 2015 was little changed and broadly similar to that of headline inflation. In discussing factors likely to return inflation to near the Committee's inflation objective of 2 percent, several participants noted that the reversal of transitory factors currently holding down inflation would cause inflation to move up a little in the near term. In addition, many participants viewed the combination of stable inflation expectations and diminishing resource slack as likely to lead to a gradual pickup in inflation toward the Committee's longer-run objective.

Summary

Thus far this year, labor market conditions have improved further, while consumer price inflation has run below the Federal Open Market Committee's (FOMC) longer-run objective of 2 percent. Gains in payroll employment since the start of the year have averaged about 200,000 jobs per month, and various measures of underutilization in labor markets have continued to trend down. Even so, the unemployment rate, at 7-1/2 percent in June, was still well above levels prevailing prior to the recent recession and well above the levels that FOMC participants think can be sustained in the longer term consistent with price stability.

Real gross domestic product (GDP) continued to increase at a moderate pace in the first quarter of this year. Available indicators suggest that the growth of real GDP proceeded at a somewhat slower pace in the second quarter. Although federal fiscal policy is imposing a substantial drag on growth this year and export demand is still damped by subdued growth in foreign economies, some of the other headwinds that have weighed on the economic recovery have begun to dissipate. Against this backdrop, a sustained housing market recovery now appears to be under way, and consumption growth is estimated to have held up reasonably well despite the increase in taxes earlier this year.

Industry Analysis- Laundry Facilities & Dry Cleaning Services[5]

Industry Overview

Companies in this industry operate coin-operated, self-service laundry facilities or provide dry cleaning, specialty cleaning and full-service laundering services. Major US companies include Coinmach Service, DRYCLEAN USA, Mac-Gray, and Martin Franchises.

The US laundry facilities and dry cleaning services industry includes about 30,000 companies with combined annual revenue of about $10 billion. The industry includes about 20,000 companies that provide retail laundry and dry cleaning services and account for about 70 percent of industry revenue, and about 10,000 companies that provide coin-operated laundromats and account for the remaining 30 percent of revenue.

Commercial and industrial laundry services are covered in the Linen and Uniform Supply Services industry profile.

Competitive Landscape

Demand is related to growth in consumer income. The profitability of individual companies depends on efficient operations and favorable store locations. Large dry cleaning companies can achieve economies of scale by using centralized cleaning operations to serve multiple retail locations. Small companies can compete successfully by owning favorable locations or providing special services. The US dry cleaning segment is highly fragmented: the 50 largest firms generate less than 10 percent of revenue. The US coin-laundry segment is fragmented: the 50 largest firms generate about 40 percent of revenue.

Products, Operations & Technology

Major products are retail dry cleaning services and coin-operated laundry services. Other sources of revenue include shoe and clothing repair services and washing machine route operations (servicing of machines in apartment complexes and other multifamily residences).

Retail dry cleaning operations consist of collecting and tagging clothing, operating dry cleaning machinery either on the retail premises or at central facilities that serve a number of stores, and pressing, bagging, and returning clothing to customers. Coin-operated laundries (laundromats) provide washers and dryers for people who don't have laundry facilities in their own home. Laundromats are typically between 1,000 and 5,000 square feet. In addition to operating retail locations, companies install and service laundromats in private buildings such as apartment complexes or college dorms under long-term contracts (so-called "laundry routes"). Operations mainly consist of money collection and maintenance.

[5] Source: www.firstreaserch.com, Laundry Facilities & Dry Cleaning Services, last quarterly update 12/16/2013.

Equipment is the largest investment for both dry cleaners and laundromats, and includes washer-extractors, finishing and ironing machines, folders, equipment computer systems, and dryers. Usually leased or financed from manufacturers or distributors, equipment is less expensive if rebuilt rather than new, and several equipment companies specialize in rebuilding machines for resale. Typical laundromat washers and dryers cost $500 to $20,000 each, depending on model and capacity. Laundromat owners also pay municipal water districts for sewer and water connections. Fees range from $200 to $8,000 per washer, according to the Coin Laundry Association.

Industry Forecast

US personal consumption expenditures for cleaning, laundering, and repair of clothing and shoes, which are major drivers for dry cleaning and laundry facilities, are forecast to grow at an annual compounded rate of 4 percent between 2014 and 2018. Data Published: February 2014.

4. Financial Review

In our Financial Review Section, we review the Company's historical balance sheets and income statements.

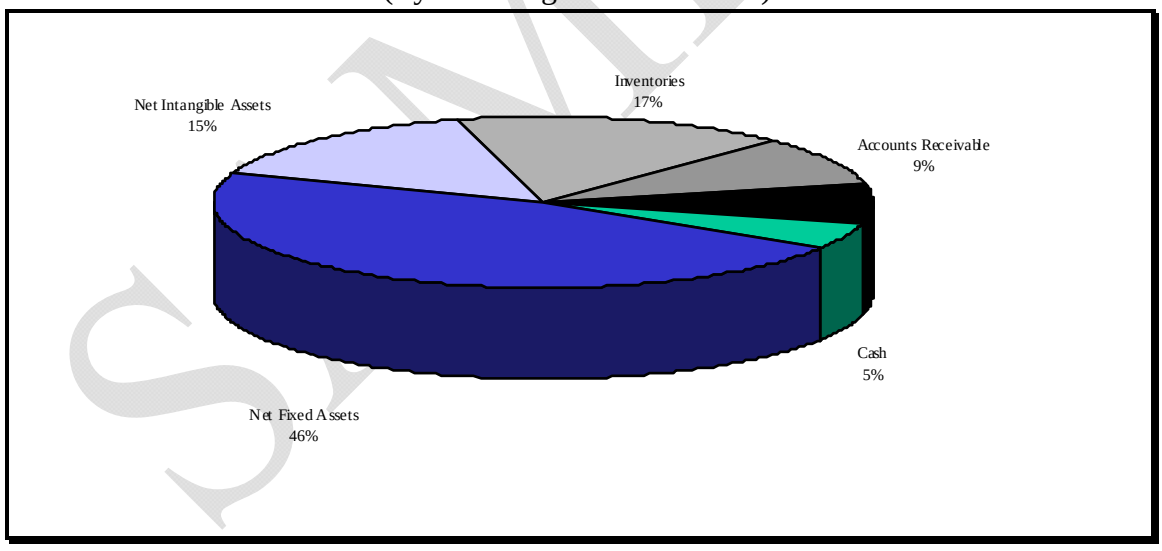
Balance Sheets

Table 4.1 displays the Company's balance sheets for the fiscal years ending September 30, 20XX to 20XX and January 31, 20XX.[6] Table 4.1.A shows the balance sheets in percentages of total assets. Table 4.1.B shows the balance sheet items as a percentage of sales. Table 4.1.C computes the net working capital. Table 4.1.D displays the cash flow items as a percentage of sales.

Total Assets decreased steadily from $19.1 million in 20XX to a low of $4.2 million as of January 31, 20XX. The largest assets as of the valuation date are net fixed assets of $1.8 million, inventories of $648,350, intangible assets (net of amortization) of $595,000.

Fig. 4.1 depicts the composition of total assets as of January 31, 20XX.

FIG. 4.1: TOTAL ASSETS AS OF JANUARY 18, 20XX
(By Percentage of Total Assets)

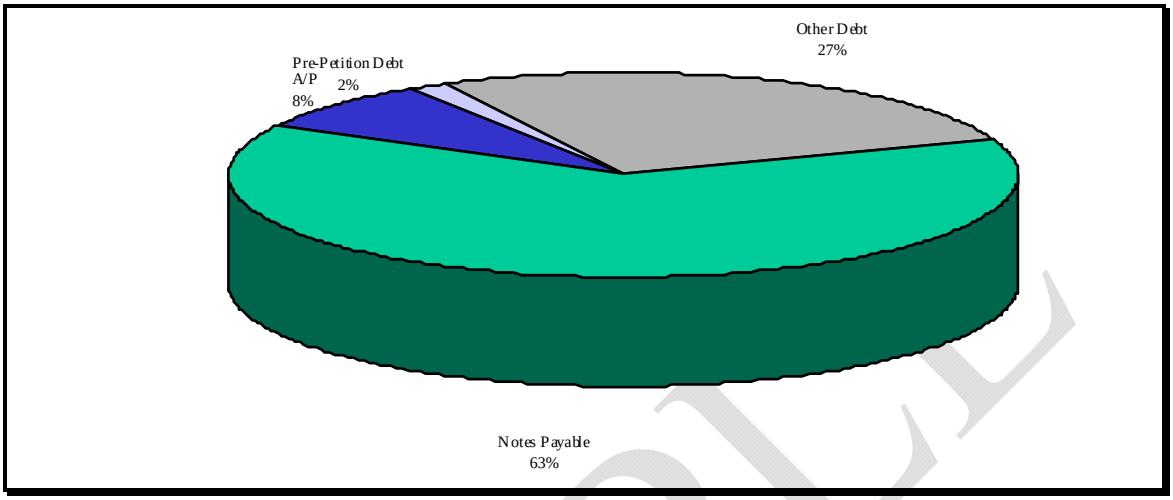


Total liabilities decreased from $21.8 million in 2008 to $15.6 million as of January 31, 20XX. The liabilities as of the valuation date consist primarily of notes payable of $9.9 million with an interest rate at 10% per annum, other accrued liabilities of $2.3 million, and accounts payable of $1.2 million.

[6] Source: Unaudited consolidated financial statements, provided by Company's Management.

Fig. 4.2 depicts the composition of total liabilities as of the valuation date.

FIG. 4.2: TOTAL LIABILITIES AS OF JANUARY 18, 20XX
(By Percentage of Total Liabilities)



Equity is negative during the period analyzed. It decreased from -$2.7 million in 20XX to -$11.4 million as of January 31, 20XX.

Income Statements

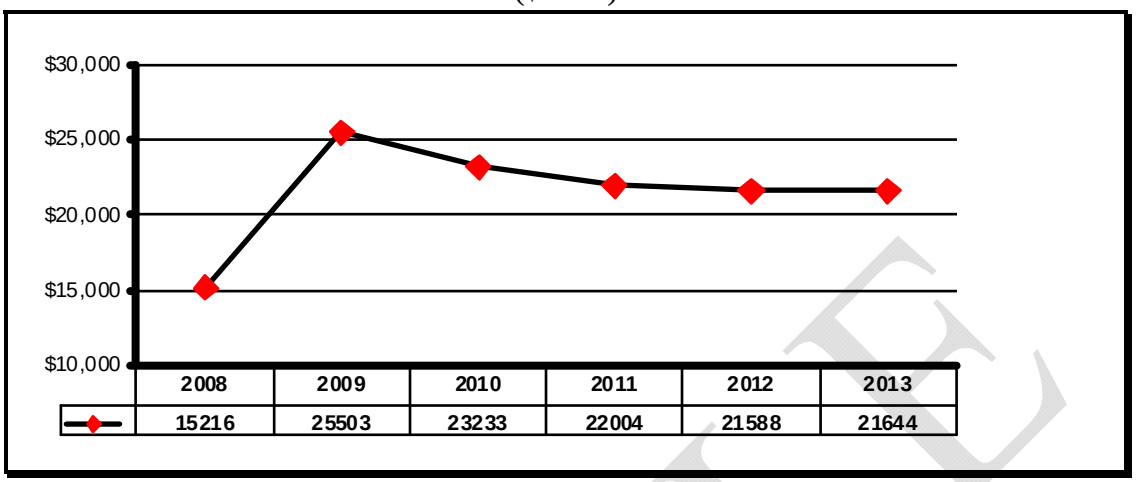
Table 4.2 shows the Company's historical income statements for the fiscal years ending September 30, 20XX-20XX and January 31, 20XX.[7] Table 4.2.A is the Company's common size income statements for the same period, where all line items are shown as a percentage of total sales. Table 4.2.B shows the income tax calculation.

Net Sales increased from $16.2 million in 20XX to $21.6 million in 20XX.

Figure 4.2 shows annual revenues for 20XX through 20XX.

[7] Ibid.

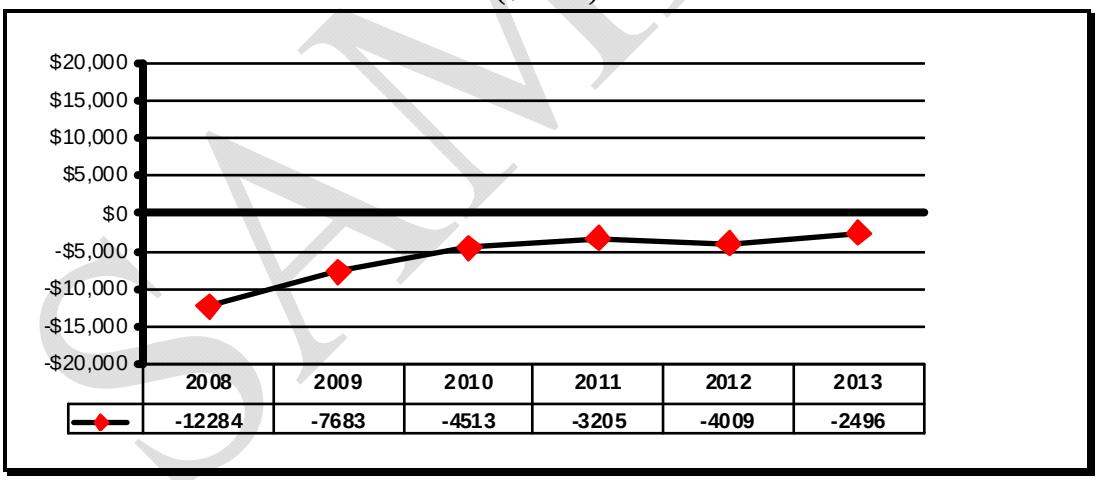
FIGURE 4.2: ANNUAL TOTAL INCOME
($000's)



Net income before taxes (NIBT) is negative during the period analyzed. It increased from -$12.3 million in 20XX to -$2.5 million in 20XX.

Figure 4.3 shows the net income before tax for 20XX through 20XX.

FIGURE 4.3: NET INCOME PER YEAR
($000's)



Financial Ratios

Table 4.3 shows the financial ratios of the Company for 2008 through 2013. Table 4.4 compares the Company's ratios for 2013 to the ratios of a sample of companies in the same industry. The data is from *Fintel*.[8] The Company data in Table 4.4 (Year 2013) comes from Table 4.3. Table 4.4 shows comparative industry statistics for NAICS Code #81231—Laundry Facilities & Dry Cleaning Services.

In our comments below, we compare the ratios for the Company to the industry data in Fintel.

Liquidity Ratios

Current Ratio: The current ratio is current assets divided by current liabilities and is an indication of the Company's ability to pay its current liabilities. A current ratio of less than 1 is a cause for concern. The Company's current ratio is 0.4, which compares negatively to the Fintel sample of 2.1.

Quick Ratio: The Quick Ratio is the ratio of liquid assets to current liabilities. The numerator includes cash, cash equivalents, and accounts receivables. It excludes inventory and other assets that will not turn to cash very quickly. It is an indication of the Company's ability to meet its immediate needs. The Company has a quick ratio of 0.2, which is inferior to the Fintel median of 1.8.

In summary, the Company's financial position is inferior to the Fintel group.

Leverage Ratios

Leverage Ratios indicate the extent of financing of the Company. Risk and expected return both increase with financial leverage.

Debt/Assets: This ratio indicates the Company's ability to pay all its debts. It is an indicator of the long-run solvency of the firm. The Company is overly leveraged. Total debt to total assets is 1.5, which means the Company has more debt than assets. This compares negatively to the Fintel median of 0.6.

Debt/Equity: This ratio indicates relative amounts of capital provided by creditors and shareholders. A high Debt to Equity ratio indicates high financial leverage, and thus, high financial risk. The Company's Debt/Equity ratio of -3.2 is inferior to the Fintel sample of 1.2.

Fixed Assets to Net Worth: This ratio provides the percentage of assets centered in fixed assets compared to total equity. Generally, the higher this percentage, the more vulnerable a firm becomes to unexpected hazards and business climate changes. Capital is frozen in the form of machinery and the margin for operating funds becomes too narrow to support day-to-

[8] Source: First Research, Last Quarterly Update 7/11/2011, Laundry Facilities & Dry Cleaning Services.

day operations. The Company's Fixed Assets to Net Worth ratio of -0.5 compares negatively to the Fintel sample of 0.4.

Coverage Ratio (or Times Interest Earned): Times interest earned indicates how well the firm is able to cover its interest payments. A higher number indicates that the Company is more capable of paying its interest. The basic formula is: Times Interest Earned = EBIT / Interest. The Company's coverage ratio is -0.5, which compares negatively to the Fintel median of 6.3.

In summary, the Company's leverage ratios are inferior to the Fintel Group.

Activity Ratios

Accounts Receivable Turnover (Revenues/AR): The accounts receivable turnover provides an indication of the quality of the receivables and gives an idea of how successful the company is in collecting its outstanding receivables. A higher number turnover indicates a more rapid collection of receivables. The Company's ratio of 59.3 compares positively to the Fintel median of 9.4.

Inventory Turnover (COS/Inventory): This ratio measures how quickly the inventory is sold. The higher the inventory turnover, the better the entity is performing. The Company's ratio of 14.8 compares positively to the Fintel median of 6.4.

Asset/Sales: This ratio is a measure of a firm's productive use of assets and a low percentage compared to the average for an industry usually indicates high asset use efficiency. If a firm is more highly labor intensive than most in an industry, or if fixed assets are largely depreciated, a ratio may be distorted and falsely indicate higher asset efficiency than is the case. The Company's ratio is 1.6. The Fintel industry average of 1.5 is lower. This is evaluated as a positive.

Accounts Payable to Sales: This ratio provides a measure of a firm's ability to generate sales revenue to cover supplier expenses. A high percentage may indicate an over reliance on supplier credit to support sales. The Company's ratio of 0.1 is inferior to the Fintel median of 0.

Working Capital Turnover (Sales/Net Working Capital): This ratio tells us how efficiently working capital is employed. A high ratio indicates efficient use of working capital. However, a too high ratio indicates risk for creditors. The Company's ratio of -12.8 compares negatively to the Fintel median of 6.1.

In summary, the Company's Activity Ratios are mixed with three positive and two negative ratios.

Profitability Ratios

The Company's arithmetic average annual sales growth is 10.4%. The compound average annual growth (CAGR) since 2008 is 7.3%.

The Company's arithmetic average annual growth in net income before taxes is -24.1%. The compound average annual growth (CAGR) since 2008 is -27.3%.

Pre-Tax Profit Margin: This ratio, net income before income tax divided by net sales, indicates the contribution of sales to the profitability of the Company. Put another way, it indicates the amount of net income generated by a dollar of sales. The 2013 pretax profit margin of -11.5% is lower than the Fintel median of 3.4%, which is evaluated as a negative.

Pre-Tax ROE: The return on equity (ROE) measures the return earned on the owners' equity in the firm. The higher the rate, the more the firm has increased wealth to the shareholders. The Company's pretax return on equity is not meaningful as net income and equity are both negative. Therefore, we evaluated this as a negative in comparison to the Fintel median of 11.5%.

Pre-Tax ROA: The return on assets (ROA) ratio indicates the Company's efficiency in its use of assets to generate profits. The higher the ratio, the more efficient and profitable is the Company in its use of assets. The Company's pretax return on assets is -18.2%, which is lower than the Fintel industry average of 5.2% and therefore evaluated as a negative.

In summary, the Company's profitability ratios are clearly inferior to the Fintel group.

Summary of Comparative Ratio Analysis

Based on the 2013 ratios, the Company is inferior to the industry in the liquidity, leverage, and profitability ratios. The Company is overly leveraged and not profitable.

5. VALUATION

Valuation Approaches[9]

A valuation approach is "a general way of determining a value indication of a business… using one or more valuation methods." A valuation method is, "within approaches, a specific way to determine value."

There are three valuation approaches:

- The Asset Approach. In this approach, we seek to measure value through the calculation of assets net of liabilities, i.e., this is a balance sheet approach. One can use book, market, or liquidation values of assets in this approach. The same is true for liabilities, except that, in addition, it may be necessary to use a discounted cash flow method to calculate the market value of some liabilities such as notes payable.
- The Income Approach. In this approach, we seek to measure value by converting anticipated economic benefits (cash flows or income, with the former being the better measure) into a present single amount.
- The Market Approach. In this approach, we seek to measure value through comparing the subject company to other businesses or business interests that have sold.

While there are three distinct valuation approaches, it turns out that there are interrelationships between the approaches that will become apparent over the next several pages.

Valuation Methods

Below is a list of the most common valuation methods and their classification according to valuation approach. After the list, we describe each method, its salient strengths and weaknesses, and our reasons for whether or not we use it to value the Company.

- The Asset Approach, using
  - Book Values
  - Fair Market Values (aka Adjusted Net Book Value Method)
  - Liquidation Values

- The Income Approach (aka Discounted Future Returns)
  - Discounted Future Net Income Method
  - Discounted Cash Flow Method

[9] Definitions in this section come from the International Glossary of Business Valuation Terms.

  - Capitalization of Earnings Method
  - Discounted Dividends Method

- The Market Approach
  - Guideline Public Company Method
  - Guideline Private Company Method
    - Small private companies
    - Guideline Merger & Acquisition Method (large private firms)

- Hybrid Approach
  - Excess Earnings Method, which is both an Asset and Income Approach

Asset Appraisal Method (AAM)

As mentioned above, the appraiser can use book values, fair market values, or liquidation values in the AAM.

Using Book Values

This method views the Company's fair market value as the book value of its stockholder equity. However, the net book value of a company only reflects its accounting history as expressed in nominal dollars, and this usually bear very little relationship to fair market values.

When there is a relationship, it is usually not 1-to-1. Instead, the importance of the book value of the Company is more accurately measured in a Market Approach regression analysis if the guideline company book values are available. Thus, the importance of the book value of the Company is generally as an input to the Market Approach and as a starting point for calculating liquidating values. It has no direct intrinsic importance in valuation.

Using Market & Liquidation Values

In these Asset Approach methods, we restate assets and liabilities at their fair market values. The fair market value of stockholder equity is then calculated by subtracting the fair market value of the liabilities from the fair market value of assets.

There are two potential premises of fair market value—going concern value and liquidating value. The AAM is generally unsuitable for valuing healthy, operating businesses, because it is unable to measure the fair market value of intangible assets. For this, the Income and Market Approaches are superior. The latter two approaches generally measure the FMV of the equity, including intangible asset value. One can then subtract the AAM's indication of value using market values of assets and liabilities from the FMV of equity to calculate the

FMV of goodwill and other intangible assets. Of course, it is necessary to maintain consistency in the levels of value[10] (LOV) or make adjustments for differences.

However, the AAM is appropriate as the primary valuation approach for holding companies with no material intangible asset value and whose assets have FMVs that are easily measured, either because they are publicly traded securities or they can be appraised, such as real estate. Family holding companies, usually in the form of Family Limited Partnerships, are a typical example of the latter type of firm.

We also use the AAM to ascertain whether an operating company is worth more "dead or alive." If the Asset Approach with liquidating values yields a higher indication of fair market value than the Income and Market Approaches, then a control shareholder would be wise to liquidate the Company, and the Asset Approach should dominate the other two. A minority shareholder does not have the power to compel liquidation. Thus, the valuation of a minority interest will often rely on an Income Approach—even if its indication of fair market value is lower than the Asset Approach. Of course, when the indication of fair market value is higher from the Income Approach than the Asset Appraisal Method, then the Income Approach should dominate.

The Company is not a holding company. Therefore, we use the Asset Appraisal Method to ascertain whether the Income and Market Approach dominate in this valuation.

Income Approach Methods

The Income Approach methods are based on the concept that the value of a business is best measured by the present value of the net income, cash flow, or dividend streams it can generate in the future. The present value calculations adjust the forecast future cash flows to today's fair market value by incorporating the time value of money as well as the associated business and economic risks of that enterprise.

The Discounted Future Net Income, Discounted Cash Flow, and Discounted Dividends Methods are subsets (methods) of the Income Approach. One can forecast net income or cash flows and then discount them to their net present value.

For valuation purposes, cash flow is superior to net income. A business cannot pay its bills, employees, and shareholders with net income. It can only pay them with cash. A business with positive net income may have such poor cash flow that it can go bankrupt. Therefore, we never discount net income to present value. We only discount cash flows.

[10] A complex concept covered at length in chapter 7 of *Quantitative Business Valuation: A Mathematical Approach for Today's Professionals* ©2001, Jay B. Abrams, McGraw-Hill. The LOV quantifies differences in value that result from differences in marketability resulting from the interaction of public versus private ownership, with the latter being more valuable, and different control attributes—in descending order: strategic, control, well-treated minority, and exploited minority interests.

There are two general levels of cash flows in valuing businesses. Dividends are cash flows at the shareholder (micro) level, while the forecast cash flow of the Company is cash flow at the macro level. If one is valuing a minority business interest, the Discounted Dividends Method theoretically should be the ideal Income Approach method. In practice, though, it is rarely used, since most privately held firms do not pay dividends. Therefore, it is most common in valuing a business interest to first discount cash flows at the firm (macro) level and then make adjustments for differences in control and marketability for the interest being valued.

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 owners' capital of the company under analysis.

The Guideline Company method involve performing either regression analysis and/or calculating ratios of a dependent variable (usually the market capitalization if using publicly traded guideline companies or selling price if using a database of private company sales) to independent variables that are "valuation drivers", i.e., variables that investors would consider in how much they would pay for the guideline companies, such as cash flow, earnings, and book value, etc. The guideline companies ideally should be in the same business as the subject company. When there are no guideline companies available in the same business, then it is possible to use guideline companies in similar businesses or businesses that have similar demand characteristics.

A search was conducted for companies comparable to the Company. However, no publicly traded companies were found to be similar enough to the Company to apply the Guideline Company Method.

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.

A search was performed for acquisitions of similar companies. In Table 5.3, we apply the Guideline Transaction Method based on Pratt's Stats.

Excess Earnings Method

The Excess Earnings Method is a hybrid asset and income approach. One calculates a reasonable return to demand for the tangible assets of the firm and subtracts that from the actual income, the difference being "excess returns." One would then capitalize the excess

returns at a rate of return appropriate for intangible assets, which is higher than that for the total income or cash flows of the firm. The result of that calculation would be the intangible assets of the firm. One would then add the intangible value to the tangible assets to obtain the value of all assets.

This valuation method has four significant disadvantages.

- It requires calculating two rates of return instead of the usual one.
- The return on intangible assets is not directly observable in the marketplace, while returns on investment are directly observable.
- It uses earnings instead of cash flow.
- The Internal Revenue Service disparaged this approach in Revenue Ruling 68-609, saying it may be used only if no better basis is available.

Because of these disadvantages, we do not use the Excess Earnings Method.

Selection of Valuation Methods

We use the Asset Appraisal Method, DCF method and the Transaction Method to determine the enterprise value. We used The Relief from Royalty Method to value the Trade Name. We use the Option-Pricing Method to determine the value of the common stock.

Projections

Table 5.1 shows the projections for ABC without IPO, prepared by Management for 2014 through 2018. The projections are fiscal years ending September 30.

Net sales are projected to increase from $21.5 million in 2014 to $24.4 million in 2018.

EBITDA is projected to increase from $279,500 in 2014 to $830,700 in 2018.

Net Income before taxes (NIBT) is negative throughout 2014 and 2018. NIBT is projected to increase from -$1.5 million in 2014 to -$596,400 in 2018.

We add back the interest expense to determine the net income to invested capital. The invested capital model is "as if debt free", thus, this model assumes as if there is no debt in the Company. We compute the net income to invested capital when using the weighted average cost of capital (WACC) in the DCF as opposed to the equity rate. The WACC is a blend of the cost of equity funds and the cost of debt funds, weighted in accordance to the debt-equity mix at market value of both equity and debt.

The adjusted net income before taxes (NIBT) to invested capital is negative during 2014 and 2016 and positive starting in 2017. It is projected to increase from -$370,500 in 2014 to $530,700 in 2018.

Discounted Cash Flow Method-Non IPO Scenario

We begin Table 5.1.A, the Discounted Cash Flow Valuation, with forecast net income before tax to invested capital for 2014 (transferred from Table 5.1). The amount is -$370,500. Since year 1 is a stub year (1/18/14 to 9/30/14), we multiply this by 0.7, which is -$258,665. The forecast net income before tax to invested capital for 2015 is $146,900. We only show two years of projections as we assume the sale of the Company in 2015.

We then make adjustments to reconcile the net income to cash flow. We add back forecast depreciation and subtract capital expenditures (from Table 5.1). We subtract forecast increase in working capital at 6.9% (3 year average data) of forecast sales (see Table 4.1.D).

After the above adjustments, we arrive at forecast cash flow.

We then compute the Present Value Factor (PVF). This figure accounts for the time value of money and our assessment of the risk of the Company. It is calculated as follows:

$PVF = \frac{1}{(1+r)^n}$, where:

r = the discount rate, or the investment rate of return required for an investment in the Company, given its risk, and

n = the number of years from the midpoint of that year's cash flows to the valuation date. In present value terms, since cash flows come in evenly throughout the year, it is as if they came on the midpoint of the year.

We calculate a discount rate - the weighted average cost of capital (WACC) - of 16.0%. The calculation of the discount rate is explained in the commentary to Table 5.1.B.

The present value as of the valuation date of each year's forecast cash flow is the result of multiplying the forecast cash flows by the present value factors. The cumulative present value for the years 1-2 equals the sum of the present values.

Since we assume the sale of the Company at the end of year 2, we do not apply the Gordon Model Multiple. Instead in the terminal value calculation, we assume the Company is sold at $9.9 million (transferred from Table 5.3). We assume the Company could be acquired at a price/sales multiple of 0.46. We present value this as of the valuation date.

To obtain the present value of the entire cash flow stream, we add the present value of cash flows Years 1-2 and the present value of the terminal value. The sum is $7.7 million, which is the total invested capital (TIC). This value represents the value of a company available for its debt holders as well as its shareholders.

Weighted Average Cost of Capital

Because we are valuing cash flows to total capital (interest bearing debt and equity), the appropriate discount rate is the weighted average cost of capital. The weighted average cost of capital is calculated by weighting the cost of the components of capital (debt and equity) by their respective proportions of total capital. This calculation is provided in Table 5.1.B.

Cost of Equity Capital

In Table 5.1.B, we compute the discount rate using the Build-Up Method. The rate of return must be a reasonable proxy for the return necessary in the marketplace to attract the capital of the "willing buyer" inherent in the fair market value standard. The return acceptable to individual investors varies from investor to investor. This is one of the primary factors that can cause differences between the price at which individual transactions are executed and the defined fair market value. Under the fair market value standard, rates are developed assuming the hypothetical buyer and seller are well informed and prudent and the investment for the buyer is void of synergy, given the size and type of interest being valued.

Conventional wisdom is that the size of the rate of return is easier to reasonably estimate if it is "built up" to represent the risk adjusted opportunity cost of investing in the subject company. This opportunity cost represents the rate of return an investor would expect from an alternate equity investment of similar risk. The following describes the components used to develop the requisite discount and capitalization rate.

Risk-Free Base Rate

The base rate for the development of the rate of return is the risk-free rate based upon the 20-year U.S. Treasury Bond rate from the Federal Reserve, Statistical Release effective at the date of the valuation. The 20-year is used and not the 30-year to be consistent with the use of the 20-year bond in the empirical studies which support the equity and size risk premiums. In those studies the 20-year bond was used, as it was the longest-term bond in existence over the historical period selected as the relevant period by those who performed the empirical studies. Investment theory states that the cost of equity capital can never be less than the risk free rate of return available in the market.

At January 17, 2014, the estimated 20-year US Treasury bond yield was 3.5%.

Equity Risk Premium

The next increment in the build up procedure is the long-term arithmetic average annual total return on an index of large company stocks, which are freely and actively traded in excess of the income return on the 20-year U.S. Treasury Bond used as the risk-free base rate. This component is referred to as the equity risk premium. It is obtained from the Ibbotson Stocks Bonds Bills and Inflation Yearbook (SBBI).

At January 17, 2014, the equity risk premium was 6.7%.[11]

Small Company Premium

The next increment is a premium to address the additional risk inherent in smaller companies over the larger companies used to develop the equity risk premium component. There is considerable empirical evidence that the market requires and receives over time higher rates of return when investing in smaller companies. This is based on what is intuitively logical, all other things being equal, risk increases as the size of a business decreases. The greater risk is a result of considerations such as less access to equity capital, less diversification in products/services, customers, and geographic market area, less likelihood of a board of directors who provides independent oversight of management's performance, a less established name in the eyes of its customers, etc. This rate was also obtained from the Ibbotson Stocks Bonds Bills and Inflation Yearbook.

At January 17, 2014, the 10th decile size premium was 6.0%.

Specific Company Risk Premium

The final increment in the build up process is unique to the specific company being valued. This increment is an expression of the analyst's judgment as no empirical evidence or database exists, or can exist, to measure the company-specific risk drivers. In fact, the need to identify the company's specific risk drivers generally is relevant only when a private company is being valued. The valuator must identify material, specific company risk drivers and judge their magnitude in order to estimate the additional incremental rate of return the market would require to offset the acceptance by the investor of that additional risk. The factors, which comprise this component and the magnitude of each will vary from company to company, among industries, and over time within the same company. In general terms these factors may include:

- Industry risk
- Financial position of the company
- Level of diversification
- Depth of management
- Competition
- Barrier to funds
- Expected growth or decline of the business, etc.

Based upon our analysis, we considered the above items, we have determined that a specific company risk premium of 4.0% should be used to compute the discount rate applicable to the Company. The total discount rate is 20%, which is our proxy for the cost of equity capital.

[11] SBBI Valuation Edition 2013-Yearbook, Ibbotson Associates, Inc., p. back cover.

Computation of Cost of Debt

We derived the cost of debt capital by reviewing the current interest rate costs of the Company's interest-bearing debt, provided by Management. The estimated cost of debt (net of tax) is 6.0%.

Weighted Average of Cost of Capital

The weighted average cost of capital (WACC) is the blended costs of the Company's expected capital structure components, each weighted by the market value of that component. The weights are typically determined by the anticipated long-term industry average leverage position (i.e., average amount of debt capital to equity capital). We compute the median debt to capital ratio of 28% (Table 5.1.C) based on comparable companies. Thus, we weight the cost of debt by 28% and the cost of equity by 72%. We calculate the WACC to be 16.0%.

The formula for the WACC is:

$$WACC = (k_e \times W_e) + (K_{d(pt)}[1 - t] \times W_d)$$

Where:

K_e	= Cost of Equity
W_e	= Percentage of equity in the capital structure
$K_{d(pt)}$	= Cost of debt (pretax)
t	= Tax rate
W_d	= Percentage of debt in the capital structure

Discounted Cash Flow Method-IPO Scenario

In Table 5.1.D, we compute the enterprise value based on the assumption that the IPO will take place in 2014. Thus, we only show one year of projections, Year 2014. The calculation is similar to Table 5.1.A. Thus, we refer to the commentary to Table 5.1.A.

The difference is the terminal value. In an IPO scenario, the Company is valued at $21 million by the underwriter. Management informed us that the underwriter valued the Company one time revenues, i.e. $21 million, which we present value to the valuation date.

The Invested Capital equals $18,251,000 (Rd.) under this method.

Market Approach

Next, we move to valuation using the Market Approach. The Company is too small for meaningful comparison to publicly traded firms. Thus, we compare the Company to privately traded firms only.

Based on the operating nature of the business, we identified the following Standard Industrial Classification (SIC) Code12 that may be appropriate for the subject Company:

7216- Drycleaning Plants, Except Rug Cleaning

Establishments primarily engaged in drycleaning or dyeing apparel and household fabrics other than rugs.

Guideline M&A Method-Pratt's Stats

We searched Pratt's Stats for transactions in SIC Code 7216 and noted 107 transactions with sales between $45,480 and $4.0 million (shown in Table 5.3.A). We removed those with sales below $1 million, leaving 8 transactions (shown in Table 5.3).

We display the following three multiples:

- Market Value of Invested Capital to Sales (MVIC/S)
- Market Value of Invested Capital to Discretionary Earnings (MVIC/DE)
- Market Value of Invested Capital to EBITDA (MVIC/EBITDA)

We show the mean and median multiples as well as 10th through 90th percentile. Usually, we use median multiples to value the Company. The median is less sensitive to extreme scores than the mean, which makes it a better measure than the mean for highly skewed distributions.

However, in this case, we need to adjust the multiple. The MVIC/Sales is the only multiple that leads to a positive value. Since discretionary earnings and EBITDA are negative, the indicated value from those multiples is $0. There is a danger using the MVIC/Sales multiple as most of the transactions in Pratt's Stats (shown in Table 5.3.A) have positive earnings. In fact, the entire sample data we used to compute the multiple had positive earnings (Table 5.3). The subject Company on the other hand has losses. Therefore, we adjust the multiple for lack of profitability. Instead of using the median (50th percentile), the applicable multiple is the 10th percentile.

We apply the client's 2013 data to determine the Fair Value based on invested-capital multiples.

[12] SIC Codes obtained from the U.S. Department of Labor: www.osha.gov

- The 10th percentile MVIC/S multiple is 0.46 and results in an indicated value of $9.9 million.

- As mentioned, since discretionary earnings and EBITDA are negative, the indicated value from those multiples is $0.

We give 100% of weight to the MVIC/Sales multiple. The market value of invested capital in the firm yields **$9,947,000 (Rd.)** on a Transaction Approach based on the 10th percentile MVIC/Sales multiple.

We also applied various regressions to determine an indication of fair value. Regression analysis is a statistical technique that measures the mathematical relationship between a dependent variable and one or more independent variables. We measure the market value of invested capital as a function of sales, net income, and other variables that potentially determine the MVIC of a business.

The first regression is MVIC as a function of Net Sales. Its x-coefficient was statistically significant, with the p-value being close to 3%, which means that net sales are statistically significant at the 97% level. However, the adjusted R square is only 51.1%, which means that the regression model explains 51.1% of the variation in MVIC. Due to lack of profitability of the subject Company, we do not give any weight to this regression.

The second regression is MVIC as a function of Sales and Net Income. While the regression is statistically significant and adjusted R square is 95.0%, but it resulted in a negative value due to the negative earnings.

The third regression is MVIC/Sales as a function of EBITDA/Sales. However, this regression is not statistically significant and not further analyzed.

Asset Appraisal Method

Table 5.4 is our Asset Approach valuation, the Adjusted Book Value Method. We adjust the book value to market value of invested capital. Thus, any interest bearing debt is adjusted to zero in the Adjusted Book Value Method. The property & equipment is adjusted to market value, provided by Management. For the intangible assets, we use the fair value of the trade name that is computed at $636,000 in Table 5.6. The adjusted book value (MVIC) is -$260,227.

Reconciliation of Invested Capital

Table 5.5 is a summary of the indicated values determined from each appraisal method as of January 18, 2014. The various indications of value are weighted in order to arrive at a final estimate of value.

Asset Approach

The adjusted book value (MVIC) equals -$260,227 as of the valuation date or zero, given the limited liability protection of the corporation.

Income Approach

The DCF resulted in an MVIC of $7,723,000.

Market Approach

We applied the Transaction Method based on data from Pratt's Stats. The 10th percentile MVIC/Sales multiple resulted in a market value of invested capital of $9.9 million.

Weighting

While the premise of value for the income and market approach is going concern, the asset approach is used more to determine the value of the company in liquidation. In other words, the Asset Approach is used to ascertain whether the Company is worth more "dead or alive."

The asset approach yields a lower value than the income and market approaches. Thus, the income and market approaches dominate. We weight the income and market approaches equally, as both approaches appear equally important, valid, and reliable.

Conclusion of Invested Capital

The market value of invested capital in the firm on an illiquid control basis is **$8,835,000 (Rd.)** as of January 18, 2014.

Valuation of a Trade Name

To value the trade name, the market approach was considered and then rejected as not being a feasible method of valuation here. Trademarks and trade names rarely sell separately in the marketplace; thus, information required to perform a market approach is rarely available. We have applied a cost approach to determine the floor value. It can be difficult to accurately identify all of the costs related to recreating the trade name and building recognition, a factor required to use the cost approach. It provides an indication of fair market value but due to the problems with the cost approach, we do not give much weight to it.

A comprehensive method to value the name is a variant of the income approach known as the relief from royalty method. The premise of this valuation methodology is the assumption than an owner/operator of a company would be compelled to pay the rightful owner of the intangible asset (such as a trade name) if the owner/operator did not have the legal right to utilize the subject intellectual property. Because ownership of a trade name relieves a company from making such payments (royalties), the financial performance of the firm is enhanced to the extent that these royalty payments are avoided. Thus, under this method the value of a trademark or trade name is based on the portion of the company's earnings (royalties) that may have been paid for using the trade name.

Income Approach

Table 5.6 is our valuation of the trade name as of January 18, 2014 using the Relief from Royalty Method, which is a variant of the Discounted Cash Flow (DCF) Method.

We start with projected net sales, which are the same sales projections for the enterprise (transferred from Table 5.1).

The Relief from Royalty Method applied here assumes that the rights to use the trade name transfer to the buyer in perpetuity, giving it an indefinite life.

The royalty method is usually expressed as a percentage of pretax revenues. The relief from royalty method equates the value of a trademark or trade name to the portion of the company's earnings that represents the pretax royalty that may have been paid for using the trade name.

The Company has seven brands that are being used in different markets:

1) Boston
2) Caesar's
3) Martining
4) Regency
5) Tuchman
6) Young's
7) Zoots

In corroboration with Management, we determined that a royalty rate of 0.5% is applicable, stated as a percentage of sales. Such royalty rate was applied to the appropriate revenue base to arrive at the periodic royalty due to the licensor. Net royalties were discounted to present value using ABC's cost of equity, thereby yielding an estimated fair value.

We conducted an interview with Marcia Coutinho from RoyaltyStat. She examined the royalties paid for dry cleaning franchises. The median royalty rate based on 17 franchise agreements is 6%. However, this rate includes advertising fee, franchising fee, and other payments. We need to down adjust the rate to value the trade name only. Based on our research, the marketing and promotion fee is typically 1% of gross sales.[13] This is in line with ABC. According to Tim Price, ABC spends about 1% of sales on marketing and promotions.

Considering that ABC only has losses, we need to lower the royalty rate. A trade name only has value if the trade name can achieve positive results. Since the net income will eventually become positive based on Company's projections, the royalty rate for the subject Company should be more than 0 but less than 1%. We use a low royalty rate to reflect the low profits. We therefore use a royalty rate of 0.5% for the subject Company.

We multiply the projected net sales by the above stated royalty rate to arrive at the pretax relief from royalty. We tax affect the royalties.

We compute the Present Value Factor (PVF). This figure accounts for the time value of money and our assessment of the risk of the Company. It is calculated as follows:

$$PVF = \frac{1}{(1+r)^n}$$, where:

r = the discount rate, or the investment rate of return required for an investment in the Company, given its risk, and

n = the number of years from the midpoint of that year's cash flows to the valuation date. In present value terms, since cash flows come in evenly throughout the year, it is as if they came on the midpoint of the year.

We use a discount rate of 16% to reflect a risk assessment that the trade name is approximately as risky as the business overall.[14] We multiply the forecast cash flows (here royalties) by the present value factors to arrive at the present value as of the valuation date of each year's forecast cash flow. The cumulative present value for the years 1-5 equals the sum of the present values.

[13] http://www.franchisedirect.com/cleaningfranchises/1800-dryclean-07248/ufoc/
[14] See Valuation for Financial Reporting, Mard, Hitchner, Hyden, & Zyla, c. 2002, Wiley & Sons, NY, p. 68.

Gordon Model Multiple

We now apply a Gordon Model Multiple, which is a formula that allows us to calculate the present value of a growing perpetuity. Assuming a midyear convention, the formula is:

Gordon Model Multiple (GMM) = $\frac{\sqrt{1+r}}{r-g}$, where r is the discount rate and g is the growth rate to perpetuity. The GMM is the present value of each one dollar of forecast cash flow growing at a constant rate of *g* forever.

As mentioned above, for the valuation of the trade names, we use the discount rate at 16.0%.

Growth Expectation

The growth rate is the long-term sustainable growth rate for the subject company's income, or cash flow stream. This growth rate generally equals an expected inflation rate plus an expected growth rate. We use 3% based on professional judgment.

Substituting r = 16% and g = 3%, our GMM is 8.28.

The product of the Gordon Model Multiple and Forecast Cash Flow of Year 6 is the present value of residual, which is the present value of cash flows from years 6 to infinity as of the end of year 5.

To calculate its present value as of the valuation date (year 0), we discount that back 4.7 years.[15] This results in the present value of Year 6-to-infinity forecast cash flow as of the valuation date.

The rights to use the trade name transfer to the buyer in perpetuity, giving it an indefinite life. The fair market value of the trade name is the present value of the royalties projected for the five-year period 2014-2018, plus the present value of the residual at the end of the five-year period, plus the amortization benefit. Based on our analysis, we conclude that the aggregate fair value of the trade name as of the valuation date is **$636,000 (Rd.)**.

[15] Note that this is not a midyear assumption.

Allocation

In allocating the fair market value of a business enterprise to the various classes of securities in the company's capital structure, financial analysts use three other commonly accepted approaches:

Probability-Weighted Expected Return Method

Under a probability-weighted expected return method, the fair market value of the common stock is estimated based upon an analysis of future values for the enterprise assuming various future outcomes. Share value is based upon the probability-weighted present value of expected future investment returns, considering each of the possible future outcomes available to the enterprise, as well as the rights of each share class. Although the future outcomes considered in any given valuation model will vary based upon the enterprise's facts and circumstances, common future outcomes modeled include an initial public offering, merger or sale, dissolution, or continued operation as a variable private enterprise.

Option Method

The option method is based on modeling the fair market value of the various components, or securities, of the company's capital structure as a series of call options on the proceeds expected from the sale of the company or the liquidation of its assets as some future date. The model defines the securities' fair market values as functions of the current fair market value of the company and assumptions based on the securities' rights and preferences through use of an option model. There are several option-pricing models available including the Black-Scholes model, which has been utilized in our analysis.

We employed the option method to allocate the fair market value of the Company's total invested capital to the Subject Securities.

The Current-Value Method

The current-value method of allocation is based on first determining enterprise value using one or more of the three valuation approaches (market, income, or asset-based), then allocating that value to the various series of preferred stock based on their liquidation preferences or conversion values, whichever would be greater.

Because the current-value method focuses on the present and is not forward-looking, its usefulness is limited to two types of circumstances. The first occurs when a liquidity event in the form of an acquisition or dissolution of the enterprise is imminent, and expectations about the future of the enterprise as a going concern are virtually irrelevant. The second occurs when an enterprise is at such an early stage of its development that (a) no material progress has been made on the enterprise's business plan, (b) no significant common equity value has been created in the business above the liquidation preference on the preferred shares, and (c)

there is no reasonable basis for estimating the amount and timing of any such common equity value above the liquidation preference that might be created in the future.

Capitalization

As of the valuation date, the Company's capitalization included the following securities (see Table 6.1):

Convertible Debt (Senior Debt)

According to Management, as of the valuation debt, the Company's debt is $12 million and the non-convertible debt is $2.8 million. Thus, as of the valuation debt, the Company had approximately $9.2 million face value of convertible (senior) debt. The senior debt carried a 10% interest rate, and the principal was convertible into common stock at a conversion price at $2.00 per share.

Preferred Stock

The shares outstanding of the preferred stock as of the valuation date are approximately 5.6 million (see Table 2.1). The issue price per share is $2.00. Thus, as of the valuation debt, the Company had approximately $11.2 million face value of preferred stock.

Warrants

As of the valuation date, the Company had approximately 3.5 million warrants associated with the senior debt. The warrants were convertible into Common Stock at a strike price of $2.00 per share.

Common Stock

As of the valuation date, the Company had approximately 42.9 million outstanding shares of Common Stock.

Liquidation Priorities

In the case of an acquisition, the liquidation proceeds are to be allocated to the above securities as follows:

1. The holders of the senior debt.
2. The holders of the preferred stock.
3. The holders of the common stock.

Option Pricing Methodology (OPM)

In estimating the fair market value of the Subject Securities, we employed a valuation model based on a version of the Black-Scholes option valuation methodology. The OPM is a commonly used method for allocating equity value between common and preferred shares.

This approach is based on modeling the value of the various components of an entity's capital structure as a series of call options on the proceeds expected from the sale of the entity or the liquidation of its assets at some future date. The model defines the securities' fair market values as a function of the current fair market value of the total invested capital (as concluded above) and assumptions based on the securities' rights and preferences through use of an option model, such as the Black-Scholes model.

The Black-Scholes model was developed to allow for pricing options in continuous time. The model demonstrates that an investment in the underlying security, financed with some level of debt, creates a payoff stream that exactly matches the payoff stream of an option on the security. Since arbitrage would be possible if the values for the two positions were different, the Black-Scholes model provides an estimate of the value of the option.

The valuation of the Subject Securities was based on the principles of option-pricing theory as discussed above. The theory states that equity is a residual claim on the cash flows of a company after more senior financial claimholders have been satisfied. Whenever a firm borrows funds, the lender effectively acquires the company and the shareholders obtain the option to buy it back by paying off the debt. Therefore, investors may view their investment in the equity of a firm as a call option on the company's assets with an exercise price equal to the face value of debt and/or the liquidation preferences of the more senior securities.

There are four steps in applying the option-pricing method:

(1) *Determine Business Value (Table 5.5) and Black-Scholes Assumptions (Table 6.1.B)*

(2) *Understanding the Capital Structure (Table 6.1)*

(3) Setting the Strike Prices for the Different Classes of Equity (Table 6.1.A)

(4) Allocating value (Tables 6.1.C and 6.1.D)

Application to the Subject Securities

The inputs required to calculate the value of the Subject Securities using the option-pricing model included the value of the Company's total invested capital (the value of the underlying assets) and the aggregate liquidation preferences of the securities (the exercise prices), as well as the risk-free rate, the volatility of the underlying assets, and the estimated time until the liquidation event (the time to expiration of the option). As of the valuation date, we assumed the following inputs:

Fair market value of total invested capital: This was estimated at $8,835,000 as of the valuation date. We subtract the standard interest-bearing debt of $2.8 million, which is non-convertible debt. The remainder of $6,035,000 is the underlying value that is attributable to remaining invested capital.

Liquidation Preferences: The liquidation preferences as discussed above.

Risk Free Rate: Approximately 0.40% as of the valuation date, based on the implied U.S. two year treasury rate. The duration is equal to the assumed time to liquidation event.

Volatility: Approximately 40.0%, based on the historical volatility of the comparable companies' common stock and certain attributes of the Company; and

Time to Expiration: Approximately 2.0 years, estimated time to a liquidation event based upon discussions with Management.

Conclusion of Common Stock

In Table 6.1.D, we estimate the value of the Common Stock as of the valuation date to be approximately $0.00031 per share. The shares outstanding as of the valuation date are 42,948,770. Thus, the fair market value of the common stock is $13,101. We apply a 22% discount for lack of marketability (computed in Table 7.2) as we explain below. The indicated fair market value of the common stock after DLOM is **$10,000** (Rd.)

Discount For Lack of Marketability (DLOM)

By definition, the indicated value computed by the capitalization of earnings method yields a marketable interest in the subject entity. Since the Company is a closely-held company, it is less marketable to an investor. Therefore, to produce a non-marketable interest value, the appraiser must apply a Marketability Discount.

Marketability is defined as the ability to convert a property to cash quickly, with minimum transaction and administrative costs, and with a high degree of certainty of realizing the expected amount of net proceeds. The subject LP interests have no active market. This represents an added risk of ownership to an investor for which he must be compensated. The discount for lack of marketability reflects the lack of a liquid market for the closely held interests.

A variety of studies have been made to try to quantify discounts for lack of marketability. According to Gary Trugman in his book, Understanding Business Valuations, the average marketability discount ranges between 25% and 45%.[16] Chris Mercer in his book, Quantifying Marketability Discounts, states that "marketability discounts can range from very small (in the range of 5% to 10%) to quite large (60% to 80% or more)."[17]

According to Chris Mercer, business appraisers typically cite four sources of evidence when they determine the appropriate size of a marketability discount. These sources are:

- Restricted stock studies (measured discounts on sales of restricted shares of publicly traded securities).
- Pre-IPO studies (reviewed discounts on sales of closely held company shares compared to Initial Public Offering prices of the same company shares).
- Cost of flotation studies (the cost to a private company of going public), and
- Tax Court cases.

The first three sources are based on direct market evidence; the last on indirect evidence.[18]

Marketability (Restricted Stock) Studies

There are a number of empirical data, studies, and analyses we considered in establishing an appropriate discount for lack of marketability for the stock interest. These studies have been summarized in the enclosed appendix.

[16] Gary Trugman, *Understanding Business Valuation: A Practical Guide to Valuing Small to Medium-Sized Businesses*, AICPA, 1988, p. 373.
[17] Z. Christopher Mercer: *Quantifying Marketability Discounts: Developing and Supporting Marketability Discounts in the Appraisal of Closely Held Business Interests*, Peabody Publishing, LP, 1997, p. 29.
[18] Ibid., p. 37.

Restricted stock studies are based on studies that measured the discount due to lack of marketability attributed to shares that were unable to be freely traded for a period of time due to some legal or other restriction. Investment companies and later some closed-end mutual funds invested in restricted stocks. The price differentials between the restricted stock and the freely traded stock of a variety of companies formed the basis of these studies.

The following table summarizes the marketability discount studies:

SUMMARY OF MARKETABILITY STUDIES

Study	Marketability Discount %
SEC Institutional Investor Study	32.6%
Gelman Study	33.0%
Trout Study	33.5%
Maroney Study	35.6%
Mather Study	35.4%
Standard Research Consultants Study	45.0%
Williamette Management Associates Study	31.2%
Silber Study	34.0%
FMV Opinions Inc. Study	23.0%
Management Planning, Inc.	27.7%
Average	**33.1%**

Marketability Discount based on Black-Scholes Put Options

Options Theory

The economic theory on which we rely is Options Pricing Theory. The paradigm options pricing model is the Black-Scholes Options Pricing Model ("Black-Scholes" or "BSOPM"), developed by University of Chicago Professors Fisher Black and Myron Scholes, the latter of whom received the Nobel Prize in Economics for developing the model (Black had already died).

A call option is a contract enabling one to buy a specific number of shares of a company at a specific price and time. For example, one might buy an option to purchase 100 shares of IBM at $100 per share on a specific date. A European option is such that one can buy only on that date, while an American option allows one to buy anytime up to and including that date. The original Black-Scholes model works on the assumption of a European option. A put option is the opposite of a call. It enables one to sell the stock at a specific price and time. Let us examine a put option.

Suppose IBM were selling today at $100 per share.[19] What would be the value of the ability to sell 100 shares of IBM on the last day of this year at $100 per share? If the stock price in a year were greater than $100, the value would be zero. If the price were less than or equal to

[19] We have not researched IBM's actual price. We use $100 per share for ease of illustration.

$100, it would be $100 minus the actual stock price, multiplied by the number of shares.[20] There are two ways to cash out on the put option; you could buy the stock at its new lower market value and then sell it for $100 to the writer of the option, or you could sell the option itself.

The problem is that we do not know what the price of the stock will be. Black-Scholes assumes a normal probability distribution (the bell-shaped curve) of prices on the expiration date of the option. The bell shaped curve is symmetric and peaks in the center, which is the statistical mean, median, and mode, these being three different types of averages, which are not identical for asymmetric distributions.[21]

If we assume the center of the distribution is the exercise price, then the Black-Scholes calculated value of a put option is the area under the left half of the bell-shaped curve multiplied by the profit at each price, with some present value adjustments. In other words, it is the statistical probability of each point on the curve times the profit at each point.

All normal distributions are measured by two and only two parameters: the mean and the standard deviation. The mean is the average, and the standard deviation is a statistical measure of the width of the curve. In a normal distribution, one standard deviation on either side of the mean creates a 68% confidence interval, and two standard deviations on either side include 95% of the entire population.

Let's assume the mean expected stock price at the expiration of the option is $100 per share. If the standard deviation is $1 per share, then there is a 68% probability that the stock value will be between $99 and $101 and a 95% probability that the stock value at expiration will be between $98 and $102. That would be a tight distribution and would look like a tall, thin bell-shaped curve. There would only be a 5% probability that the price would be below $98 or above $102. Since the distribution is symmetric, that means a 2½% probability of being below $98 and a 2½% probability of being above $102. The chances of hitting a jackpot on this stock are very low.

Now let's assume the standard deviation is $20 per share, or 20% of the price. Now there is a 95% probability the price will be within $40 per share (two standard deviations) of $100, or between $60 and $140. The probability of hitting the jackpot is much higher.

We now have the background to understand how the stock volatility is the main determinant of the value of the option. The more volatile the stock, the shorter and fatter is the normal curve and the greater is the probability of making a lot of money on the investment. If your stock ends up on the right side of the curve, it does not matter how far up it went, because you will choose to not exercise the option and you lose only the price of the option itself. In contrast to owning the stock itself, as an option holder it matters not at all whether the stock

[20] We are ignoring transactions costs and, for the moment only, the time value of money.
[21] Technically it is the natural logarithm of prices that is normally distributed, but for a more intuitive explanation, we speak in terms of prices rather than log prices.

ends up at $100 per share or $140 per share—your loss is the same. Only the left side matters. Therefore, a put option on a volatile stock is much more valuable than one on a stable stock.

Black-Scholes Put Option Formula

The Black-Scholes Options Pricing Model has the following forbidding formula:

$P=EN(-d_2)e^{-Rft} - SN(-d_1)$, where:

S = Stock Price
$N(\ )$ = Cumulative Normal Density Function
E = Exercise Price
R_f = Risk-free rate, i.e., treasury rate of the same term as the option
t = Time remaining to expiration of the option
d_1 = $[\ ln(S/E) + (R_f + .5 \times \text{variance}\ ) \times t\ ] / [\text{std dev} \times t^{0.5}\ ]$
d_2 = $d_1 - [\text{std dev} \times t^{0.5}]$

Chaffe's Article[22] and Abrams' Empirical Research: Put Options To Calculate DLOM of Restricted Stock

David B. Chaffe published an article in the December 1993 issue of *Business Valuation Review* in which he used the put option version of the Black-Scholes Options Pricing Model to successfully explain the valuation discounts of restricted securities. The Black-Scholes Model is the standard model used in pricing options. It is extremely complex in its mathematics, but it does have the advantage of providing a theoretical model that dovetails with the empirical evidence.

Chaffe's article explored the discount for lack of marketability for restricted securities for different time periods of restriction, from one to four years. Beyond four years, Chaffe found no further impact on the discount, so the discount for 5, 10, and 20 years are approximately the same as for four years, which amounted to 51%.

In *Quantitative Business Valuation: A Mathematical Approach for Today's Professionals*, p. 244 – 248, Jay Abrams demonstrated that the Black-Scholes Put Option did a far superior job of explaining restricted stock discounts than either the Quantitative Marketability Discount Model or using the mean discount of the restricted stocks.

Conclusion of DLOM

We estimate a 22.0% marketability discount based on Black-Scholes Put Options (Table 7.2).

[22] "Option Pricing as a Proxy for Discount for Lack of Marketability in Private Partnership Valuations—A Working Paper," by David B.H. Chaffe III, *Business Valuation Review*, December 1993, p. 182.

6. Statement of Limiting Conditions

This appraisal is subject to the following assumptions and limiting conditions, in conjunction with the previously presented Certification section:

(1) We have relied on the accuracy of the financial data (referenced above), provided by Company's Management. We have accepted the above financial data as correct without further verification as though they fairly and accurately represent the financial condition and activities of the Company. This information has been provided to us and is the responsibility of the client. All other information used in this report is from sources we deem reliable. We have accurately reflected such information in this report; however, we make no representation as to our sources' accuracy or completeness and have accepted their information without further verification.

(2) Neither our engagement nor this report can be relied upon to disclose any fraud, misrepresentation, deviations from Generally Accepted Accounting Principles, or other errors or irregularities.

(3) The conclusions are based upon our review and analysis of documents and information provided, but did not include a visit to the Company's offices. We assume that the present owners would continue to maintain the character and integrity of the enterprise through any sale, reorganization, or diminution of the owners' participation or equity interest. We know of no significant pending legal action against the Company, and we assume none is or will be occurring. If this did happen, then it would change our opinion of the value of the Company.

(4) All claims to property have been assumed to be valid and no investigation or consideration of legal title or any existing liens or encumbrances, which may be against the assets, were undertaken except as may be stated in this report.

(5) We have not considered the existence of potential environmental liabilities, which may or may not be present on the underlying property. This includes real estate either owned or leased by the Company. Therefore, no responsibility can be taken for hidden or unapparent conditions of the property or potential claims against the Company.

(6) Our opinion of value in this report is valid only for the stated purposes, and only as of the valuation date specified. The fair market value, as determined within our report, shall not be used for other purposes, size interests, or dates without our written permission.

(7) This report reflects facts and conditions existing at the valuation date. Subsequent events and conditions have not been considered unless specifically noted and

discussed in the report. We have no obligation to update our report for any other subsequent events and conditions.

(8) The estimate of fair market value established by this report may rely on estimated values for some assets of the Company if independent appraisals for these assets are not available. Where such values are used in this appraisal no warranty is made with respect to these values. If these values are incorrect, the resulting estimate of the value of the subject ownership interest may be affected.

(9) We performed less independent market research than we normally perform in a Complete Appraisal. Instead, we relied entirely on the accuracy of the financial statements and other data provided. This is a significant reduction of our normal work, and it is imperative to understand that our forecast of future cash flows may be substantially different if we were to do such market research, and that would correspondingly affect the valuation.

(10) An appraisal is not a legal or tax opinion. Its purpose is to estimate value according to the applicable standard of value. The appraiser assumes no responsibility whatsoever for legal or tax matters relative to its finding. Values are stated without reference to applicable legal or tax claims unless so noted.

(11) Though some similarities exist between value as used for this purpose and others, it would be incorrect to use the fair market value as determined within our report for any other purposes due to specific timing, performance, and marketability issues that arise in evaluating the fair market value of a company. Accordingly, any such use of the value as determined within this report for other purposes would be inaccurate and possibly misleading and no such use shall be made by the Company.

(12) Our determination of fair market value does not represent investment advice of any kind to any person and does not constitute a recommendation as to the purchase or sale of shares of the Company or as to any other course of action.

(13) Future services regarding the subject matter of this report, including, but not limited to, testimony or attendance in court shall not be required of U.S. Valuations unless previous arrangements have been made in writing.

(14) Neither all nor any part of the contents of this report shall be conveyed to the public through advertising, public relations, news, sales, mail, direct transmittal, or other media without the prior written consent and approval of U.S. Valuations.

(15) All users that are not directly involved with the purpose of this study are considered unintended users and should not rely on the information contained in this report without the advice of their attorney or accountant. This report may not be distributed in part, as only a thorough reading of this report can accurately convey the logic contained within. Excerpts taken out of context can be dangerously misleading and are therefore forbidden without the written consent of U.S. Valuations.

8. Appraiser's Qualifications

Daniel Jordan, ASA, CBA, CPA, MBA, is the Managing Principal of New York Business Valuation Group, Inc., d/b/a U.S. Valuations, specializing in the valuation of closely held businesses and intangible assets. Mr. Jordan provides business valuation services full time since 2000.

In addition to his CPA, Mr. Jordan has achieved multiple professional accreditations. He is an Accredited Senior Appraiser (ASA) and a Certified Business Appraiser (CBA). He earned his MBA Degree in Finance and Accounting from the Heinrich-Heine-University of Düsseldorf, Germany. Additionally, Mr. Jordan has published articles on valuation-related matters, lectured seminars, and provided expert testimony in court.

Mr. Jordan has been working for leading valuation firms. Prior to New York Business Valuation Group, Inc., he worked nine years for Abrams Valuation Group, Inc. under the direct supervision of Jay Abrams, a nationally known authority in valuing closely-held companies who has written extensive material that is used in the profession. Mr. Jordan has assisted in the writing of Abrams' book "How To Value Your Business And Increase Its Potential", published by McGraw-Hill, which is also noted in the book.

Mr. Jordan has played an integral role in valuations and litigation support work and has provided valuation/financial consulting services to clients representing a variety of organizations, from small entrepreneurs and family limited partnerships to firms with revenues of up to $246 million, including the following:

- Mergers & Acquisitions and Sales
- Venture Capital Funding
- Private Placements
- Shareholder Buy/Sell Agreements
- Debt Instruments (Notes, Viatical Settlement)
- Intangible Assets (Patents, Economic Damages, Non-compete Agreement)
- Purchase Price Allocation (SFAS 141)
- Litigation Settlement
- Estate, Income & Gift Tax Reporting
- Financial Reporting

Industry Experience

Various Manufacturers, Distributors, Retail and Online Retail of Different Lines of Business • Various E-Commerce Businesses • Various Franchises • Various Types of Medical Practice • Private Equity • Hedge Funds • Commodity Trading Advisor • Casinos • Insurance • Computer Software • Computer Hardware • Textile • Apparel • Mechanical Repair • Line Tester Technology • Food Manufacturer and Broker • Asset Management • Electronics Manufacturers • Furniture Manufacturing • Leasing Furniture • Embroidery & Printing • Retail Pharmacy • Internet Start-up • Internet Mortgage Leads • Auto Repair • Automobile and Home Improvement Leads • Export of Automobiles • Restaurants • Art Collection • Manufacture of Custom Scientific Equipment • Swim Wear • Commodities • General Contracting • Construction • Concrete Manufacturing • Jewelry • Gas Station • Laundry • Trucking • Staffing • Liquor Store • Shoe Store • Child Day Care • Beauty Salon • Hardware Store • Clothing Store • Heating Oil Dealer • Supply of Natural Gas and Electricity • Supermarket • Hair Care • Landscaping • Accounting Practice • Pharmaceutical • Plumbing • Advertising Agencies • Wholesaler of Tobacco and Candy Products • Car Wash • Manufacture of Awnings • Video Production • Photography • Wholesale of Medical Supplies • Financial Advisory Firms • Janitorial Services • Ambulance • Rental of Office Space • Call Center Services •Sale of Pet Food • Testing Laboratory • Catering • Retail of Live Poultry • Art Studio • Termite and Pest Control • Sporting Goods • Gym and Fitness • Painting • Contact Center •Retail of Bicycles • Veterinary Clinic • Architecture • Roofing • Fencing • Retail of Nuts, Dried Fruits • Mail Forwarding • Freight Forwarding • Sober Living Home • Marketing and Sales • Online Bakery Supply • Bakery Store • Wealth Management • Real Estate Holding • Customs Broker • Wines and Gourmet Food Products • Computer Training • Steel Fabrication • Physical Therapy • Commercial Flooring • Summer Camp • Machine Shop • Wine Bar • Consulting Firms • Various IT Solutions and Services • Investment Advisor • Ad Network • Art Collection • Fishing Equipment • Billing Nursing Homes • Brokerage • Web Hosting and SEO • Retail Motorcycle • Aircrafts • Label Printing • Telephone and Data Service Provider • Medical Transcription • Finance Lender • Ticket Broker •Printing Equipment Manufacturing • Manufacturer's Representative • Marketing Research • Funeral Home • Crematory • Bus Company and Transportation • Deli and Grocery • Repair of Cell Phones and Other • Commercial Cleaning • Lighting • Property Management • Prepackaged Software • IT Staffing and Network Solutions • Meat Market • Tax Resolution • Bank • Recruiter • Biotech • Chiropractor • Psychiatrist • Publishing House • etc.

Expert Testimony

- Daniel T. Jordan has testified as an expert witness for the Supreme Court of New York, Kings County, Monmouth County Superior Court, the Queens Surrogate Court, and the Veritext National Court Reporting Company in Washington DC. Daniel Jordan is eligible to receive appointments by court. Fiduciary ID Number is 702368.

Books/Articles

- Assisted with the writing of *How to Value Your Business and Increase Its Potential*, Jay Abrams, McGraw-Hill, 2005.
- *Superiority of Regression Analysis over Ratio Analysis*", Business Appraisal Practice, Fall 2007, p. 27-31; QuickRead NACVA, February 13, 2014.
- "*Valuation of Stock Options*", QuickRead NACVA, January 22, 2014.

- "*Valuing Intangibles in a Business Combination*", QuickRead NACVA, February 19, 2014.
- "*Excessive Government Spending: Are We Heading Towards The Next Financial Crisis?*", QuickRead NACVA, April 14, 2016.

Lecture Summary

- "Superiority of Regression Analysis over Ratio Analysis", New York State Society of CPA's, Business Valuation Committee, New York, NY, October 2007.
- "Understanding Business Appraisals", New York Legal Assistance Group, Inc., New York, NY, November 2008.
- "A Fresh Look at BV Theory", New York Association of Business Brokers, Tarrytown, NY, April 2009.
- "Business Valuation: Discounts and Premiums", American Association of Attorney-Certified Public Accountants, Uncasville, CT, May 2010.

Books/Articles Quoting Daniel Jordan

- Practical Planner, Martin M. Shenkman, CPA, MBA, PFS, JD, Volume 5, Issue 5, May 2010

Business Valuation Education

- *International Appraisal Conference* of The American Society of Appraisers (ASA), San Diego, California, August 2002 (27 Continuing Professional Education 'CPE' Hours)
- *Mastering Appraisal Skills for Valuing the Closely Held Business – Part A.* Instructor: Paul R. Hyde. The Institute of Business Appraisers, Inc. (IBA), San Diego, California, March 2005 (32 CPE Hours)
- *Mastering Appraisal Skills for Valuing the Closely Held Business – Part B.* Instructor: Rand M. Curtiss. The IBA, Cleveland, Ohio, July 2005 (32 CPE Hours)
- *Report Writing*. Instructor: Steven Schroeder. The IBA, St. Louis, Missouri, August 2005 (16 CPE Hours)
- *Preparation For the CBA Exam*. The IBA, Phoenix, Arizona, November, 2005 (16 CPE Hours)
- *Uniform Standards of Professional Appraisal Practice (USPAP)*: Instructor: Andrew Mantowani. Ivy Real Estate Education, New York, NY, February 2006 (15 CPE Hours)
- *International Appraisal Conference* of The ASA, New York, August 1, 2006 (6.5 CPE Hours)
- *Valuation for Financial Accounting (FASB 141/142/144)*. Instructor: William Johnston, ASA. Center for Advanced Valuation Studies (CAVS), New York, August 2, 2006 (7 CPE Hours)
- *Current Topics in Business Valuations*, New York City Chapter of the ASA, New York, May 4, 2007 (8 CPE Hours)

- *Advanced Financial Statement Analysis for Appraisers - Making the Calls*, Instructor: Mike Adhikari, The IBA, Las Vegas, January 2008 (8 CPE Hours)
- *Advanced Case Studies: Practical Applications*, Instructor: Dennis Bingham, The IBA, January 2008 (16 CPE Hours)
- *Valuing Intangibles*, Instructor: Rob Schlegel, The IBA, January 2008 (8 CPE Hours)
- *Forensic Accounting for Business Appraisers*. Instructor: Dr. Laura Tindall, The IBA, Louisville, KY, July 2008 (16 CPE Hours)
- *Business Appraisal for Divorce,* Instructor: Rob Schlegel, The IBA, July 2008 (8 CPE Hours)
- *Marketing Your Practice-Making the Phone Ring,* Instructor: KC Conrad, The IBA, August, 2008 (8 CPE Hours)
- Advanced Planning Seminar -Estate & Business Planning, New York, April 20, 2009 (7 CPE Hours)
- Estate Planners Day 2009, Estate Planning Council of NYC, New York, May 6, 2009 (7 CPE Hours)
- *14th Annual Multi-State ESOP Conference* of The ESOP Association, Scranton, Pennsylvania, September 2009
- *ESOP Appraisals*, Instructor: Chris Best, The IBA, November 9, 2009 (8 CPE Hours)
- *ESOP Conference* of The ESOP Association, Las Vegas, Nevada, November 2009 (12 CPE Hours)
- *44th Annual Heckerling Institute on Estate Planning*, Orlando, January 25-29, 2010 (33 CPE Hours)
- *45th Annual Heckerling Institute on Estate Planning*, Orlando, January 10-14, 2011 (33 CPE Hours)
- *46th Annual Heckerling Institute on Estate Planning*, Orlando, January 9-13, 2012 (33 CPE Hours)
- *New York Ethics*: Tax Concentration, Accountants Education Group, December 3, 2014 (4 CPE Hours)
- *National Tax Practice Institute (NTPI) Level 1 Online*, National Association of Enrolled Agents, December 2014 (24 CPE Hours)
- *BV301 Valuation of Intangible Assets, Chicago,* Instructor: Raymond Rath, ASA, The American Society of Appraisers (ASA), May 7-10, 2015 (30 CPE Hours)
- *Regulatory Ethics: Accountants Liability: Raise Your Risk IQ*, Continental Casualty Company, one of the CNA Insurance Companies, October 15, 2015 (3.5 CPE Hours)
- *50th Annual Heckerling Institute on Estate Planning*, Orlando, January 11-15, 2016 (33.5 CPE Hours)
- *2016-2017 Uniform Standards of Professional Appraisal Practice (USPAP),* Career WebSchool California, March 2, 2016 (7 CPE Hours)
- *51th Annual Heckerling Institute on Estate Planning*, Orlando, January 9-13, 2017 (34 CPE Hours)

Member - Professional Organizations

- The Institute of Business Appraisers, Inc. (IBA)
- The American Society of Appraisers (ASA)
- Better Business Bureau
- National Business Valuation Group, LLC
- Fellow Member of Yeshiva University Planned Giving Committee
- Estate Planning Council of NYC
- New York Association of Business Brokers

9. Tables

Table 2.1

ABC Corporation

Capitalization

Assumed Offering Size (in Shares)	**2,000,000**	
Assumed IPO Price (Adjusted for Split)	**$ 6.00**	
Assumed Stock Split of 1 share issued fo	**16**	**shares held prior to the split**

Capitalization	Balance as of 1/18/14	Conversion / Exercise Price Current	Pre-Split & Pre-Reorg. # of Shares	Pre-Split & Pre-Reorg. % of FD S/O	Post-Split & Pre-Reorg. # of Shares	Post-Split & Pre-Reorg. % of FD S/O	Comments Regarding Restructuring	Post-Split & Post-Reorg. # of Shares	Post-Split & Post-Reorg. % of FD S/O	Pro Forma for IPO # of Shares	Pro Forma for IPO % of FD S/O	Stock Price = $ 8.00 # of Shares	Stock Price = $ 8.00 % of FD S/O
Convertible Debt													
September Debentures	$ 7,067,378	$2.00	3,533,689	6.27%	220,856	6.27%	Convert original principal at IPO price	953,333	26.45%	953,333	15.93%	953,333	15.29%
Subordinated Debt	$ -	$2.00	-	0.00%	-	0.00%		-	0.00%	-	0.00%	-	0.00%
Setal 8 Trust (New Notes)	$ 135,215	$7.50	18,029	0.03%	1,127	0.03%	Exchange at IPO price	22,536	0.63%	22,536	0.38%	22,536	0.36%
Broyles (New Note)	$ -	NA	-	0.00%	-	0.00%		-	0.00%	-	0.00%	-	0.00%
WCM Note (Purchased by Setal 10)	$ 654,868	$2.00	327,434	0.58%	20,465	0.58%	Repay with IPO proceeds	-	0.00%	-	0.00%	-	0.00%
Professional Debt	$ 462,832	80% of IPO	-	0.00%	-	0.00%	Mandatory conversion upon IPO	-	2.68%	96,423	1.61%	96,423	1.55%
Setal 9 Trust Note	$ 628,528	$2.00	314,264	0.56%	19,641	0.56%	Convert at IPO price	104,755	2.91%	104,755	1.75%	104,755	1.68%
Other Debt													
Arizona Loan (Setal 8)	$ 110,950	NA	-	0.00%	-	0.00%	Convert at IPO price	18,492	0.51%	18,492	0.31%	18,492	0.30%
Riverside Loan (Setal 8)	$ 341,093	NA	-	0.00%	-	0.00%	Convert at IPO price	56,849	1.58%	56,849	0.95%	56,849	0.91%
New Senior Secured (Setal 11)	$ 2,390,861	NA	-	0.00%	-	0.00%	Convert at IPO price	398,477	11.06%	398,477	6.66%	398,477	6.39%
Stock Issuances/Grants													
Unsecured Common Conversion		Issued	497,717	0.88%	31,107	0.88%	Fixed	31,107	0.86%	31,107	0.52%	31,107	0.50%
Setal Plan Shares		Issued	1,415,833	2.51%	88,490	2.51%	Fixed	88,490	2.46%	88,490	1.48%	88,490	1.42%
Original Preferred and Common		Partly Issued	1,769,964	3.14%	110,623	3.14%	Max. obligation -- lower for "breakage"	110,623	3.07%	110,623	1.85%	110,623	1.77%
WRSSR Contingent Shares (Value)	$ 210,000	IPO Price	-	0.00%	-	0.00%	Issuable upon IPO closing	-	0.00%	35,000	0.58%	35,000	0.56%
WCM Restricted Stock (Setal 10)		Issued	5,225,000	9.27%	326,563	9.27%	Forfeits all but 100,000 shares	100,000	2.77%	100,000	1.67%	100,000	1.60%
USDC Management	`	Issued	5,670,256	10.06%	354,391	10.06%	Fixed	354,391	9.83%	354,391	5.92%	354,391	5.69%
Mike Smith Stock Grant		Issued	20,000	0.04%	1,250	0.04%	Fixed	1,250	0.03%	1,250	0.02%	1,250	0.02%
Professional Stock Grant (Value)	$ 593,286	80% of IPO	-	0.00%	-	0.00%	Mandatory conversion upon IPO	-	0.00%	123,601	2.07%	123,601	1.98%
Subordinated Debt Reorg. Shares		Issued	21,262,500	37.73%	1,328,906	37.73%	Forfeits all but 800,000 shares	800,000	22.20%	800,000	13.37%	800,000	12.83%
Setal 11 Reorganization Shares		Issued	7,087,500	12.58%	442,969	12.58%	Forfeits all but 100,000 shares	100,000	2.77%	100,000	1.67%	100,000	1.60%
Warrants													
Senior Warrants		$2.00	2,860,000	5.08%	178,750	5.08%	Way out of money / Exchange for shares	89,375	2.48%	89,375	1.49%	89,375	1.43%
Maxim Warrants		$2.00	144,900	0.26%	9,056	0.26%	Way out of money / Exchange for shares	4,528	0.13%	4,528	0.08%	4,528	0.07%
WCM Warrant (Purchased by Setal 10)		$2.00	274,950	0.49%	17,184	0.49%	Way out of money / Exchange for shares	8,592	0.24%	8,592	0.14%	8,592	0.14%
Mike Smith Warrants		$3.00	30,000	0.05%	1,875	0.05%	Way out of money / Exchange for shares	938	0.03%	938	0.02%	938	0.02%
Setal 9 Warrant		$2.00	275,000	0.49%	17,188	0.49%	Way out of money / Exchange for shares	8,594	0.24%	8,594	0.14%	8,594	0.14%
			50,727,036	90.03%	3,170,440	90.03%		3,252,328	90.25%	3,507,353	58.62%	3,507,353	56.26%
Series A Preferred													
Conversion of Subordiated Debt			5,620,514	9.97%	351,282	9.97%	Fixed	351,282	9.75%	351,282	5.87%	351,282	5.64%
Initial Public Offering (of Units)													
Primary Shares										2,000,000	33.42%	2,000,000	32.08%
Attached Unit Warrants @ 125% of IPO		$7.50								-	0.00%	125,000	2.01%
Option Plan	**Pre-Split Grant**	**Strike Price**	**Common**	**% of FD**	**Common**	**% of FD**		**Common Stock**	**% of FD**	**Common**	**% of FD**	**Common**	**% of FD**
2014 Incentive Plan (1)	10,000,000	$ 4.80	-	0.00%	-	0.00%		-	0.00%	125,000	2.09%	250,000	4.01%
Fully Diluted Common Shares Outstanding			**56,347,550**	**100.00%**	**3,521,722**	**100.00%**		**3,603,610**	**100.00%**	**5,983,635**	**100.00%**	**6,233,635**	**100.00%**
Setal Entity Shares			**46,387,708**	**82.32%**	**2,899,232**	**82.32%**		**2,976,702**	**82.60%**	**2,976,702**	**49.75%**	**2,976,702**	**47.75%**
Number of shares of common stock outstanding			**42,948,770**										
Implied USDC Valuation			**$ 21,130,331**		**$ 21,130,331**			**$ 21,621,662**		**$ 35,901,810**		**$ 49,869,079**	
Implied Value of Setal Holdings			**$ 17,395,390**		**$ 17,395,390**			**$ 17,860,211**		**$ 17,860,211**		**$ 23,813,614**	
			Pre-Split		**Pre-Reorg.**			**Pre-Money**		**Post-Money**		**Upside**	

(1) No shares have been authorized or issued. Assumed strike price is 20% below assumed IPO price to reflect illiquidity discount typical for private companies. Many actual grants will occur later and thus likely have higher strike prices.

Table 4.1

ABC Corporation

Historical Balance Sheets [1]

Fiscal Year Ending 9/30	2008	2009	2010	2011	2012	2013	12/31/2013	1/31/2014
Cash	303,718	(219,835)	584,770	327,167	87,895	82,635	66,279	198,171
A/R	656,874	655,217	655,037	395,388	399,032	364,702	354,138	364,607
Inventories	286,736	573,890	491,626	670,035	606,083	649,594	648,590	648,350
Prepaid Expenses	182,799	373,098	175,656	204,960	157,739	205,272	229,467	276,033
Other Current Assets	92,057	73,007	25,448	64,476	53,110	1,671	40,695	29,026
Total Current Assets	**1,522,184**	**1,455,377**	**1,932,537**	**1,662,027**	**1,303,858**	**1,303,873**	**1,339,169**	**1,516,187**
Property & Equip—Before Depr	10,168,500	10,450,886	10,000,842	3,492,829	3,756,796	3,984,259	4,047,290	9,074,762
– Depreciation	(4,449,167)	(5,355,601)	(5,780,662)		(552,807)	(1,189,923)	(1,350,121)	(7,251,328)
Property & Equipment—Net	**5,719,333**	**5,095,285**	**4,220,179**	**3,492,829**	**3,203,990**	**2,794,336**	**2,697,169**	**1,823,434**
Intangible Assets-Net of Amort	10,776,643	10,573,743	8,691,758	9,331,957	9,158,310	9,060,360	9,044,685	595,000
Other Assets	1,047,040	628,606	197,072	324,921	305,374	273,468	264,606	268,357
Total Assets	**19,065,200**	**17,753,010**	**15,041,547**	**14,811,734**	**13,971,532**	**13,432,037**	**13,345,629**	**4,202,977**
A/P	3,115,335	4,095,494	1,379,381	1,197,802	1,437,427	1,315,875	1,318,239	1,238,910
Notes Payable-Short Term	1,758,067	20,826,778	59,387	97,435	107,172	94,270	95,982	95,982
Accrued Taxes	127,232	140,410	53,047	253,413	488,638	369,885	379,167	402,026
Accrued Payroll	383,365	441,887	441,270	527,115	507,393	509,240	489,541	395,856
Other Accrued Liab	727,502	2,221,161	982,073	384,453	585,732	710,802	658,090	2,334,678
Pre-Petition Liab			23,561,731	2,115,672	347,036	276,154	247,347	244,148
Total Current Liabilities	**6,111,502**	**27,725,730**	**26,476,889**	**4,575,890**	**3,473,397**	**3,276,225**	**3,188,367**	**4,711,600**
Notes Payable-Long Term	15,642,982	406,614	840,007	16,139,864	13,138,140	15,270,982	15,867,042	9,819,064
Deferred Rent Liab.		(19,676)	10,538	-	111,135	175,601	207,342	207,342
Other Liabilities					1,315,354	871,941	870,708	869,629
Total Liabilities	**21,754,483**	**28,112,668**	**27,327,435**	**20,715,755**	**18,038,026**	**19,594,748**	**20,133,459**	**15,607,636**
Common Stock	30,672	30,672	30,672	780	5,365,615	5,365,615	5,365,615	780
Preferred Stock	(766,280)	(766,280)						11,208,167
All Paid-In Capital	29,686,908	29,736,964	29,074,256	12,129,269	12,129,269	12,529,269	12,529,269	12,529,269
Paid-In Capital-Warrants					134,000	134,000	134,000	134,000
Retained Earnings	(19,356,372)	(31,640,583)	(36,873,686)	(18,034,070)	(17,686,803)	(21,695,379)	(24,191,464)	(34,338,004)
Net Income	(12,284,211)	(7,720,432)	(4,517,131)		(4,008,576)	(2,496,217)	(625,251)	(938,871)
Total Equity	**(2,689,283)**	**(10,359,658)**	**(12,285,888)**	**(5,904,021)**	**(4,066,495)**	**(6,162,712)**	**(6,787,830)**	**(11,404,659)**
Total Liabilities & Equity	**19,065,200**	**17,753,010**	**15,041,547**	**14,811,734**	**13,971,532**	**13,432,037**	**13,345,629**	**4,202,977**

[1] Source: Unaudited financial statements, provided by Company's Management.

Table 4.1.A
ABC Corporation
Common Size Balance Sheets

Fiscal Year Ending 9/30	2008	2009	2010	2011	2012	2013	12/31/2013	1/31/2014
Cash	1.6%	-1.2%	3.9%	2.2%	0.6%	0.6%	0.5%	4.7%
A/R	3.4%	3.7%	4.4%	2.7%	2.9%	2.7%	2.7%	8.7%
Inventories	1.5%	3.2%	3.3%	4.5%	4.3%	4.8%	4.9%	15.4%
Prepaid Expenses	1.0%	2.1%	1.2%	1.4%	1.1%	1.5%	1.7%	6.6%
Other Current Assets	0.5%	0.4%	0.2%	0.4%	0.4%	0.0%	0.3%	0.7%
Total Current Assets	**8.0%**	**8.2%**	**12.8%**	**11.2%**	**9.3%**	**9.7%**	**10.0%**	**36.1%**
Property & Equip—Before Depr	53.3%	58.9%	66.5%	23.6%	26.9%	29.7%	30.3%	215.9%
– Depreciation	-23.3%	-30.2%	-38.4%	0.0%	-4.0%	-8.9%	-10.1%	-172.5%
Property & Equipment—Net	**30.0%**	**28.7%**	**28.1%**	**23.6%**	**22.9%**	**20.8%**	**20.2%**	**43.4%**
Intangible Assets-Net of Amort	56.5%	59.6%	57.8%	63.0%	65.5%	67.5%	67.8%	14.2%
Other Assets	5.5%	3.5%	1.3%	2.2%	2.2%	2.0%	2.0%	6.4%
Total Assets	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
A/P	16.3%	23.1%	9.2%	8.1%	10.3%	9.8%	9.9%	29.5%
Notes Payable-Short Term	9.2%	117.3%	0.4%	0.7%	0.8%	0.7%	0.7%	2.3%
Accrued Taxes	0.7%	0.8%	0.4%	1.7%	3.5%	2.8%	2.8%	9.6%
Accrued Payroll	2.0%	2.5%	2.9%	3.6%	3.6%	3.8%	3.7%	9.4%
Other Accrued Liab	3.8%	12.5%	6.5%	2.6%	4.2%	5.3%	4.9%	55.5%
Pre-Petition Liab	0.0%	0.0%	156.6%	14.3%	2.5%	2.1%	1.9%	5.8%
Total Current Liabilities	**32.1%**	**156.2%**	**176.0%**	**30.9%**	**24.9%**	**24.4%**	**23.9%**	**112.1%**
Notes Payable-Long Term	82.0%	2.3%	5.6%	109.0%	94.0%	113.7%	118.9%	233.6%
Deferred Rent Liab.	0.0%	-0.1%	0.1%	0.0%	0.8%	1.3%	1.6%	4.9%
Other Liabilities	0.0%	0.0%	0.0%	0.0%	9.4%	6.5%	6.5%	20.7%
Total Liabilities	**114.1%**	**158.4%**	**181.7%**	**139.9%**	**129.1%**	**145.9%**	**150.9%**	**371.3%**
Common Stock	0.2%	0.2%	0.2%	0.0%	38.4%	39.9%	40.2%	0.0%
Stockholder Note Receivable	-4.0%	-4.3%	0.0%	0.0%	0.0%	0.0%	0.0%	266.7%
All Paid-In Capital	155.7%	167.5%	193.3%	81.9%	86.8%	93.3%	93.9%	298.1%
Paid-In Capital-Warrants	0.0%	0.0%	0.0%	0.0%	1.0%	1.0%	1.0%	3.2%
Retained Earnings	-101.5%	-178.2%	-245.1%	-121.8%	-126.6%	-161.5%	-181.3%	-817.0%
Net Income	-64.4%	-43.5%	-30.0%	0.0%	-28.7%	-18.6%	-4.7%	-22.3%
Total Equity	**-14.1%**	**-58.4%**	**-81.7%**	**-39.9%**	**-29.1%**	**-45.9%**	**-50.9%**	**-22.3%**
Total Liabilities & Equity	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**-271.3%**

Table 4.1.B
ABC Corporation
Balance Sheet Item as Percentage of Sales

Fiscal Year Ending 9/30	2008	2009	2010	2011	2012	2013	1/31/2014	AVG	STD DEV
Cash	2.0%	-0.9%	2.5%	1.5%	0.4%	0.4%	3.7%	**1.0%**	**1.2%**
A/R	4.3%	2.6%	2.8%	1.8%	1.8%	1.7%	6.9%	**2.5%**	**1.0%**
Inventories	1.9%	2.3%	2.1%	3.0%	2.8%	3.0%	12.2%	**2.5%**	**0.5%**
Prepaid Expenses	1.2%	1.5%	0.8%	0.9%	0.7%	0.9%	5.2%	**1.0%**	**0.3%**
Other Current Assets	0.6%	0.3%	0.1%	0.3%	0.2%	0.0%	0.5%	**0.3%**	**0.2%**
Total Current Assets	**10.0%**	**5.7%**	**8.3%**	**7.6%**	**6.0%**	**6.0%**	**28.5%**	**7.3%**	**1.7%**
Property & Equip—Before Depr	66.8%	41.0%	43.0%	15.9%	17.4%	18.4%	170.6%	**33.8%**	**20.3%**
– Depreciation	-29.2%	-21.0%	-24.9%	0.0%	-2.6%	-5.5%	-136.3%	**-13.9%**	**12.6%**
Property & Equipment—Net	**37.6%**	**20.0%**	**18.2%**	**15.9%**	**14.8%**	**12.9%**	**34.3%**	**19.9%**	**9.0%**
Intangible Assets-Net of Amort	70.8%	41.5%	37.4%	42.4%	42.4%	41.9%	11.2%	**46.1%**	**12.3%**
Other Assets	6.9%	2.5%	0.8%	1.5%	1.4%	1.3%	5.0%	**2.4%**	**2.3%**
Total Assets	**125.3%**	**69.6%**	**64.7%**	**67.3%**	**64.7%**	**62.1%**	**79.0%**	**75.6%**	**24.5%**
A/P	20.5%	16.1%	5.9%	5.4%	6.7%	6.1%	23.3%	**10.1%**	**6.5%**
Notes Payable-Short Term	11.6%	81.7%	0.3%	0.4%	0.5%	0.4%	1.8%	**15.8%**	**32.6%**
Accrued Taxes	0.8%	0.6%	0.2%	1.2%	2.3%	1.7%	7.6%	**1.1%**	**0.8%**
Accrued Payroll	2.5%	1.7%	1.9%	2.4%	2.4%	2.4%	7.4%	**2.2%**	**0.3%**
Other Accrued Liab	4.8%	8.7%	4.2%	1.7%	2.7%	3.3%	43.9%	**4.2%**	**2.4%**
Pre-Petition Liab	0.0%	0.0%	101.4%	9.6%	1.6%	1.3%	4.6%	**19.0%**	**40.5%**
Total Current Liabilities	**40.2%**	**108.7%**	**114.0%**	**20.8%**	**16.1%**	**15.1%**	**88.6%**	**52.5%**	**46.5%**
Notes Payable-Long Term	102.8%	1.6%	3.6%	73.4%	60.9%	70.6%	184.5%	**52.1%**	**40.8%**
Deferred Rent Liab.	0.0%	-0.1%	0.0%	0.0%	0.5%	0.8%	3.9%	**0.2%**	**0.4%**
Other Liabilities	0.0%	0.0%	0.0%	0.0%	6.1%	4.0%	16.3%	**1.7%**	**2.7%**
Total Liabilities	**143.0%**	**110.2%**	**117.6%**	**94.1%**	**83.6%**	**90.5%**	**293.3%**	**106.5%**	**21.9%**
Common Stock	0.2%	0.1%	0.1%	0.0%	24.9%	24.8%	0.0%	**8.4%**	**12.8%**
Stockholder Note Receivable	-5.0%	-3.0%	0.0%	0.0%	0.0%	0.0%	210.7%	**-1.3%**	**2.2%**
All Paid-In Capital	195.1%	116.6%	125.1%	55.1%	56.2%	57.9%	235.5%	**101.0%**	**56.0%**

Table 4.1.C

ABC Corporation

Net Working Capital

Fiscal Year Ending 9/30	2008	2009	2010	2011	2012	2013	12/31/2013	1/31/2014
A/R	656,874	655,217	655,037	395,388	399,032	364,702	354,138	364,607
Inventories	286,736	573,890	491,626	670,035	606,083	649,594	648,590	648,350
Prepaid Expenses	182,799	373,098	175,656	204,960	157,739	205,272	229,467	276,033
Other Current Assets	92,057	73,007	25,448	64,476	53,110	1,671	40,695	29,026
Total Current Assets excl. Cash	**1,218,466**	**1,675,212**	**1,347,767**	**1,334,859**	**1,215,964**	**1,221,239**	**1,272,890**	**1,318,016**
A/P	3,115,335	4,095,494	1,379,381	1,197,802	1,437,427	1,315,875	1,318,239	1,238,910
Accrued Taxes	127,232	140,410	53,047	253,413	488,638	369,885	379,167	402,026
Accrued Payroll	383,365	441,887	441,270	527,115	507,393	509,240	489,541	395,856
Other Accrued Liab	727,502	2,221,161	982,073	384,453	585,732	710,802	658,090	2,334,678
Total Current Liabilities	**4,353,434**	**6,898,952**	**2,855,771**	**2,362,784**	**3,019,190**	**2,905,801**	**2,845,037**	**4,371,470**
Net Working Capital	**(3,134,968)**	**(5,223,740)**	**(1,508,004)**	**(1,027,925)**	**(1,803,226)**	**(1,684,563)**	**(1,572,147)**	**(3,053,454)**

Table 4.1.D
ABC Corporation
Cash Flow Items as a Percentage of Sales

Fiscal Year Ending 9/30	2008	2009	2010	2011	2012	2013	1/31/2014	AVG (11-13)	STD DEV (11-13)
Capital Expenditures [1]									
Sale of Fixed Assets [1]									
Cap Exp/Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**0.0%**	**0.0%**
Current Assets excluding Cash/Sales	8.0%	6.6%	5.8%	6.1%	5.6%	5.6%	24.8%	**5.8%**	**0.2%**
Current Assets/Sales	10.0%	5.7%	8.3%	7.6%	6.0%	6.0%	28.5%	**6.5%**	**0.9%**
Depreciation/Sales	12.8%	4.3%	4.7%	4.8%	3.6%	3.4%	3.5%	**3.9%**	**0.7%**
Amortization/Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**0.0%**	**0.0%**
Long Term Debt/Sales	102.8%	1.6%	3.6%	73.4%	60.9%	70.6%	184.5%	**68.3%**	**6.6%**
Current Liabilities/Sales	40.2%	108.7%	114.0%	20.8%	16.1%	15.1%	88.6%	**17.3%**	**3.0%**
Net Working Capital/Sales	-20.6%	-20.5%	-6.5%	-4.7%	-8.4%	-7.8%	-57.4%	**-6.9%**	**2.0%**
Gain (Loss) on Sale of FA/Sales	1.0%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	**0.0%**	**0.0%**
Sale of FA/Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**0.0%**	**0.0%**

Table 4.2

ABC Corporation

Historical Income Statements [1]

Fiscal Year Ending 9/30	2008	2009	2010	2011	2012	2013	1st Qt 1/31/2014
Net Sales	**15,216,255**	**25,503,614**	**23,233,020**	**22,003,775**	**21,587,632**	**21,643,749**	**5,320,730**
Cost of Sales	9,519,292	13,912,363	12,581,651	9,437,926	9,842,716	9,587,192	2,343,892
Gross Profit	**5,696,963**	**11,591,251**	**10,651,369**	**12,565,849**	**11,744,916**	**12,056,557**	**2,976,838**
SG&A Expenses							
Janitorial				91,054			
Telephone				120,251	355,091	341,826	88,767
Utilities				1,670,666	1,673,173	1,698,631	434,688
Delivery Payroll				579,813	561,360	577,255	151,854
Credit Card Processing				414,781	397,612	424,935	96,207
Workers Comp				179,986	244,777	330,991	98,359
Professional Fees				1,795,094	265,851	82,957	2,071
Exit Finance Fees				316,757			
Maintenance	628,395	882,355	837,720	741,709	744,645	597,656	129,411
Supervision	1,813,552	2,748,608	2,411,812	2,107,252			
Promotions	406,995	427,863	382,223	414,443	501,964	360,516	
Employee Benefits	966,630	1,180,737	1,185,777	1,087,529	951,708	856,240	207,449
Insurance	382,994	514,784	343,344	300,890	317,480	279,134	71,794
Operating Leases	41,020	70,638	63,836	63,723			
Rent	2,578,111	4,129,904	3,684,966	3,117,665	3,468,182	3,493,307	873,442
Taxes & Licenses	84,371	224,865	128,347	321,297	64,505	51,459	13,824
Travel					147,638	97,949	17,753
Vehicle	318,214	345,657	306,469	376,565	372,938	333,783	74,998
General Expense	5,245,104	4,046,111	2,924,655	814,295	2,639,762	2,163,893	684,960
Environmental		77,614	10,000	40,013			
Misc Other Expenses	1,206,160	(187,696)	190,244	61,418	420,583	443,130	
Total Other Deductions	**13,671,544**	**14,461,439**	**12,469,392**	**14,615,202**	**13,127,268**	**12,133,663**	**2,945,577**
Total SG&A Exp	**13,671,544**	**14,461,439**	**12,469,392**	**14,615,202**	**13,127,268**	**12,133,663**	**2,945,577**
Depreciation	1,945,903	1,106,974	1,087,347	1,046,207	766,858	745,177	185,765
Amortization							
Total Expenses	**15,617,447**	**15,568,414**	**13,556,739**	**15,661,409**	**13,894,127**	**12,878,840**	**3,131,342**
Operating Income	**(9,920,484)**	**(3,977,163)**	**(2,905,370)**	**(3,095,561)**	**(2,149,210)**	**(822,283)**	**(154,505)**
Interest Income						1,493	373
(Interest Expense)	(2,513,876)	(3,693,262)	(1,598,141)	(111,349)	(1,635,998)	(1,644,924)	(472,829)
Other Income (Expense)					(233,629)	(29,935)	
Gain (Loss) on Sale of Fixed Assets	150,150	(12,949)	(10,021)	2,000	10,260	(566)	1,711
Net Income Before Taxes	**$ (12,284,211)**	**$ (7,683,374)**	**$ (4,513,532)**	**$ (3,204,910)**	**$ (4,008,576)**	**$ (2,496,215)**	**$ (625,250)**

[1] Source: Unaudited financial statements, provided by Company's Management.

Table 4.2.A
ABC Corporation
Common Size Income Statements

Fiscal Year Ending 9/30	2008	2009	2010	2011	2012	2013	1st Qt 1/31/2014
Net Sales	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of Sales	62.6%	54.6%	54.2%	42.9%	45.6%	44.3%	44.1%
Gross Profit	**37.4%**	**45.4%**	**45.8%**	**57.1%**	**54.4%**	**55.7%**	**55.9%**
SG&A Expenses							
Janitorial	0.0%	0.0%	0.0%	0.4%	0.0%	0.0%	0.0%
Telephone	0.0%	0.0%	0.0%	0.5%	1.6%	1.6%	1.7%
Utilities	0.0%	0.0%	0.0%	7.6%	7.8%	7.8%	8.2%
Delivery Payroll	0.0%	0.0%	0.0%	2.6%	2.6%	2.7%	2.9%
Credit Card Processing	0.0%	0.0%	0.0%	1.9%	1.8%	2.0%	1.8%
Workers Comp	0.0%	0.0%	0.0%	0.8%	1.1%	1.5%	1.8%
Professional Fees	0.0%	0.0%	0.0%	8.2%	1.2%	0.4%	0.0%
Exit Finance Fees	0.0%	0.0%	0.0%	1.4%	0.0%	0.0%	0.0%
Maintenance	4.1%	3.5%	3.6%	3.4%	3.4%	2.8%	2.4%
Supervision	11.9%	10.8%	10.4%	9.6%	0.0%	0.0%	0.0%
Promotions	2.7%	1.7%	1.6%	1.9%	2.3%	1.7%	0.0%
Employee Benefits	6.4%	4.6%	5.1%	4.9%	4.4%	4.0%	3.9%
Insurance	2.5%	2.0%	1.5%	1.4%	1.5%	1.3%	1.3%
Operating Leases	0.3%	0.3%	0.3%	0.3%	0.0%	0.0%	0.0%
Rent	16.9%	16.2%	15.9%	14.2%	16.1%	16.1%	16.4%
Taxes & Licenses	0.6%	0.9%	0.6%	1.5%	0.3%	0.2%	0.3%
Travel	0.0%	0.0%	0.0%	0.0%	0.7%	0.5%	0.3%
Vehicle	2.1%	1.4%	1.3%	1.7%	1.7%	1.5%	1.4%
General Expense	34.5%	15.9%	12.6%	3.7%	12.2%	10.0%	12.9%
Environmental	0.0%	0.3%	0.0%	0.2%	0.0%	0.0%	0.0%
Misc Other Expenses	7.9%	-0.7%	0.8%	0.3%	1.9%	2.0%	0.0%
Total Other Deductions	**89.8%**	**56.7%**	**53.7%**	**66.4%**	**60.8%**	**56.1%**	**55.4%**
Total SG&A Exp	**89.8%**	**56.7%**	**53.7%**	**66.4%**	**60.8%**	**56.1%**	**55.4%**
Depreciation	12.8%	4.3%	4.7%	4.8%	3.6%	3.4%	3.5%
Amortization	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Expenses	**102.6%**	**61.0%**	**58.4%**	**71.2%**	**64.4%**	**59.5%**	**58.9%**
Operating Income	**-65.2%**	**-15.6%**	**-12.5%**	**-14.1%**	**-10.0%**	**-3.8%**	**-2.9%**
Interest Income	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
(Interest Expense)	-16.5%	-14.5%	-6.9%	-0.5%	-7.6%	-7.6%	-8.9%
Other Income (Expense)	0.0%	0.0%	0.0%	0.0%	-1.1%	-0.1%	0.0%
Gain (Loss) on Sale of Fixed Assets	1.0%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income Before Taxes	**-80.7%**	**-30.1%**	**-19.4%**	**-14.6%**	**-18.6%**	**-11.5%**	**-11.8%**

Table 4.3
ABC Corporation
Financial Ratios

Fiscal Year Ending 9/30	2008	2009	2010	2011	2012	2013	Avg
Liquidity Ratios							
Current Ratio	0.2	0.1	0.1	0.4	0.4	0.4	**0.3**
Quick Ratio	0.2	0.0	0.1	0.2	0.2	0.2	**0.2**
Leverage Ratios							
Debt Ratio (Debt/Assets)	114.1%	158.4%	181.7%	139.9%	129.1%	145.9%	**144.8%**
Debt/Equity	-808.9%	-271.4%	-222.4%	-350.9%	-443.6%	-318.0%	**-402.5%**
Fixed Assets to Net Worth	-212.7%	-49.2%	-34.3%	-59.2%	-78.8%	-45.3%	**-79.9%**
Coverage Ratio (Times Interest Earned)	-394.6%	-107.7%	-181.8%	-2780.0%	-131.4%	-50.0%	**-607.6%**
Activity Ratios							
AR Turnover (Sales/Receivables)	23.2	38.9	35.5	55.7	54.1	59.3	**44.4**
Days' Receivables (365/AR turnover)	15.8	9.4	10.3	6.6	6.7	6.2	**9.1**
Inv Turnover (COG/Inventory)	33.2	24.2	25.6	14.1	16.2	14.8	**21.4**
Days' Inventory (365/Inv turnover)	11.0	15.1	14.3	25.9	22.5	24.7	**18.9**
Assets to Sales	1.3	0.7	0.6	0.7	0.6	0.6	**0.8**
Asset Turnover (Sales/Total Assets)	0.8	1.4	1.5	1.5	1.5	1.6	**1.4**
Fixed Assets Turnover (Sales/Fixed Assets)	2.7	5.0	5.5	6.3	6.7	7.7	**5.7**
Accounts Payable to Sales	0.2	0.2	0.1	0.1	0.1	0.1	**0.1**
Working Capital Turnover	-4.9	-4.9	-15.4	-21.4	-12.0	-12.8	**-11.9**
Profitability Ratios							
Sales Growth—Annual	NA	67.6%	-8.9%	-5.3%	-1.9%	0.3%	**10.4%**
Sales Growth—CAGR	7.3%	-4.0%	-2.3%	-0.8%	0.3%	NA	**0.1%**
Gross Profit Margin	37.4%	45.4%	45.8%	57.1%	54.4%	55.7%	**49.3%**
Pre-Tax Profit Margin—Unadjusted	-80.7%	-30.1%	-19.4%	-14.6%	-18.6%	-11.5%	**-29.2%**
Net Inc Bef Tax (NIBT)—Annual Growth	NA	-37.5%	-41.3%	-29.0%	25.1%	-37.7%	**-24.1%**
NIBT—CAGR	-27.3%	-24.5%	-17.9%	-11.7%	-37.7%	NA	**-23.8%**
Pre Tax ROE—Unadjusted	456.8%	117.8%	39.9%	35.2%	80.4%	48.8%	**129.8%**
Pre Tax ROA—Unadjusted	-64.4%	-41.7%	-27.5%	-21.5%	-27.9%	-18.2%	**-33.5%**

Table 4.4
Comparative Ratio Analysis - NAICS Code #81231

	Fintel, First Research [1] Aggregate Data	Subject DATA 2013 [2]	Evaluation
Liquidity Ratios			
Current Ratio	2.1	0.4	Negative
Quick Ratio	1.8	0.2	Negative
Leverage Ratios			
Debt Ratio	0.6	1.5	Negative
Debt/Equity	1.23	-3.2	Negative
Fixed Assets to Net Worth	0.4	-0.5	Negative
Coverage Ratio	6.3	-0.5	Negative
Activity Ratios			
Accounts Receivable Turnover	9.4	59.3	Positive
Inventory Turnover	6.4	14.8	Positive
Asset Turnover	1.5	1.6	Positive
Accounts Payable to Sales	0.0	0.1	Negative
Working Capital Turnover	6.1	-12.8	Negative
Profitability Ratios			
Pre-Tax Profit Margin	3.4%	-11.5%	Negative
Pre-Tax ROE	11.5%	NA	Negative
Pre-Tax ROA	5.2%	-18.2%	Negative

[1] Source: First Research, Last Quarterly Update 12/16/2013, Laundry Facilities & Dry Cleaning Services (NAICS: 81231). We use the aggregate data, which contains 19,201 enterprises.

[2] We compare the subject's 2013 financial ratios to the Fintel data.
The subject's financial ratios are from Table 4.3.

ABC Corporation
Multi-Year Projections for Valuation ($000's) [1]
ABC Base Case Projections - Updated as of April 4, 2014

	2012	2013	2014	2015	2016	2017	2018
Net Sales	$ 21,343.4	$ 21,435.5	$ 21,500.0	$ 22,360.0	$ 23,030.8	$ 23,721.7	$ 24,433.4
Cost of Sales	9,864.1	9,650.7	9,460.0	9,726.6	10,018.4	10,318.9	10,628.5
Gross Profit	11,479.3	11,784.8	12,040.0	12,633.4	13,012.4	13,402.8	13,804.9
Expenses:							
Store Expenses	5,899.5	6,207.2	6,020.0	6,204.9	6,333.5	6,464.2	6,597.0
Regional SG&A	5,266.6	4,690.7	4,665.5	4,785.0	4,882.5	4,981.6	5,131.0
Corporate SG&A	1,692.7	929.0	1,075.0	1,140.4	1,174.6	1,209.8	1,246.1
Total Expenses	12,858.7	11,826.9	11,760.5	12,130.3	12,390.6	12,655.5	12,974.1
EBITDA	**$ (1,379.4)**	**$ (42.1)**	**$ 279.5**	**$ 503.1**	**$ 621.8**	**$ 747.2**	**$ 830.7**
Other Expenses							
Interest - Cash	-	67.4	162.6	162.6	162.6	162.6	162.6
Interest - Non-Cash	1,636.0	1,580.0	964.5	964.5	964.5	964.5	964.5
Total Interest	1,636.0	1,647.4	1,127.2	1,127.2	1,127.2	1,127.2	1,127.2
Depreciation	585.0	638.0	650.0	650.0	650.0	300.0	300.0
Trustee Fees & Other	218.4	66.6	-	-	-	-	-
Total Other Expenses	2,439.4	2,352.0	1,777.2	1,777.2	1,777.2	1,427.2	1,427.2
Net Income(Loss)	**$ (3,818.8)**	**$ (2,394.1)**	**$ (1,497.7)**	**$ (1,274.1)**	**$ (1,155.3)**	**$ (679.9)**	**$ (596.4)**
EBITDA Less Cash Interest	**$ (1,379.4)**	**$ (109.5)**	**$ 116.9**	**$ 340.5**	**$ 459.2**	**$ 584.6**	**$ 668.1**
Adjustments (Debt-Free Analysis)							
+ Interest Expense	$ 1,636.0	$ 1,647.4	$ 1,127.2	$ 1,127.2	$ 1,127.2	$ 1,127.2	$ 1,127.2
= Total Adjustments	**$ 1,636.0**	**$ 1,647.4**	**$ 1,127.2**	**$ 1,127.2**	**$ 1,127.2**	**$ 1,127.2**	**$ 1,127.2**
Adj NIBT to Invested Capital	**$ (2,182.8)**	**$ (746.7)**	**$ (370.5)**	**$ (146.9)**	**$ (28.2)**	**$ 447.2**	**$ 530.7**
CAP EX	**284.9**	**230.4**	**250.0**	**250.0**	**250.0**	**250.0**	**250.0**
Y-O-Y Sales Increase		0.4%	**0.3%**	**4.0%**	**3.0%**	**3.0%**	**3.0%**
Gross Margin	53.8%	55.0%	**56.0%**	**56.5%**	**56.5%**	**56.5%**	**56.5%**
Expense % to Sales:							
Store Expenses	27.6%	29.0%	**28.0%**	**27.8%**	**27.5%**	**27.3%**	**27.0%**
Regional SG&A	24.7%	21.9%	**21.7%**	**21.4%**	**21.2%**	**21.0%**	**21.0%**
Corporate SG&A	7.9%	4.3%	**5.0%**	**5.1%**	**5.1%**	**5.1%**	**5.1%**
Expense growth rates:							
Store Expenses		5.2%	-3.0%	3.1%	2.1%	2.1%	2.1%
Regional SG&A		-10.9%	-0.5%	2.6%	2.0%	2.0%	3.0%
Corporate SG&A		-45.1%	15.7%	6.1%	3.0%	3.0%	3.0%
EBITDA 2014 - 2018							
Original Model							2,492.2
Current Model							2,982.4
							490.2

Notes
[1] Projections were prepared by Company's Management.

Table 5.1.A
Discounted Cash Flow Method - 1/18/14
No IPO Scenario but Sale in 2015

Year (Year 0 = 1/18/14) [1]		**1**	**2**
Forecast Sales (Table 5.1)		15,010,267	22,360,000
Forecast Net Inc Bef Tax to Invested Cap (Table 5.1)		**(258,665)**	**(146,900)**
Income Taxes		-	-
Forecast Net Income After Taxes to Invested Capital		**(258,665)**	**(146,900)**
Adjustments to Reconcile Net Income to Cash Flow:			
+ Depreciation (Table 5.1)		453,799	650,000
- Incr in Net Working Capital [2]		(6,961)	59,649
- Capital Expenditures (Table 5.1)		(174,538)	(250,000)
+ Incr in Long Term Debt			
Total Adjustments		**272,300**	**459,649**
Forecast Cash Flow		**13,635**	**312,749**
Present Value Factor to Val Date		0.9495	0.8376
Present Value of CF		**12,946**	**261,970**

PV of CF 1-2	**A**		**274,917**
Sale of Company End Year 2		9,947,000	
PV Factor--1.95 Years		0.7488	
Present Value of Sale	**B**	**7,448,022**	**7,448,022**
Total PV Cash Flows = Invested Capital	**=A+B**		**7,722,939**
Rounded			**7,723,000**

Assumptions:

Discount Rate-WACC (Table 5.1.B) = *r*	16.0%

[1] The projections are fiscal years ending September 30 with Year 0 = 1/18/14.
Year 1 is a stub year (1/18/14 to 9/30/14). Thus, we multiplied the projections in Year 1 by 0.7.

[2] We use -6.9% (3 yr avg data) of forecast sales (see Table 4.1.D).

Table 5.1.B
Weighted Average Cost of Capital

Cost of Equity Capital (Using Build-Up Method)

Risk Free Rate [1]	3.5%
Equity Premium (Long-term) [2]	6.7%
Size Premium for Small Stocks [3]	6.0%
Company Specific Risk Premium	4.0%
Discount Rate	20.2%
Discount Rate-Rounded	**20%**

Company Specific Risk Component	**Risk Factor**
Industry Premium	1.0%
Financial position of the company	1.0%
Level of diversification	0.0%
Depth of management	0.0%
Competition	1.0%
Barrier to funds	1.0%
Expected growth or decline of the business	0.0%
Total Company Specific Risk Component	**4.0%**

Computation of Cost of Debt

	Amount	**%**	**Cost of Debt**	**Weighted Average**
Notes payable	12,000,000	100.0%	10.0%	10.0%
Long-Term Debt (Rd.)	**$ 12,000,000**	**100.00%**		**10.0%**
Tax Rate @ 40%				40.0%
Weighted Average Cost of Debt - After Tax				**6.0%**

Weighted Average Cost of Capital

Median Debt-to-Capital Ratio (Table 5.1.C) 28%

	%	**Cost of Cap**	**Wtd Avg**
Equity	71.6%	20.0%	14.3%
Debt	28.4%	6.0%	1.7%
Total	**100.0%**		**16.0%**

Weighted Average Cost of Capital **16.0%**

[1] The 20-Year Treasury Coupon Bond Yield-constant maturity as of 1/17/14.
[2] Ibbotson SBBI 2013 Valuation Yearbook, p. back cover.
[3] Ibbotson SBBI 2013 Valuation Yearbook, p. back cover, Size Premium for Decile 10, Market Cap below $254 million.

Table 5.1.C
Weighted Average Cost of Capital

(USD $000's)

Comparable Companies	Ticker	Debt [1]	Market Cap [1]	MVIC [1]	Debt / MVIC	Debt / Equity
EnviroStar, Inc.	EVI	-	21,800	14,770	0.0%	0.0%
Ulta Salon, Cosmetics & Fragrance, Inc.	ULTA	-	5,570,000	5,340,000	0.0%	0.0%
Regis Corp.	RGS	294,150	739,320	702,530	41.9%	39.8%
Hakuyosha Co., Ltd.	9731:JP	63,600	67,100	130,700	48.7%	94.8%
Johnson Service Group plc	JSG:LN	42,500	118,500	161,000	26.4%	35.9%
Sally Beauty Holdings Inc.	SBH	1,810,000	4,440,000	5,970,000	30.3%	40.8%
				Mean	25%	35%
				Median	28%	38%

Notes:

[1] Latest filing period available (Dec 31, 2013) per Yahoo Finance and/or Bloomberg.

Table 5.1.D
Discounted Cash Flow Method - 1/18/14
IPO Scenario in 2014

Year (Year 0 = 1/18/14) [1]		**1**
Forecast Sales (Table 5.1)		15,010,267
Forecast Net Inc Bef Tax to Invested Cap (Table 5.1)		**(258,665)**
Income Taxes		-
Forecast Net Income After Taxes to Invested Capital		**(258,665)**
Adjustments to Reconcile Net Income to Cash Flow:		
+ Depreciation (Table 5.1)		453,799
- Incr in Net Working Capital [2]		(6,961)
- Capital Expenditures (Table 5.1)		(174,538)
+ Incr in Long Term Debt		
Total Adjustments		**272,300**
Forecast Cash Flow		**13,635**
Present Value Factor to Val Date [6]		0.9495
Present Value of CF		**12,946**

PV of CF Year 1	**A**	**12,946**
IPO: Company valued at $21 million		21,000,000
PV Factor--0.95 Years		0.8685
Present Value of Sale	**B**	**18,238,201**
Total PV Cash Flows = Invested Capital	**=A+B**	**18,251,147**

Rounded	**18,251,000**

Assumptions:

Discount Rate-WACC (Table 5.1.B) = *r*	16.0%

[1] The projections are fiscal years ending September 30 with Year 0 = 1/18/14.
Year 1 is a stub year (1/18/14 to 9/30/14). Thus, we multiplied the projections in Year 1 by 0.7.

[2] We use -6.9% (3 yr avg data) of forecast sales (see Table 4.1.D).

Table 5.3

Pratt's Stats- SIC 7216 - Drycleaning Plants, Except Rug Cleaning

Business Description	Market Value of Invested Capital	Sale Date	Net Sales	Net Income	EBITDA	DiscEarnings	MVIC / Sales	MVIC / EBITDA	MVIC / Disc Earnings
Dry Cleaning	$520,000	10/7/1998	$1,063,679	$105,711	$198,809		0.489	2.616	N/A
Multiple Location Dry Cleaning Company	$1,100,000	6/30/2006	$1,386,966	$192,548	$192,631	$270,113	0.793	5.71	4.072
Dry Cleaner	$725,000	2/28/1999	$1,419,822	$77,932			0.511	N/A	N/A
Dry Cleaners	$700,000	5/30/1996	$1,791,516	$2,831	$95,202	$243,890	0.391	7.353	2.87
Commercial Cleaning	$2,300,000	1/31/2008	$1,802,834	$377,457			1.276	N/A	N/A
Retail Dry Cleaning	$1,443,000	2/15/2007	$2,672,387	$72,710	$247,918		0.54	5.82	N/A
Dry Cleaning	$2,850,000	10/1/2000	$2,800,000	$557,000	$618,200	$797,200	1.018	4.61	3.575
Operate and Franchise Retail Dry Cleaning Stores and Provide Dry Cleaning Services to Franchisees	$2,600,000	8/10/2005	$4,024,650	$318,742	$807,522		0.646	3.22	N/A
						Mean	**0.71**	**4.89**	**3.51**
						Median	**0.59**	**5.16**	**3.58**
						Std Dev	**0.30**	**1.77**	**0.60**
						Coeff of Variation	**0.43**	**0.36**	**0.17**
						10th Percentile	**0.46**	**2.92**	**3.01**
						20th Percentile	**0.50**	**3.22**	**3.15**
						30th Percentile	**0.51**	**3.92**	**3.29**
						40th Percentile	**0.53**	**4.61**	**3.43**
						50th Percentile	**0.59**	**5.16**	**3.58**
						60th Percentile	**0.68**	**5.71**	**3.67**
						70th Percentile	**0.78**	**5.77**	**3.77**
						80th Percentile	**0.93**	**5.82**	**3.87**
						90th Percentile	**1.10**	**6.59**	**3.97**

Valuation Using Invested-Capital Multiples

	Sales	Disc Earn	EBITDA	Weighted Value
Company Fundamental (2013)	21,643,749	(77,106)	(77,106)	
10th Percentile MVIC Multiple	0.46	2.92	3.01	
Indicated Value	**9,947,467**	**-**	**-**	
Weight	100.0%	0.0%	0.0%	100.0%
Weighted Value-Invested Capital	**9,947,467**	**-**	**-**	**9,947,467**
Rounded				**9,947,000**

Table 5.3

Pratt's Stats- SIC 7216 - Drycleaning Plants, Except Rug Cleaning

Regression of MVIC as a Function of Sales

SUMMARY OUTPUT

Regression Statistics	
Multiple R	76.2%
R Square	58.1%
Adjusted R Square	51.1%
Standard Error	**648,921**
Observations	8

ANOVA

	df	*SS*	*MS*	*F*	*Signif F*
Regression	1	3.50E+12	3.50E+12	8.32E+00	2.79E-02
Residual	6	2.53E+12	4.21E+11		
Total	7	6.03E+12			

	Coefficients	*Std Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	2,006	577,236	0.0	1.00	(1,410,439)	1,414,450
Net Sales	0.7206	0.25	2.884	0.03	0.11	1.33

Indication of MVIC		
Y-Intercept	2,006	
Revenues 2013	21,643,749	
X-Coefficient for Revenues	0.7206	
Revenues * X-Coeff	**15,595,521**	
Indicated Value	**15,597,526**	**15,597,526**

95% Confidence Interval	**Lower 95%**	**Upper 95%**
+/- 2 Standard Errors	(1,297,841)	1,297,841
95% Confidence Interval	**14,299,685**	**16,895,367**

Regression of MVIC as a Function of Sales and Net Income

SUMMARY OUTPUT

Regression Statistics	
Multiple R	98.2%
R Square	96.4%
Adjusted R Square	95.0%
Standard Error	**207,901**
Observations	8

ANOVA

	df	*SS*	*MS*	*F*	*Signif F*
Regression	2	5.81E+12	2.91E+12	6.73E+01	2.43E-04
Residual	5	2.16E+11	4.32E+10		
Total	7	6.03E+12			

	Coefficients	*Std Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	(84,581)	185,313	-0.5	0.67	(560,943)	391,782
Net Sales	0.4177	0.09	4.635	0.01	0.19	0.65
Net Income	3.4190	0.47	7.311	0.00	2.22	4.62

Indication of MVIC	
Y-Intercept	(84,581)
Revenues 2013	21,643,749

Table 5.3

Pratt's Stats- SIC 7216 - Drycleaning Plants, Except Rug Cleaning

X-Coefficient for Revenues	0.4177	
Revenues * X-Coeff	**9,041,361**	
Net Income 2013	(2,496,215)	
X-Coefficient for NI	3.419	
NI x X-Coeff.	**(8,534,440)**	
Indicated Value	**422,340**	**422,340**

95% Confidence Interval	**Lower 95%**	**Upper 95%**
+/- 2 Standard Errors	(415,802)	415,802
95% Confidence Interval	**6,538**	**838,142**

Regression of MVIC/Sales as a Function of EBITDA/Sales

SUMMARY OUTPUT

Regression Statistics	
Multiple R	66.0%
R Square	43.6%
Adjusted R Square	29.4%
Standard Error	**0**
Observations	6

ANOVA

	df	*SS*	*MS*	*F*	*Signif F*
Regression	1	1.14E-01	1.14E-01	3.09E+00	1.54E-01
Residual	4	1.47E-01	3.68E-02		
Total	5	2.61E-01			

	Coefficients	*Std Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	0	0	1.5	0.22	(0)	1
EBITDA/ Sales	2.2879	1.30	1.757	0.15	-1.33	5.90

This regression is not statistically significant.

Table 5.3.A (Complete Data)

Pratt's Stats- SIC 7216 - Drycleaning Plants, Except Rug Cleaning

Business Description	Market Value of Invested Capital	Sale Date	Net Sales	NetIncome	MVIC / Sales	MVIC / Disc Earnings	MVIC / EBITDA
Dry Cleaning	$152,500	1/16/1990	$45,480	$19,901	3.353	N/A	6.309
Dry Cleaners	$120,000	10/23/2008	$62,000	$7,500	1.935	4.528	9.6
Dry Cleaners	$30,000	7/24/2003	$72,000	$35,000	0.417	N/A	N/A
Dry Cleaning	$60,000	9/1/2005	$80,646	($6,333)	0.744	N/A	4.452
Dry Cleaners	$75,000	9/18/2012	$80,735	$20,037	0.929	3.743	3.743
Dry Cleaning Delivery Service	$50,000	12/26/2007	$85,470	$9,091	0.585	N/A	2.512
Dry Cleaning Route Franchise	$37,000	7/19/2010	$91,623	($705)	0.404	1.786	19.231
Dry Cleaner Agency	$31,500	5/20/1998	$104,195	$36,726	0.302	N/A	0.775
Dry Cleaner	$68,000	12/1/1998	$111,517	$10,706	0.61	N/A	3.547
Dry Cleaner	$75,000	9/30/2007	$113,000	$49,917	0.664	N/A	N/A
Dry Cleaners	$130,000	7/7/2010	$115,047	$14,928	1.13	N/A	7.565
Dry Clean Drop	$36,000	7/25/2005	$120,000	$75,000	0.3	N/A	N/A
Dry Cleaning	$160,000	4/15/2005	$121,266	$12,319	1.319	N/A	3.276
Dry Cleaning Plant with Drop Store Location	$100,000	8/15/2006	$121,760	($948)	0.821	6.812	6.812
Dry Cleaning	$425,000	6/30/1994	$140,969	$17,102	3.015	N/A	N/A
Dry Cleaning	$98,500	2/23/2005	$144,528	($25,224)	0.682	N/A	N/A
Dry Cleaning	$320,000	4/16/2007	$149,886	$370	2.135	N/A	12.325
Dry Cleaning	$63,500	3/5/1993	$150,467	$38,161	0.422	N/A	N/A
Dry Cleaning	$100,000	5/18/1992	$158,519	$34,783	0.631	N/A	2.768
Dry Cleaner	$89,000	5/1/2008	$161,872		0.55	N/A	N/A
Dry-cleaning Plant	$70,000	5/23/2001	$166,458	$53,030	0.421	N/A	N/A
Dry Cleaning	$60,000	12/6/1993	$168,245	($10,312)	0.357	N/A	N/A
Dry Cleaner	$110,000	7/25/2003	$170,000	$45,000	0.647	N/A	N/A
Dry Cleaners	$115,000	3/28/2008	$173,972	$21,984	0.661	3.968	3.968
Dry Cleaning	$120,000	9/6/1995	$183,870	$57,619	0.653	N/A	N/A
Dry Cleaners	$196,735	5/6/1999	$185,000	$50,000	1.063	N/A	3.935
Dry Cleaner	$68,000	4/2/2008	$189,000		0.36	N/A	N/A
Dry Cleaner	$117,200	6/1/2007	$197,527	($14,830)	0.593	N/A	N/A
Dry Cleaner	$125,000	4/2/2002	$200,000	$52,048	0.625	2.402	2.402
Dry Cleaner	$69,900	7/11/2002	$200,000	$45,000	0.35	N/A	N/A
Dry Cleaners	$145,000	4/25/2008	$200,000	$64,942	0.725	2.169	2.169
Dry Cleaning	$157,500	2/20/1990	$212,273	($8,039)	0.742	N/A	N/A
Dry Cleaner	$275,000	4/24/2004	$213,210	$8,926	1.29	N/A	5.502
Dry Cleaning Plant and Drop Off Store	$330,000	7/31/2006	$218,644	$31,345	1.509	N/A	8.89
Dry Cleaning	$158,000	8/17/1992	$222,122	$5,230	0.711	N/A	5.379
Cleaner	$160,000	9/24/1999	$223,062	$110,000	0.717	N/A	N/A
Dry Cleaner	$240,000	6/29/2000	$231,096	$18,096	1.039	N/A	N/A
Dry Cleaning	$170,000	12/23/1994	$231,840	$48,120	0.733	N/A	N/A
Dry Cleaners	$190,000	12/14/2011	$237,441	$49,509	0.8	2.431	3.655
Dry Cleaning Plant	$230,000	9/17/2004	$237,484	$37,587	0.968	5.212	5.212
Dry Cleaner	$205,000	9/19/2002	$238,996	$114,771	0.858	1.551	1.786
Dry Cleaner	$130,000	9/7/1999	$243,503	($82,246)	0.534	N/A	N/A
Dry Cleaning	$129,108	1/7/1999	$245,206	$30,089	0.527	N/A	N/A
Dry Cleaning	$240,000	6/8/2011	$248,203	$9,192	0.967	N/A	2.012
Dry Cleaners	$193,000	7/30/2004	$250,000	$75,000	0.772	N/A	N/A
Dry Cleaning	$195,000	1/15/2006	$252,573	$3,337	0.772	N/A	4.664
Dry Cleaning	$390,000	9/14/1995	$256,692	$13,918	1.519	N/A	7.733
Dry Cleaner	$250,000	9/7/2006	$265,203	$29,672	0.943	5.782	5.782
Dry Cleaners	$295,000	7/6/2007	$274,315	($16,775)	1.075	N/A	N/A
Dry Cleaning Plant	$140,000	3/1/2013	$277,479	$21,284	0.505	N/A	N/A
Dry Cleaners	$70,000	12/28/2007	$288,000	$121,368	0.243	0.577	0.577
Full Service Dry Cleaner	$127,000	4/11/2007	$288,881	$60,780	0.44	1.58	1.58
Dry Cleaning	$75,000	10/18/1991	$291,973	$29,953	0.257	N/A	2.191
Dry Cleaner	$250,000	6/29/2007	$292,191	$24,989	0.856	3.927	6.932
Dry Cleaner	$250,000	6/29/2007	$297,000	$16,000	0.842	5.319	10
Dry Cleaning	$190,000	3/2/1994	$300,228	($47,648)	0.633	N/A	N/A
Dry Cleaning	$225,000	1/31/1994	$306,619	$83,040	0.734	N/A	2.264
Dry Cleaning	$210,000	8/20/1993	$306,767	$17,216	0.685	N/A	4.564
Dry Cleaning	$110,000	5/1/1992	$312,611	$33,055	0.352	N/A	2.096
Dry Cleaning	$138,500	9/28/2000	$313,996	$58,804	0.441	N/A	2.283
Dry Cleaning	$250,000	10/26/2005	$314,293	$11,433	0.795	N/A	N/A
Dry Cleaning	$72,500	2/7/1991	$315,523	$14,500	0.23	N/A	2.61
Dry Cleaning	$310,000	3/30/1995	$324,877	$27,293	0.954	N/A	8.838
Dry Cleaners	$265,000	1/11/2008	$340,000	$115,320	0.779	2.298	2.298
Dry Cleaners	$700,000	3/20/2009	$340,000	$130,000	2.059	4.93	4.93
Dry Cleaning	$315,000	9/3/1999	$360,425	$13,506	0.874	N/A	18.102
Dry Cleaner	$500,000	11/4/2006	$364,467	$75,143	1.372	N/A	N/A
Dry Cleaning Plant	$330,000	11/2/2009	$365,076	$65,739	0.904	2.445	3.302
Dry Cleaning and Laundry	$277,500	7/29/1994	$373,120	$91,801	0.744	N/A	N/A
Dry Cleaning	$284,300	12/7/1994	$373,120	$94,801	0.762	N/A	N/A
Coin Operated Dry Cleaners	$245,000	8/18/2004	$383,000	$22,689	0.64	N/A	N/A
Dry Cleaners	$200,000	10/1/2007	$392,279	($6,043)	0.51	7.52	125.471
Dry Cleaning	$65,000	8/15/2001	$393,827	$67,617	0.165	N/A	0.884

Table 5.3.A (Complete Data)

Pratt's Stats- SIC 7216 - Drycleaning Plants, Except Rug Cleaning

Business Description	Market Value of Invested Capital	Sale Date	Net Sales	NetIncome	MVIC / Sales	MVIC / Disc Earnings	MVIC / EBITDA
Dry Cleaner	$260,000	12/21/1998	$396,182	$7,491	0.656	N/A	4.243
Dry Cleaning	$185,000	4/30/1993	$412,547	$27,789	0.448	N/A	4.468
Dry Cleaning	$260,000	6/30/1997	$436,260	$15,064	0.596	N/A	8.649
Dry Cleaner	$290,000	1/28/2003	$437,171	$94,927	0.663	N/A	3.055
Dry Cleaning	$325,000	3/29/1996	$446,285	$100,417	0.728	N/A	2.691
Dry Cleaners	$375,000	7/8/2008	$450,000	$152,885	0.833	2.302	2.302
Dry Cleaning	$130,000	11/18/2002	$469,350	$221	0.277	12.769	12.769
Dry Cleaning	$450,000	6/1/1998	$479,554	$16,469	0.938	N/A	6.588
Dry Cleaner	$355,000	7/29/2005	$520,839	$71,111	0.682	N/A	3.521
Dry Cleaning	$290,000	5/7/1996	$558,739	$43,921	0.519	N/A	3.732
Dry Cleaner	$250,000	7/9/2008	$574,600	$3,400	0.435	2.812	12.315
Dry Cleaners	$290,000	2/1/2001	$606,318	$111,322	0.478	3.376	N/A
Dry Cleaning	$400,000	2/26/1998	$622,832	$112,438	0.642	N/A	2.656
Dry Cleaning	$190,000	5/8/1993	$627,383	$48,238	0.303	N/A	3.016
Serving 2 Communities	$607,000	8/27/2004	$632,000	$175	0.96	N/A	11.133
Dry Cleaning	$600,000	11/10/1997	$641,641	$29,735	0.935	N/A	7.388
Dry Cleaning Laundry and Drop Store	$450,000	12/14/2001	$654,134	$88,428	0.688	N/A	N/A
Dry Cleaner and Launderer.	$590,000	9/17/1998	$668,124	$165,404	0.883	N/A	2.761
Dry Cleaner	$500,000	8/12/1999	$714,636	$14,039	0.7	N/A	8.844
Dry Cleaning	$140,000	6/6/1997	$723,854	($21,782)	0.193	N/A	N/A
Dry Cleaning	$300,000	10/3/1994	$727,905	($1,119)	0.412	N/A	13.744
Dry Cleaners	$685,000	4/25/2008	$750,000	$157,445	0.913	2.714	3.274
Full Service Dry Cleaners with Pick-Up Stores	$458,000	10/24/2003	$755,565	($16,294)	0.606	2.831	N/A
Dry Cleaning	$500,000	2/28/2012	$757,981	($6,836)	0.66	20.526	20.526
Dry Cleaner with Drop-off Locations	$1,240,000	6/10/2008	$875,028	$46,067	1.417	11.865	11.865
Laundry/ Dry Cleaning	$1,050,000	5/1/2001	$900,000	$300,000	1.167	N/A	3.5
Dry Cleaning	$520,000	10/7/1998	$1,063,679	$105,711	0.489	N/A	2.616
Multiple Location Dry Cleaning Company	$1,100,000	6/30/2006	$1,386,966	$192,548	0.793	4.072	5.71
Dry Cleaner	$725,000	2/28/1999	$1,419,822	$77,932	0.511	N/A	N/A
Dry Cleaners	$700,000	5/30/1996	$1,791,516	$2,831	0.391	2.87	7.353
Commercial Cleaning	$2,300,000	1/31/2008	$1,802,834	$377,457	1.276	N/A	N/A
Retail Dry Cleaning	$1,443,000	2/15/2007	$2,672,387	$72,710	0.54	N/A	5.82
Dry Cleaning	$2,850,000	10/1/2000	$2,800,000	$557,000	1.018	3.575	4.61
and Provide Dry Cleaning Services to Franchisees	$2,600,000	8/10/2005	$4,024,650	$318,742	0.646	N/A	3.22

Table 5.4
ABC Corporation
Adjusted Book Value Method as of 1/31/14

	Book Value [1]	Adjust-ments	Adjusted Book Value
Cash	198,171	100%	198,171
A/R	364,607	100%	364,607
Inventories	648,350	100%	648,350
Prepaid Expenses	276,033	100%	276,033
Other Current Assets	29,026	100%	29,026
Total Current Assets	**1,516,187**		**1,516,187**
Property & Equip—Before Depr [2]	9,074,762		1,690,700
– Depreciation	(7,251,328)		
Property & Equipment—Net	1,823,434		**1,690,700**
Intangible Assets-Net of Amort [3]	595,000		636,000
Other Assets	268,357	100%	268,357
Total Assets	**4,202,977**	**100%**	**4,111,244**
A/P	1,238,910	100%	1,238,910
Notes Payable-Short Term	95,982	0%	-
Accrued Taxes	402,026	100%	402,026
Accrued Payroll	395,856	100%	395,856
Other Accrued Liab	2,334,678	100%	2,334,678
Pre-Petition Liab	244,148	0%	-
Total Current Liabilities	**4,711,600**		**4,371,470**
Notes Payable-Long Term	9,819,064	0%	-
Deferred Rent Liab.	207,342	0%	-
Other Liabilities	869,629	0%	-
Total Liabilities	**15,607,636**		**4,371,470**
Common Stock	780		
Stockholder Note Receivable	11,208,167		
All Paid-In Capital	12,529,269		
Paid-In Capital-Warrants	134,000		
Retained Earnings	(34,338,004)		
Net Income	(938,871)		
Total Equity and MVIC	**(11,404,659)**		**(260,227)**
Total Liabilities & Equity	**4,202,977**		**4,111,244**

[1] Transferred from Table 4.1.
[2] The fair value of the machinery & equipment was provided by Management.
[3] In Table 5.6, the fair value of the trade names was calculated at $636,000.

Table 5.5
ABC Corporation
Reconciliation of Invested Capital as of 1/18/14

Valuation Methods	Table	Indicated Value	Discount/ Premium	Weight	Wtd FMV
Asset Approach					
MVIC based on Adjusted Book Value Method	5.4	($260,227)		0%	**$0**
Income Approach					
Discounted Cash Flow Method	5.1.A	$7,723,000		50%	**$3,861,500**
Market Approach (Pratt's Stats Data)					
MVIC based on Price-Sales Multiple	5.3	$9,947,000		50%	**$4,973,500**
Market Value of Invested Capital of ABC				**100.0%**	**$8,835,000**
Rounded					**$8,835,000**

Table 5.6
Valuation of Trade Name - 1/18/14 - Income Approach

Year (Year 0 = 1/18/14) [1]		**1**	**2**	**3**	**4**	**5**
Date		**2014**	**2015**	**2016**	**2017**	**2018**
Forecast Sales (Table 5.1)		15,010,267	22,360,000	23,030,800	23,721,724	24,433,376
Pretax Relief from Royalty	0.50%	**75,051**	**111,800**	**115,154**	**118,609**	**122,167**
Income Tax Liability	40%	(30,021)	(44,720)	(46,062)	(47,443)	(48,867)
After-Tax Royalty		**45,031**	**67,080**	**69,092**	**71,165**	**73,300**
Present Value (PV) Factor to Val Date [3]	16.0%	0.9285	0.8004	0.6900	0.5948	0.5128
PV Relief from Royalty as of Val Date		**$41,810**	**$53,692**	**$47,674**	**$42,332**	**$37,588**
Sum of PV Relief from Royalty, Years 1-5			**$223,095**			
Forecast Royalty-Year 5		73,300				
Multiply by 1+*g* = Forecast Royalty Year 6	3.0%	75,499				
Gordon Model Multiple-Midyear = SQRT (1+*r*)/(*r* -*g*)		8.2849				
PV of Royalties-Years 6-Infinity at Year 5		625,500				
PV Factor--4.70 Years		0.4979				
PV Royalties Years 6-Infinity at Val Date			**$311,454**			
PV of Trade Name Royalties-Years 1 to Infinity			**$534,549**			
Amortization Benefit			**$101,919**			
FMV of Trade Name			**$636,468**			
Rounded			**$636,000**			

Assumptions:	
Royalties	0.50%
Discount Rate [2]	16%
Long Term Growth Rate = g [3]	3.0%
Tax Rate = *t*	40%
Number of Years of Intang Amort = *n*	15
Intermediate Calculation: *x* = 1/(1+*r*)	0.8621
Annuity Discount Factor (ADF) = GM(1-x^n)	6.0050

[1] The projections are fiscal years ending September 30 with Year 0 = 1/18/14.
Year 1 is a stub year (1/18/14 to 9/30/14). Thus, we multiplied the projections in Year 1 by 0.7.
[2] See *Valuation for Financial Reporting*, Mard, Hitchner, Hyden, & Zyla, c. 2002, Wiley & Sons, NY, p. 68
[3] Based on professional judgment.

Table 6.1
Capital Structure [1]

	Face Value Preference	Shares Outstanding	Conversion Ratio	Common Stock Equivalents (CSE)	Percentage of CSE
Standard Interest-Bearing Debt	$0	-			0.0%
Convertible Debt	$9,200,000	-		4,600,000	8.1%
Preferred Stock (10% Dividend Yield)	$11,241,028	5,620,514	1.000	5,620,514	9.9%
Common (Table 2.1)	$0	42,948,770	1.000	42,948,770	75.7%
Warrants ($2.0 Strike Price)	$0	3,584,850	1.000	3,584,850	6.3%
Total		**52,154,134**		**56,754,134**	**100.0%**

Calculation of Face Value

Debt	$12,000,000
Less: Non-Convertible Debt	(2,800,000)
Face Value of Convertible Debt	**$9,200,000**

Preferred Stock	
Shares Outstanding as of Val Date	5,620,514
Issue Price per Share	$2
Face Value of Preferred Stock	**$11,241,028**

Notes:

[1] Source: Provided by Alex B.

Table 6.1.A
Strike Prices for Participation

	Common	Preferred A	Warrants	Convertible Debt
Convertible Debt, Plus Accrued Interest [1]	$11,040,000	$11,040,000	$11,040,000	NA
Face Value of Preferred A, Plus Accrued Dividends [1]	13,489,234	13,489,234	13,489,234	13,489,234
Claims to Be Paid Prior to Equity Participation	$24,529,234	$24,529,234	$24,529,234	$13,489,234
Preferance at Liquidity	NA	$13,489,234	NA	$11,040,000
Number of CSEs	42,948,770	5,620,514	3,584,850	4,600,000
Strike Price Per CSE	NA	NA	2.00	2.00
Outstanding CSEs When Equity Class Participates	42,948,770	48,569,284	52,154,134	56,754,134
Necessary Additional Equity	0	0	104,308,269	113,508,269
Less Cash Proceeds From Options	0	0	7,169,700	7,169,700
Necessary Additional Equity, Net	0	0	$97,138,569	$106,338,569
Strike Price for Participation	$24,529,234	$24,529,234	$121,667,802	$119,827,802

Calculation of Interest/Dividend [1]

	Face Value Preference	Interest Rate	Liquidity Event (Years)	Accum. Interest/Dividend	Face Value incl. Accrued Dividends
Convertible Debt	$9,200,000	10%	2	$1,840,000	**$11,040,000**
Preferred Stock A	$11,241,028	10%	2	$2,248,206	**$13,489,234**

Table 6.1.B
Option-Pricing Model Assumptions

Equity Value Summary

Estimated Enterprise Value	$	8,835,000
Less Standard Interest-Bearing Debt [1]	$	(2,800,000)
Underlying Value Attributable to Remaining Invested Capital	$	6,035,000

Summary of Equity

	Preferance at Liquidity	Underlying Value for Payoff	Underlying Value for Conversion/Exercise	Shares Outstanding	Common Stock Equivalents (CSE)	Persentage of CSE
Convertible Debt	$11,040,000	0	$126,997,502	-	4,600,000	8.1%
Preferred A (10% Dividend Yield)	$13,489,234	$11,040,000	$24,529,234	5,620,514	5,620,514	9.9%
Common	$0	$24,529,234	$0	42,948,770	42,948,770	75.7%
Warrants ($2.0 Strike Price)	$0	$0	$121,667,802	3,584,850	3,584,850	6.3%
Total				**52,154,134**	**56,754,134**	**100.0%**

Option-Pricing Assumptions

Risk-Free Rate [2]	0.40%
Volatility [3]	40.00%
Time to Liquidity Event (Years)	2.0

Notes:

[1] According to Alex B., the non-convertible debt is $2.8 million as of January 17, 2014. According to Management, the debt was issued at over 20% interest per annum and therefore close to fair value.

[2] Source: Federal Reserve Statistical Release. Two year treasury securities as of January 17, 2014.

[3] Based on the historical volatility of the comparable companies' common stock and certain attributes of the Company.

Table 6.1.C
Call Options-Black Scholes Model

Input Variables	**Call Option 1**	**Call Option 2**	**Call Option 3**	**Call Option 4**	**Call Option 5**
S = Stk Price Equivalent (Underlying Value)	$6,035,000	$6,035,000	$6,035,000	$6,035,000	$6,035,000
E = Exercise Price (Strike Price)	$0	$11,040,000	$24,529,234	$121,667,802	$119,827,802
t = Time To Expiration (Yrs)	2.00	2.00	2.00	2.00	2.00
Rf = Risk-Free Rate	0.40%	0.40%	0.40%	0.40%	0.40%
std dev = standard deviation (Volatility)	40.00%	40.00%	40.00%	40.00%	40.00%
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
Computations					
d_1 = 1st Black-Scholes Parameter [1]	44.1790	(0.7707)	(2.1819)	(5.0129)	(4.9860)
d_2 = 2nd Black-Scholes Parameter [2]	43.6133	(1.3363)	(2.7476)	(5.5786)	(5.5516)
$N(d_1)$ = Cum Normal Density Function	1.0000	0.2205	0.0146	0.0000	0.0000
$N(d_2)$ = Cum Normal Density Function	1.0000	0.0907	0.0030	0.0000	0.0000
Call Option Value [3]	**$6,035,000**	**$336,893**	**$14,815**	**$0**	**$0**
Tranche Value	**$5,698,107**	**$322,077**	**$14,815**	**($0)**	**$0**

[1] d_1 = [ln (S/E) + (R_f - Div Yield + .5 * variance) * t] / [std Dev * SQRT(t)], where variance and standard deviation are expressed as annual returns.

[2] $d_2 = d_1$ - [std dev * SQRT(t)]

[3] The formula for the call option is $P = S*N(d1)*e^{-DivYield*t} - [E*N(d2)*e^{-Rf*t}]$
See Merton, R. "Theory of Rational Option Pricing", Bell Journal of Economics & Management (June '73)

Table 6.1.D
Allocating Equity Value

Threshold Underlying Value			Call Option Tranche	Tranche Value	Applicable Classes	Applicable Shares	Convertible Debt	Preferred A	Common	Warrants	Total
$0	to	$11,040,000	1-2	$5,698,107	Convertible Debt (CD)	-	100.0%	0.0%	0.0%	0.0%	100.0%
$11,040,000	to	$24,529,234	2-3	$322,077	Preferred A (A)	5,620,514	0	100.0%	0.0%	0.0%	100.0%
$24,529,234	to	$121,667,802	3-4	$14,815	Common (C), A	48,569,284	0	11.6%	88.4%	0.0%	100.0%
$121,667,802	to	<	4-5	($0)	C, A, Warrants (W)	52,154,134	0	10.8%	82.3%	6.9%	100.0%
				$6,035,000		**Value**	**$5,698,107**	**$323,792**	**$13,101**	**($0)**	**$6,035,000**
						Shares	**-**	**5,620,514**	**42,948,770**	**3,584,850**	**52,154,134**
						Per Share	**-**	**0.05761**	**0.00031**	**(0.00000)**	

Table 7.1
Fair Market Value of Common Stock

FMV of Common Stock per Share (Table 6.1.D)		0.00031
Number of Shares Outstanding (Table 6.1)		42,948,770
FMV of Common Stock = Equity Value	$	13,101
Less: Discount for Lack of Marketability-% (Table 7.2)		22%
Less: Discount for Lack of Marketability-$		2,882
Indicated Fair Market Value	$	10,219
Rounded	**$**	**10,000**

Table 7.2
Marketability Discount based on Black-Scholes Put Options

INPUT VARIABLES	**2 Year**
Share Price (1)	$1.00
Exercise Price (2)	$1.00
Expected Life in Years (3)	2.0
Annualized Volatility (4)	40.0%
Annual Rate of Dividends (5)	0%
Risk-Free Rate (6)	0.40%
INTERMEDIATE COMPUTATIONS	
Present Value of Stock Ex-dividend	$1.00
Present Value of Exercise Price	$0.99
Cumulative Volatility	56.57%
CALL OPTION	
Proportion of Stock Present Value	61.68%
Proportion of Exercise Price PV	-39.41%
Call Option Value	$0.23
PUT OPTION	
Proportion of Stock Present Value	-38.32%
Proportion of Exercise Price PV	60.59%
Put Option Value	$0.22
Implied Marketability Discount (7)	21.8%
Concluded Discount for Lack of Marketability	**22.0%**

Notes:

(1) In his December 1993 *Business Valuation Review* article, David Chaffe demonstrated that the value of an at-the-money put option as a proportion of the price of a stock is a good estimation for discounts taken on restricted stocks. We use the Black-Scholes formula to calculate the value of the put option.
(2) Assumed to equal share price.
(3) Reflecting the expected holding period for the stock, per discussions with management.
(4) Based on professional judgment.
(5) Assumed zero dividend yield over the option period based on Management's expectation of no future dividends.
(6) Source: Federal Reserve Statistical Release. Two year treasury securities as of January 17, 2014.
(7) Calculated as put option value divided by share price.