Valuation of 100% of the Diluted Voting Shares Representing 87.9337% of the Total Diluted Shares Of Sample Mid-Size Company, Inc.

As of 12/31/2012

Prepared for:

John Sellers, CEO
Sample Industries, Inc.
San Diego, CA 92126

Report Date:

5/30/2013

Prepared by:

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Smith & Associates, LLC
San Diego, CA 92108

About This Sample Valuation Report

This report is a sample of the type of comprehensive appraisal reports that you can create with ***MoneySoft Business Valuation Specialist***™ (BVS) and the Financial Report Builder.

BVS was used to analyze a fictitious hypothetical company; make economic adjustments to the historic financial statements; determine appropriate risk rates; project earnings, cash flows and capital requirements of the company; and value the company using various approaches and methods. The Financial Report Builder was then used to automatically create and format the appraisal report as a Microsoft Word document. Any similarity to the names or information of actual companies is strictly coincidental.

> You will notice comments (marked in blue text) throughout this report. These comments serve as prompts for you to provide descriptions, explanations and more information in certain sections. When you create a live report with the Financial Report Builder, these comments will not print.

This report contains the data, analysis, assumptions used in the valuation, descriptions of the valuation approaches and methods that were applied and the factors that went into the enterprise-level and shareholder-level conclusions of value.

This report is context-sensitive. The Financial Report Builder reviewed all of the data points in the BVS program file and based upon the analyst's selections, assembled the report with only the appropriate data along with descriptions of the methods and procedures used. This is not a cookie-cutter report.

There are many elements and capabilities of the BVS program that were not used in the sample report.

The hypothetical valuation of the sample company utilized only a fraction of *Business Valuation Specialist's* features and capabilities. Here is a list of the elements available in BVS but not included in this sample report:

Items available in BVS but not included in this report:

- Detailed income statements, balance sheet and statements of cash flows (for historic, normalized and projections).
- Balance sheet normalization adjustments and normalized balance sheets.
- Trailing twelve month income statement.
- Interim income statement and balance sheets.
- Ratios, common-size financials and other analysis calculated on a normalized basis for the subject company.

- Integra industry comparison (historic and normalized).
- Financing of capital expenditures.
- Stub period projections from the interim date to the annualized year-end date.
- New accounts in projections.
- Income tax worksheet in the projections.
- Appendix that includes projected financials and detailed projection assumptions.
- Other standards of value including: Fair Value, Investment Value, Intrinsic Value, Business Evaluation, Marketability study.
- Equity Net Cash Flows were used in the Income Approach. The program also provides the option to apply Net Income, EBT, EBIT, EBITDA, Invested Capital Net Cash Flows.
- Benefit stream time-frame options include: average, weighted average, first projected year, trailing twelve months.
- Ability to adjust price and other financial metrics for market transactions.
- Valuation methods based on IBA, BIZCOMPS, Pratt's Stats, "Other" user-defined data source, and Mergerstat.
- Reconciliation of value indications for a given price multiple derived from both stock and asset transactions.
- Beta information from multiple sources.
- Capital Asset Pricing Model (CAPM) for determining a discount rate.
- End-of-Year discounting option. Sample file uses Mid-Year discounting.
- Properly discounting when 1st projected year is a "stub" period.
- Terminal value based on Net Assets or a multiple of earnings in the terminal year.
- Debt-free discount rate and capitalization rate.
- Multiple of Discretionary Earnings valuation method for small owner/operator-type businesses.
- Approach conclusions and Dbase conclusions for Done Deals.
- Range of values for Enterprise or Shareholder-Level.
- Many premium and discount options at enterprise and shareholder level.
- Charts and graphs.

5/30/2013

John Sellers
CEO
Sample Industries, Inc.
Main Street
San Diego, CA 92126

RE: Sample Mid-Size Company, Inc.

Dear John Sellers:

At your request, we have performed a valuation engagement, as defined in the Statement on Standards for Valuation Services (SSVS) of the American Institute of Certified Public Accountants. The valuation is for 100.00% of the voting diluted common shares of Sample Mid-Size Company, Inc. as of 12/31/2012. This valuation was performed solely to assist in the matter of Estate Tax Planning and the resulting estimate of value should not be used for any other purpose or by any other party for any purpose. This valuation engagement was conducted in accordance with the SSVS. The estimate of value that results from a valuation engagement is expressed as a conclusion of value.

> COMMENT: If the engagement was restricted or limited in scope, describe here, such as: We were restricted or limited in the scope of our work or data available for analysis as follows: (describe restrictions or limitations).

We have estimated the Fair Market Value on a controlling interest, non-marketable basis for 100.00% of Sample Mid-Size Company, Inc.'s voting diluted common shares as of 12/31/2012 as described within the valuation report.

Our conclusion is $3.04933 Per Share, as summarized below. This conclusion is subject to the Statement of Assumptions and Limiting Conditions and the Representations presented in the following report. We have no obligation to update this report or our conclusion of value for information that comes to our attention after the date of this report.

In arriving at this opinion of value, we relied on a “value in use” or going-concern premise. This premise assumes that the Company is an ongoing business enterprise with management operating in a rational way with a goal of maximizing shareholder value.

> COMMENT: If some premise of value other than going concern is used, modify the above paragraph accordingly.

Example 1: “In arriving at this opinion of value, we relied on a premise of orderly liquidation. This premise assumes that the assets of the business are disposed on a piecemeal basis with normal exposure for sale on the secondary market.”

Example 2: “In arriving at this opinion of value, we relied on a premise of forced liquidation. This premise assumes that the assets of the business are disposed on a piecemeal basis with less than normal exposure for sale on the secondary market.”

Respectfully,

____
(Signature)

____
(Date)

— Table of Contents —

COMMENT: The report writer automatically creates the following Table of Content.

Valuation Objective and Summary

Assignment Objective

We were engaged by John Sellers, CEO, Sample Industries, Inc., to issue a detailed report. Our objective was to estimate the Fair Market Value of 100.00% of Sample Mid-Size Company, Inc.'s voting diluted common shares as of 12/31/2012.

Company Description

Sample Mid-Size Company, Inc. is a C-Corporation and is organized under the laws of California. It is primarily engaged in the business of Sporting Goods Manufacturing and is doing business as Sample's Sporting Equipment.

> COMMENT: Briefly expand on this description as you deem necessary. An area reserved for a more detailed company description is included in the Company Background section below.

Qualifications of Appraiser

This report was prepared by Michael Smith Managing Director, Director of Business Valuation of Smith & Associates, LLC. Michael Smith holds the following professional designations and certifications: CPA, ABV, CVA, ABAR, ASA, CM&AA, CMEA.

> COMMENT: Expand on the appraisers qualification, if necessary. In addition, there is an appendix at the end of this report that is intended to include a more detailed resume.

Purpose of Valuation

The purpose of this valuation is Estate Tax Planning. This report is prepared for John Sellers CEO Sample Industries, Inc. and should not be used by others. This report is dated 5/30/2013.

> COMMENT: Explain the purpose of the valuation in as much detail as necessary. Also define the person or entity that engaged you and the intended users of this valuation.

Standard of Value

The standard of value used in our valuation of Sample Mid-Size Company, Inc. is *Fair Market Value*. Fair Market Value is defined in IRS Revenue Ruling 59-60 as: “The price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts. Court decisions frequently state in addition that the hypothetical buyer and seller are assumed to be able, as well as willing, to trade and to be well informed about the property and concerning the market for such property.”

Premise of Value

Our opinion of value relied on a “value in use” or going-concern premise. This premise assumes that the Company is an ongoing business enterprise with management operating in a rational way with a goal of maximizing shareholder value.

COMMENT: If some premise of value other than going concern is used, modify the above paragraph accordingly. Example 1: “Our opinion of value relied on a premise of orderly liquidation. This premise assumes that the assets of the business are disposed on a piecemeal basis with normal exposure for sale on the secondary market.” Example 2: “Our opinion of value relied on a premise of forced liquidation. This premise assumes that the assets of the business are disposed on a piecemeal basis with less than normal exposure for sale on the secondary market.”

Scope of Work

Our analysis considers those facts and circumstances present at the Company at the Valuation Date. Our opinion would most likely be different if another Valuation Date was used. There were no restrictions or limitations in the scope of our work or in the data available for analysis, and no hypothetical assumptions were used.

COMMENT: If there were restrictions or limitations in the scope of your work or the data available, or hypothetical assumptions were used, modify the last sentence as necessary.

The factors we considered include the history of the business, economic outlook, financial condition of the business, earnings and dividend paying capacity, book value of the stock and the size of the block being valued, prior sales of the Company's stock, goodwill and intangible value, and the market prices for publicly traded and privately held companies in the same or similar line of business.

COMMENT: Edit the above description of factors based on the actual factors considered in your valuation. Most of the factors listed above are required to be considered under Rev. Ruling 59-60.

Valuation Procedures

To arrive at our conclusion of value, we performed the following procedures:

- Identified the nature of the business and reviewed the history of the Company since its inception.
- Researched the general economic outlook and the outlook for the specific industry at the date of the valuation.
- Collected the Company's relevant historic financial statements.
- Analyzed the historic financial statements by calculating financial ratios and common-size financial statements for each historic year in order to identify trends.
- Compared the Company's financial ratios and common-size financial statements to industry guideline data to identify any significant variances.
- Assisted management in preparing a 5 year projection of the financial statements based on management's assumptions as to the Company's future outlook.
- Analyzed Goodwill and other intangible value.
- Identified and analyzed prior sales of the Company's stock.
- Developed risk-adjusted Capitalization and Discount Rates to apply to the Company's historic and projected earnings, respectively.
- Collected and analyzed transactional data from comparable companies within the same industry.
- Adjusted historic earnings to eliminate the effects of excess and discretionary expenses, nonoperating revenues and expenses, and non-transferable revenue streams.
- In reaching the conclusion of value, we considered the Asset, Income, and Market valuation approaches

and the following methods under each approach.

1. Asset Approach

   Net Asset Value and Liquidation Value.

2. Income Approach

   Capitalization of Earnings, Capitalization of Excess Earnings, Multiple of Discretionary Earnings and Discounted Future Earnings/Discounted Cash Flow.

3. Market Approach

   Price multiples from sales of comparable business from Done Deals. , Pratt's Stats, Other Data Source [specify other data source] and FactSet Mergerstat Review. Additionally, we used the Guideline Public Company method.

COMMENT: Other supported data sources are BIZCOMPS, IBA, Pratt's Stats, and an "other", user-defined data source. Value indications are calculated from each of these.

- Selected the most reasonable enterprise-level equity value from the range of values established in the valuation methods
- Applied any appropriate enterprise-level discounts and/or premiums to arrive at an enterprise-level equity value.
- Allocated the conclusion of enterprise-level equity value between voting and non-voting shares based on a premium assigned to the voting shares.
- Calculated the total number of shares assuming dilution from convertible preferred stock and the in-the-money options and warrants.
- Calculated the shareholder-level value of the 100.00% interest.
- Applied any appropriate shareholder-level discounts and/or premiums to arrive at our conclusion of value for the specific block of shares.

COMMENT: Modify the above list to reflect the actual procedures that were performed. Delete any procedures not performed and add an additional procedures not listed here. Examples of additional procedures include: conducting interviews with owners, management and other key personnel; performing on-site examinations of the Company's facilities; etc.

External Sources of Information

To aid us in our analysis of the Company, we consulted a number of publicly available sources of information. Numerous financial publications and databases were consulted including *Business Statistics*, Standard & Poor's *Industry Surveys*, Ibbotson Associates' *Stocks, Bonds, Bills and Inflation 200X Yearbook*, *Mergerstat Review*, *U.S. Financial Data*, Standard & Poor's *Register of Corporations, Directors, and Executives*, Disclosure, Inc. on-line database, and *Value Line Investment Survey*.

COMMENT: Add to or delete from this listing of sources of external information as necessary.

Internal Sources of Information

To aid us in our analysis of the Company, we interviewed the following personnel:

COMMENT: Add names, titles, and positions of all personnel interviewed. Following that list, if the Company's facility(ies) were visited as part of this engagement, provide details of the facility visit. Finally, provide details of the financial, tax, and other information provided by the Company, although the source of financial statements may be explained later in this report.

Assumptions and Limiting Conditions

This valuation is subject to the following assumptions and limiting conditions:

1. Public, industry, statistical, and other information furnished by others, upon which all or portions of this analysis is based, is believed to be reliable. However, we make no representation as to the accuracy or completeness of such information and have performed no procedures to corroborate the information.

2. The Company and its representatives warranted to us that the information they supplied was complete and accurate to the best of their knowledge and that the financial statement information reflects the Company's results of operations and financial and business condition in accordance with generally accepted accounting principles, unless otherwise noted. The financial statements and other related information supplied by management has been accepted as correct without further verification. We have not audited, reviewed, or compiled the financial information provided to us and, accordingly, we express no audit opinion or any other form of assurance on this information.

3. This report and conclusion of value is restricted to the internal use of the management of the Company for the sole and specific purpose as noted herein, and shall not be used to obtain credit or for any other purpose or by any other party for any purpose. Neither our work product nor any portions thereof, including any conclusions or the identity of our firm, any individuals signing or associated with this report, or the professional associations or organizations with which they are affiliated, shall be disseminated to third parties other than the Company, its financial accounting firm and attorneys, and governmental agencies by any means without our prior written consent and approval.

4. We or any individual associated with this assignment are not required to provide future services regarding the subject matter of this report, including but not limited to providing further consultation, providing testimony, or appearing in court or other legal proceedings unless specific arrangements have been made.

5. The conclusion of value is valid only for the stated purpose as of the valuation date indicated. We take no responsibility for changes in market conditions and assume no obligation to revise our conclusion of value to reflect events or conditions which occur subsequent to the valuation date.

6. Full compliance by the Company with all applicable federal, state, and local zoning and use, occupancy, environmental, and similar laws and regulations is assumed, unless otherwise stated. Furthermore, no effort has been made to determine the possible effect, if any, on the Company due to future Federal, state, or local legislation including any environmental or ecological matters or interpretations thereof, unless otherwise stated.

7. This report and the conclusion of value arrived at herein are not intended by the author and should not be construed by the reader to be investment advice in any manner whatsoever. The conclusion of value represents the considered opinion of based on information furnished to them by the Company and other sources.

8. We do not provide assurance on the achievability of the results forecasted by the Company because events and circumstances frequently do not occur as expected; differences between actual and expected results may be material; and achievement of the forecasted results is dependent on actions,

plans, and assumptions of management.

9. For the prospective financial information approved by management that was used in our engagement, we have not examined or compiled the prospective financial information and therefore, do not express an audit opinion or any other form of assurance on the prospective financial information or the related assumptions. Events and circumstances frequently do not occur as expected and there will usually be differences between prospective financial information and actual results, and those differences may be material.

10. We are not environmental consultants or auditors, and we take no responsibility for any actual or potential environmental liabilities. Any person entitled to rely on this report, wishing to know whether such liabilities exist, or the scope and their effect on the value of the property, is encouraged to obtain a professional environmental assessment. We do not conduct or provide environmental assessments and have not performed one for the subject property.

11. We have not determined independently whether the Company is subject to any present or future liability relating to environmental matters, including but not limited to CERCLA/Superfund liability, nor the scope of any such liabilities. Our valuation takes no such liabilities into account, except as they have been reported to us by the Company or by an environmental consultant working for the Company, and then only to the extent that the liability was reported to us in an actual or estimated dollar amount. Such matters, if any, are noted in the report. To the extent such information has been reported to us, we relied on it without verification and offer no warranty or representation as to its accuracy or completeness.

12. Except as noted, we have relied on the representations of the owners, management, and other third parties concerning the value and useful condition of all equipment, real estate, and any other assets or liabilities, except as specifically stated to the contrary in this report. We have not attempted to confirm whether all assets of the business are free and clear of liens and encumbrances or that the Company has good title to all assets.

13. Neither all nor any part of the contents of this report (including the conclusion of value, the identity of any valuation specialist(s), the firm with which such valuation specialists are connected, or any reference to any of their professional designations) should be disseminated to the public through advertising media, public relations, news media, sales media, mail, direct transmittal, or any other means of communication without our prior written consent and approval.

14. We have not made a specific compliance survey or analysis of the subject property to determine whether it is subject to, or in compliance with, the American Disabilities Act of 1990, and this valuation does not consider the effect, if any, of noncompliance.

15. No change of any item in this valuation report shall be made by anyone other than , and we shall have no responsibility for any such unauthorized change.

16. We have conducted interviews with the current management of the Company concerning the past, present, and future operating results of the Company.

17. This conclusion of value assumes that the Company will continue to operate as a going concern, and that the character and integrity of the Company through any sale, reorganization, exchange, or diminution of

the owners' participation would not be materially or significantly changed. It also assumes that the current level of management expertise and effectiveness would continue to be maintained.

COMMENT: Modify the above list as necessary to reflect the actual assumptions and limiting conditions relevant to the specific valuation engagement.

Company Background

Company Identification

Sample Mid-Size Company, Inc. is a C-Corporation organized under the laws of California and located at Main Street, San Diego, CA, 92126.

COMMENT: In addition to the linked information above, enter any additional identification information that you feel is appropriate for purposes of this report.

Nature and History of the Company

Sample Mid-Size Company, Inc. was established in 1989 and operates under the trade name of Sample's Sporting Equipment.

The following table describes the business activities in which Sample Mid-Size Company, Inc. is engaged and lists the NAICS/SIC Codes for the industry associated with each business activity:

Business Activity	Description	NAICS	SIC
Primary Business Activity	Sporting Goods Manufacturing	339920	3949
Secondary Business Activity	Sporting Goods Wholesale	421910	5091

COMMENT: Use this section to explain the history of the company since its inception and describe the nature of the company's current activities.

Stock Classes and Ownership

The following table lists the owners of Sample Mid-Size Company, Inc.'s commons stock as of the valuation date, 12/31/2012. The number of shares, equity class and other details are presented for each owner.

Classes of Preferred Stock	Number of Shares	Percent Ownership	Equity Class	Active in Business	Number of Votes	Preemptive	Dividends
John Sellers	6,000,000	75.00%	A	Yes	6,000,000	Yes	222,971
Sellers Family Trust 1	1,000,000	12.50%	A	No	1,000,000	Yes	37,162
Sellers Family Trust 2	700,000	8.75%	B	No	0	No	26,013
Sellers Family Trust 3	300,000	3.75%	B	No	0	No	11,149
Total	8,000,000	100.00%					

COMMENT: Describe all classes of stock including both common and preferred and discuss any special rights or restrictions associated with each class. Summarize the total number of shares authorized, issued and outstanding for each class. List each major shareholder, amount and class of stock they own, and their relationship to other major shareholders, if any.

COMMENT: Provide a description for the subject company for each of the areas listed below. Add or delete headings as needed. Each of these headings will appear in the table of contents.

Management Team

Product and Service Information

Market Data and Analysis/Competition

Governmental or Regulatory Environment

Key Customers and Suppliers

Marketing Strategy

Business Risks

Current Operations

Company Expectations

Other Observations

National Economic and Industry Conditions

General Economic Conditions and Outlook

COMMENT: Discuss or insert the distributed national, regional, and/or local economic conditions at the Valuation Date and their future economic outlook as applicable to the subject company. Identify all sources of information referenced in your discussion. If national, regional, and/or local conditions do not affect the subject company, explain why.

Industry Conditions and Outlook

COMMENT: Discuss the economic conditions at the Valuation Date and the future economic outlook for the industry in which the subject company operates. Identify all sources of information referenced in your discussion

Historical and Normalized Financial Statements

A summary of the historic Income Statements, Balance Sheet, and Cash Flows for Sample Mid-Size Company is presented in the following section.

COMMENT: Make a note here if f you are attaching detailed statements as part of this valuation.

Financial statement data is necessary in order to analyze the historic performance of the business and how that performance compares to its peers in the industry. Prior revenues, expenses and earnings provide a baseline for estimating future earnings and cash flows.

Summary Historical Income Statements

The following tables provide a summary of Sample Mid-Size Company, Inc.'s Income Statements.

	2008	2009	2010	2011	2012
Net Sales Revenue	**25,312,860**	**26,504,580**	**28,053,400**	**29,229,270**	**31,551,420**
Total Cost of Goods Sold	9,380,000	10,078,900	10,264,200	10,819,940	11,333,280
Gross Profit	**15,932,860**	**16,425,680**	**17,789,200**	**18,409,330**	**20,218,140**
Total General & Administrative Expenses	12,173,530	12,422,840	13,679,084	14,242,482	15,737,610
Income From Operations	**3,759,330**	**4,002,840**	**4,110,116**	**4,166,848**	**4,480,530**
Total Other Revenues and Expenses	(375,397)	(346,510)	(288,707)	(238,574)	(201,704)
Income Before Taxes	**3,383,933**	**3,656,330**	**3,821,409**	**3,928,274**	**4,278,826**
Total Income Taxes	1,373,877	1,484,470	1,551,492	1,594,879	1,737,204
Net Income	**2,010,056**	**2,171,860**	**2,269,917**	**2,333,395**	**2,541,622**

COMMENT: On the lines below, identify and describe any significant issues with respect to the historic income statements.

Income Statement Adjustments

In order to estimate the value of Sample Mid-Sized Company, it was necessary to make certain normalization adjustments to the Income Statements. Normalization adjustments are made to reflect the Company's true economic earnings by eliminating excessive, nonoperating, non-recurring and/or unusual items. The following table presents a summary of the adjustments that were made to Sample Mid-Sized Company's earnings.

	2008	2009	2010	2011	2012
Add/(Deduct) Expense Adjustments:					
Officer/Owner's Compensation	(50,000)	(75,000)	(100,000)	(125,000)	(150,000)
Other G&A Expenses	(5,000)	(5,000)	(10,000)	(15,000)	(20,000)
Total Expense Adjustments	**(55,000)**	**(80,000)**	**(110,000)**	**(140,000)**	**(170,000)**
Total Income & Expense Adjustments Before Tax	55,000	80,000	110,000	140,000	170,000
Less: Tax Effect	23,216	33,769	46,432	59,095	71,759
Total Adjustments Net of Tax Effect	**31,784**	**46,231**	**63,568**	**80,905**	**98,241**

1. Officer/Owner's Compensation has been adjusted to reflect the market value of the services performed. See the Officer/Owner Compensation Adjustments worksheet for the calculation of this adjustment.
2. Other G&A Expenses have been adjusted to eliminate expenses that are not related to the operations of the business.
3. The Tax Effect of the net adjustments has been calculated using a marginal Federal Income Tax rate of 35.79% and a State Income Tax rate of 10%.

Normalized Historical Income Statements

The normalization adjustments presented in the previous section were applied to the historic income statements in order to prepare the following pro-forma Normalized Income Statements.

	2008	2009	2010	2011	2012
Net Sales Revenue	**25,312,860**	**26,504,580**	**28,053,400**	**29,229,270**	**31,551,420**
Total Cost of Goods Sold	9,380,000	10,078,900	10,264,200	10,819,940	11,333,280
Gross Profit	**15,932,860**	**16,425,680**	**17,789,200**	**18,409,330**	**20,218,140**
Total General & Administrative Expenses	12,118,530	12,342,840	13,569,084	14,102,482	15,567,610
Income From Operations	**3,814,330**	**4,082,840**	**4,220,116**	**4,306,848**	**4,650,530**
Total Other Revenues and Expenses	(375,397)	(346,510)	(288,707)	(238,574)	(201,704)
Income Before Taxes	**3,438,933**	**3,736,330**	**3,931,409**	**4,068,274**	**4,448,826**
Total Income Taxes	1,397,093	1,518,239	1,597,924	1,653,974	1,808,963
Net Income	**2,041,840**	**2,218,091**	**2,333,485**	**2,414,300**	**2,639,863**

Summary Historical Balance Sheets

The historical balance sheets report Sample Mid-Size Company, Inc.'s financial position as of the end of each year presented below.

	2008	2009	2010	2011	2012
ASSETS					
Total Current Assets	5,988,260	6,460,810	6,946,910	7,438,430	7,880,780
Net Fixed Assets	7,075,000	6,849,000	6,539,000	6,327,000	5,889,000
Total Long-Term Investments	174,180	159,210	142,670	124,390	104,210
Net Intangible Assets	245,670	236,340	227,010	217,680	208,350
Total Other Noncurrent Assets	150,000	150,302	166,262	192,418	218,471
Total Assets	**13,633,110**	**13,855,662**	**14,021,852**	**14,299,918**	**14,300,811**
LIABILITIES & STOCKHOLDERS' EQUITY					
Total Current Liabilities	2,116,169	2,163,862	2,194,155	2,434,715	2,253,195
Total Long-Term Debt	2,681,399	2,485,587	2,260,532	2,001,866	1,704,571
Total Other Long-Term Liabilities	27,000	27,000	27,000	27,000	27,000
Total Liabilities	**4,824,568**	**4,676,449**	**4,481,687**	**4,463,581**	**3,984,766**
Stockholders' Equity:					
Preferred Stock	800,000	800,000	850,000	850,000	850,000
Common Stock	2,780,000	2,780,000	3,000,000	3,000,000	3,000,000
Retained Earnings	5,228,542	5,599,213	5,690,165	5,986,337	6,466,045
Total Stockholders' Equity	**8,808,542**	**9,179,213**	**9,540,165**	**9,836,337**	**10,316,045**
Total Liabilities & Stockholders' Equity	**13,633,110**	**13,855,662**	**14,021,852**	**14,299,918**	**14,300,811**

COMMENT: On the lines below, identify and describe any significant issues with respect to the historic balance sheets.

We did not make any normalization adjustments to the Balance Sheets.

Summary Historical Statements of Cash Flows

The following table presents a summary of the historical Statements of Cash Flows for Sample Mid-Size Company, Inc.

	2009	2010	2011	2012
Net Cash Flow From Operations	2,700,008	2,946,807	3,260,729	3,296,319
Net Cash Flow From Investments	(670,000)	(650,000)	(830,000)	(670,000)
Net Cash Flow From Financing	(1,958,008)	(2,089,807)	(2,245,729)	(2,302,319)
Net Cash Flow	**72,000**	**207,000**	**185,000**	**324,000**
Cash at Beginning of Year	1,850,000	1,922,000	2,129,000	2,314,000
Cash at End of Year	**1,922,000**	**2,129,000**	**2,314,000**	**2,638,000**

COMMENT: On the lines below, identify and describe any significant issues with respect to the historic statements of cash flows.

Normalized Earnings and Net Cash Flow Summary

The following tables present various measures of normalized earnings and net cash flows that are available to apply in the valuation methods that follow later in this report.

Normalized Earnings

The table below summarizes the income and expense normalization adjustments and constructs the indicated measures of earnings on an adjusted basis:

	2008	2009	2010	2011	2012
Total Income & Expense Adjustments Before Tax	55,000	80,000	110,000	140,000	170,000
Less: Tax Effect	23,216	33,769	46,432	59,095	71,759
Less: Adjustment to Historic Tax	0	0	0	0	0
Plus: Adjustments to Net-of-Tax Items	0	0	0	0	0
Net Adjustments	**31,784**	**46,231**	**63,568**	**80,905**	**98,241**
Plus: Historic Net Income	2,010,056	2,171,860	2,269,917	2,333,395	2,541,622
Net Income	**2,041,840**	**2,218,091**	**2,333,485**	**2,414,300**	**2,639,863**
Plus: Normalized Income Taxes	1,397,093	1,518,239	1,597,924	1,653,974	1,808,963
EBT	**3,438,933**	**3,736,330**	**3,931,409**	**4,068,274**	**4,448,826**
Plus: Normalized Interest Expense	410,727	388,590	363,147	333,904	300,294
EBIT	**3,849,660**	**4,124,920**	**4,294,556**	**4,402,178**	**4,749,120**
Plus: Normalized Depreciation & Amortization	829,330	895,330	959,330	1,041,330	1,107,330
EBITDA	**4,678,990**	**5,020,250**	**5,253,886**	**5,443,508**	**5,856,450**

Normalized Equity Net Cash Flows (FCF-Equity)

The following table presents the elements that comprise Equity Net Cash Flows, also known as Free Cash Flow Available to Equity (FCF-E). Equity Net Cash Flows represent the amount of cash flow that is available for disbursement to equity investors and/or to reinvest in the company.

	2009	2010	2011	2012
Normalized Net Income	2,218,091	2,333,485	2,414,300	2,639,863
Plus: Depreciation & Amortization	895,330	959,330	1,041,330	1,107,330
Less: Fixed Asset Purchases	660,000	640,000	820,000	660,000
Less: Non-Cash Changes in Net Working Capital	378,300	278,050	99,570	338,500
Plus: Changes in Short-Term Notes Payable	0	0	0	0
Plus: Changes in Current Long-Term Notes Payable	25,443	29,243	33,610	38,630
Plus: Changes in Long-Term Notes Payable	(195,812)	(225,055)	(258,666)	(297,295)
Less: Preferred Dividends	80,000	85,000	85,000	85,000
Equity Net Cash Flows	**1,824,752**	**2,093,953**	**2,226,004**	**2,405,028**

Normalized Invested Capital Net Cash Flows (FCF-TIC)

The following table presents the elements that comprise Invested Capital Net Cash Flows, also known as Free Cash Flow Available to Total Invested Capital (FCF-TIC). Invested Capital Net Cash Flows represent the amount of cash flow that is available to service debt, distribute to equity investors and/or to reinvest in the company.

	2009	2010	2011	2012
Historic Income From Operations	4,002,840	4,110,116	4,166,848	4,480,530
Total Operating Adjustments	80,000	110,000	140,000	170,000
Normalized Operating Income	4,082,840	4,220,116	4,306,848	4,650,530
Less: Tax on Operating Income	1,388,166	1,434,839	1,464,328	1,581,180
Plus: Depreciation and Amortization From Operations	886,000	950,000	1,032,000	1,098,000
Less: Fixed Asset Purchases	660,000	640,000	820,000	660,000
Less: Non-Cash Changes in Net Working Capital	378,300	278,050	99,570	338,500
Invested Capital Net Cash Flows	**2,542,374**	**2,817,227**	**2,954,950**	**3,168,850**

Changes in Net Working Capital Used in Net Cash Flows

The Changes in Net Working Capital from one year to the next is integral part of Equity Net Cash Flows and Invested Capital Net Cash Flows.   Increases in net working capital are a use of cash while decreases result in an increase in cash.

> COMMENT: If you have made adjustments to cash, cash equivalents or any other account, provide an explanation and reason for the adjustment.

	2008	2009	2010	2011	2012
Current Assets:					
Cash & Equivalents	1,850,000	1,922,000	2,129,000	2,314,000	2,638,000
Less: Adjustment to Cash & Equivalents	1,850,000	1,922,000	2,129,000	2,314,000	2,638,000
Accounts Receivable (Net)	2,004,300	2,027,370	1,987,130	2,220,890	2,285,390
Inventory	2,000,000	2,370,000	2,685,000	2,765,000	2,815,000
All Other Current Assets	133,960	141,440	145,780	138,540	142,390
Total Current Assets (Adjusted)	**4,138,260**	**4,538,810**	**4,817,910**	**5,124,430**	**5,242,780**
Current Liabilities (Except Notes Payable):					
Accounts Payable	1,233,100	1,240,800	1,228,350	1,329,650	1,294,600
Taxes Payable	324,500	335,750	334,750	389,400	267,900
All Other Current Liabilities	388,200	391,500	406,000	457,000	393,400
Total Current Liabilities (Adjusted)	**1,945,800**	**1,968,050**	**1,969,100**	**2,176,050**	**1,955,900**
Net Working Capital (Adjusted)	**2,192,460**	**2,570,760**	**2,848,810**	**2,948,380**	**3,286,880**
Changes in Net Working Capital (Adjusted)		**378,300**	**278,050**	**99,570**	**338,500**

Analysis of Historic Financial Statements

COMMENT: In addition to the comparison to RMA industry data presented below, the program also performs a comparison to Integra 5-Year Industry Reports, which is not included in this report.

We have performed an analysis of the Company' s historic financial statements by calculating common-size financial statements on a percentage basis and traditional financial ratios. The common-size income statement items are presented as percentages of Total Sales and the balance sheet items a percentages of Total Assets in order to compare the relative composition of line items from year to year. The calculated financial ratios measure areas such as liquidity, leverage, profitability, etc. for each historic year.

In addition, the Company's common-size financial statements and financial ratios have been compared to aggregate industry data in order to provide a benchmark against other peer companies in the selected industry. The industry data used in this analysis is described below.

Although industry statistics are a useful source of general analytical data, there can be significant variation in the reporting practices and operational methods of companies within a given industry. Therefore, industry statistics as used throughout this report should not be regarded as absolute norms or standards.

Comparative Industry Data:

Source:	RMA Annual Statement Studies
Industry Description:	Sporting and Athletic Goods Manufacturing
Industry NAICS code:	339920
Sample categorized by:	Sales
Category size:	$10MM to $25MM
Industry Quartile (for ratios):	Median Quartile
Number of companies in sample:	47
Date of industry information:	2012

Common-Size (Percentage) Financial Statements

This analysis includes a review of the Company's common-size income statement and balance sheet percentages on an unadjusted basis before making any normalization adjustments. In order to portray the relative size of financial statement items for comparison over time, each line item in the common-size income statements is expressed as a percentage of total revenue and each line item in the common-size balance sheets is expressed as a percentage of total assets. The common-size income statements and balance sheets are presented below in summary format.

Common-Size Statements Based on Unadjusted Data

	2008	2009	2010	2011	2012
Income Data:					
Net Sales	100.00%	100.00%	100.00%	100.00%	100.00%
Gross Profit	62.94%	61.97%	63.41%	62.98%	64.08%
Operating Expenses	48.09%	46.87%	48.76%	48.73%	49.88%
Operating Profit	14.85%	15.10%	14.65%	14.26%	14.20%
All Other Expenses (Net)	1.48%	1.31%	1.03%	0.82%	0.64%
Profit Before Tax	**13.37%**	**13.80%**	**13.62%**	**13.44%**	**13.56%**
Assets:					
Cash & Equivalents	13.57%	13.87%	15.18%	16.18%	18.45%
Trade Receivables (Net)	14.70%	14.63%	14.17%	15.53%	15.98%
Inventory	14.67%	17.10%	19.15%	19.34%	19.68%
All Other Current Assets	0.98%	1.02%	1.04%	0.97%	1.00%
Total Current Assets	**43.92%**	**46.63%**	**49.54%**	**52.02%**	**55.11%**
Fixed Assets (Net)	51.90%	49.43%	46.63%	44.25%	41.18%
Intangibles (Net)	1.80%	1.71%	1.62%	1.52%	1.46%
All Other Noncurrent Assets	2.38%	2.23%	2.20%	2.22%	2.26%
Total Noncurrent Assets	56.08%	53.37%	50.46%	47.98%	44.89%
Total Assets	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
Liabilities & Net Worth:					
Notes Payable Short-Term	0.00%	0.00%	0.00%	0.00%	0.00%
Current Maturity of Long-Term Debt	1.25%	1.41%	1.61%	1.81%	2.08%
Trade Payables	9.04%	8.96%	8.76%	9.30%	9.05%
Income Taxes Payable	2.38%	2.42%	2.39%	2.72%	1.87%
All Other Current Liabilities	2.85%	2.83%	2.90%	3.20%	2.75%
Total Current Liabilities	**15.52%**	**15.62%**	**15.65%**	**17.03%**	**15.76%**
Long-Term Debt	19.67%	17.94%	16.12%	14.00%	11.92%
Deferred Taxes	0.00%	0.00%	0.00%	0.00%	0.00%
All Other Noncurrent Liabilities	0.20%	0.19%	0.19%	0.19%	0.19%
Net worth	64.61%	66.25%	68.04%	68.79%	72.14%
Total Liabilities & Net Worth	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

COMMENT: On the lines below, identify and describe any significant trends or issues related to the Company's common-size financial statements.

RMA Industry Data, Common-Size Statement Comparison

The Company's common-size financial statements are calculated from the unadjusted financial statements and compared here to the selected RMA industry data. For each line item, the business vs. industry difference, variance and average variance are calculated and presented in the table below. A multi-year comparison is available as an attachment to this report.

	Business 2012	Industry 2012	Variance	5 Yr Average Variance
Income Data:				
Net Sales	100.0%	100.0%		
Gross Profit	64.1%	34.0%	88.47%	85.52%
Operating Expenses	49.9%	29.7%	67.94%	63.18%
Operating Profit	14.2%	4.3%	230.25%	239.82%
All Other Expenses (Net)	0.6%	2.0%	-68.04%	-47.25%
Profit Before Tax	**13.6%**	**2.3%**		
Assets:				
Cash & Equivalents	18.4%	6.3%	192.80%	145.25%
Trade Receivables (Net)	16.0%	23.5%	-32.00%	-36.16%
Inventory	19.7%	38.5%	-48.87%	-53.28%
All Other Current	1.0%	3.4%	-70.72%	-70.54%
Total Current Assets	**55.1%**	**71.7%**		
Fixed Assets (Net)	41.2%	14.9%	176.37%	213.27%
Intangibles (Net)	1.5%	7.5%	-80.57%	-78.38%
All Other Noncurrent	2.3%	6.0%	-62.39%	-62.38%
Total Noncurrent Assets	44.9%	28.4%		
Total Assets	**100.0%**	**100.0%**		
Liabilities:				
Notes Payable Short-Term	0.0%	13.2%	-100.00%	-100.00%
Current Maturity Of Long-Term Debt	2.1%	1.9%	9.41%	-14.15%
Trade Payables	9.1%	15.0%	-39.65%	-39.85%
Income Taxes Payable	1.9%	0.3%	524.44%	685.81%
All Other Current Liabilities	2.8%	12.0%	-77.08%	-75.81%
Total Current Liabilities	**15.8%**	**42.4%**		
Long-Term Debt	11.9%	10.2%	16.86%	56.17%
Deferred Taxes	0.0%	0.4%	-100.00%	-100.00%
All Other Noncurrent Liabilities	0.2%	6.6%	-97.14%	-97.08%
Net Worth	72.1%	40.5%	78.11%	67.81%
Total Liabilities & Net Worth	**100.0%**	**100.0%**		

COMMENT: On the lines below, identify and describe any significant variance of the business as compared to the industry common-size financial statements.

Financial Ratio Analysis

As part of the valuation, various financial ratios have been calculated from each year's unadjusted financial statements as presented in this report. These ratios measure Sample Mid-Size Company, Inc.'s liquidity positions, coverage capacity, leverage/capitalization, operating efficiency and equity performance.

1. Liquidity ratios measure the short-term ability of a company to meet its maturing obligations.

2. Coverage ratios measure the degree of protection for long-term creditors and investors and the margin by which certain obligations of a company can be met.

3. Leverage/capitalization ratios measure the amount of a company's operations that are financed from debt versus financed from equity.

4. Operating ratios measure the efficiency and productivity of a company using the resources that are available and the returns on sales and investments.

5. Equity ratios measure the performance of assets and earnings in relation to common and preferred equity.

Ratios Based on Unadjusted Data

	2008	2009	2010	2011	2012
Liquidity Ratios:					
Current	2.83	2.99	3.17	3.06	3.50
Quick	1.82	1.83	1.88	1.86	2.19
Accounts Receivable Turnover	12.63	13.07	14.12	13.16	13.81
Days' Receivable	28.51	27.54	25.50	27.35	26.08
Inventory Turnover	4.69	4.25	3.82	3.91	4.03
Days' Inventory	76.76	84.65	94.17	92.00	89.42
Accounts Payable Turnover	7.61	8.12	8.36	8.14	8.75
Days' payable	47.33	44.32	43.08	44.24	41.12
Working Capital Turnover	6.54	6.17	5.90	5.84	5.61
Inventory as a % of Total Current Assets	33.40%	36.68%	38.65%	37.17%	35.72%
Total Current Assets as a % of Total Assets	43.92%	46.63%	49.54%	52.02%	55.11%
Coverage Ratios:					
Times Interest Earned	9.24	10.41	11.52	12.76	15.25
Current Portion of Long-Term Debt Coverage	16.67	15.66	14.35	13.05	12.27
Principal & Interest Coverage	9.24	5.92	5.96	5.89	6.12
Preferred Dividend Coverage	25.13	27.15	26.70	27.45	29.90
Leverage/Capitalization Ratios:					
Fixed Assets to Tangible Net Worth	0.83	0.77	0.70	0.66	0.58
Total Debt to Tangible Net Worth	0.56	0.52	0.48	0.46	0.39
Short-Term Debt to Total Debt	43.86%	46.27%	48.96%	54.55%	56.55%
Short-Term Debt to Net Worth	24.02%	23.57%	23.00%	24.75%	21.84%
Total Debt to Total Assets	35.39%	33.75%	31.96%	31.21%	27.86%

	2008	2009	2010	2011	2012
Operating Ratios:					
Percent Return on Tangible Net Worth	39.52%	40.89%	41.03%	40.84%	42.33%
Percent Return on Total Assets	24.82%	26.39%	27.25%	27.47%	29.92%
Net Sales to Net Fixed Assets	3.58	3.87	4.29	4.62	5.36
Net Sales to Total Assets	1.86	1.91	2.00	2.04	2.21
Percent Depreciation & Amortization to Net Sales	3.28%	3.38%	3.42%	3.56%	3.51%
Percent Officer Salaries to Net Sales	1.38%	1.51%	1.60%	1.71%	1.74%
Fixed asset turnover	3.64	3.95	4.35	4.69	5.49
Total Sales to Net Worth	2.92	2.94	2.98	3.02	3.13
Percent Operating cost	46.08%	45.83%	46.02%	45.84%	45.61%
Percent Net profit	7.94%	8.19%	8.09%	7.98%	8.06%
Revenue Growth Percentage		5.01%	5.25%	4.39%	8.89%
Equity Ratios:					
Net Book Value Per Share of Preferred Stock	8.56	8.94	9.31	9.62	10.11
Net Book Value Per Share of Common Stock	0.97	1.02	1.06	1.10	1.16
Percent Earnings Payout	0.00%	82.28%	95.84%	86.83%	80.47%
Percent Earnings Retention	100.00%	17.72%	4.16%	13.17%	19.53%
Dividends Per Common Share	0.00	0.22	0.26	0.24	0.25
Simple Earnings Per Share	0.24	0.26	0.27	0.28	0.31

COMMENT: For each group of ratios listed above, identify the importance of any individual ratios and discuss any significant trends over time.

RMA Industry Data, Ratio Comparison

The Company's ratios are calculated from the unadjusted financial statements and compared here to the selected RMA industry data. For each ratio, the business vs. industry difference, variance and average variance are calculated and presented in the table below. A multi-year comparison is available as an attachment to this report.

	Business 2012	Industry 2012	Variance	5 Yr Average Variance
Liquidity Ratios:				
Current Ratio	3.5	1.9	84.08%	63.52%
Quick Ratio	2.2	0.7	212.15%	173.43%
Accounts Receivable Turnover	13.8	11.6	19.01%	15.15%
Inventory Turnover	4.0	3.5	15.03%	18.31%
Accounts Payable Turnover	8.8	11.4	-23.21%	-28.11%
Working Capital Turnover	5.6	6.8	-17.55%	-11.60%
Coverage Ratios:				
Times Interest Earned	15.2	4.1	271.92%	188.71%
Current Portion of Long-Term Debt Coverage Ratio	12.3	1.7	621.99%	747.05%
Leverage/Capitalization Ratios:				
Fixed Assets to Tangible Net Worth	0.6	0.3	94.21%	135.64%
Total Debt to Tangible Net Worth	0.4	1.7	-76.81%	-71.46%

	Business 2012	Industry 2012	Variance	5 Yr Average Variance
Operating Ratios:				
Percent Return On Tangible Net Worth	42.3%	22.1%	91.55%	85.17%
Percent Return On Total Assets	29.9%	5.8%	415.86%	368.46%
Net Sales to Net Fixed Assets	5.4	24.1	-77.77%	-81.98%
Net Sales to Total Assets	2.2	1.9	16.12%	5.48%
Percent Depreciation & Amortization to Net Sales	3.5%	1.3%	169.97%	163.79%
Percent Officer Salaries to Net Sales	1.7%	0.0%	0.00%	0.00%

COMMENT: On the lines below, identify and describe any significant variance of the business as compared to industry ratios.

Valuation of Sample Mid-Size Company, Inc.

We were engaged by John Sellers CEO Sample Industries, Inc. to issue a detailed report. Our objective was to estimate the Fair Market Value of 100.00% of Sample Mid-Size Company, Inc.'s voting diluted common shares as of 12/31/2012.

The standard of value used in our valuation of Sample Mid-Size Company, Inc. is *Fair Market Value*. Fair Market Value is defined in IRS Revenue Ruling 59-60 as: "The price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts. Court decisions frequently state in addition that the hypothetical buyer and seller are assumed to be able, as well as willing, to trade and to be well informed about the property and concerning the market for such property."

The purpose of this valuation is Estate Tax Planning. This report is prepared for John Sellers CEO Sample Industries, Inc. and should not be used by others. This report is dated 5/30/2013.

> COMMENT: Explain the purpose of the valuation in as much detail as necessary. Also define the person or entity that engaged you and the intended users of this valuation.

There are a large number of factors to consider when estimating the common stock value of any business entity. These factors vary for each valuation depending on the unique circumstances of the business enterprise and general economic conditions that exist at the effective date of the valuation. However, fundamental guidelines of the factors to consider in any valuation have been established. The most commonly used valuation guidelines are derived from the Internal Revenue Service's Revenue Ruling 59-60. Revenue Ruling 59-60 states that in the valuation of the stock of closely held businesses, the following factors, although not all inclusive, are fundamental and require careful consideration in each case:

a) The nature of the business and the history of the enterprise from its inception.
b) The economic outlook in general and the condition and outlook of the specific industry in particular.
c) The book value of the stock and the financial condition of the business.
d) The earning capacity of the company.
e) The dividend-paying capacity.
f) Whether or not the enterprise has goodwill or other intangible value.
g) Sales of the stock and the size of the block of stock to be valued.
h) The market price of stocks of corporations engaged in the same or a similar line of business having their stocks actively traded in a free and open market, either on an exchange or over-the-counter.

Based on circumstances unique to Sample Mid-Size Company, Inc. as of 12/31/2012, additional factors have been considered.

> COMMENT: Identify and describe all additional factors considered significant in relation to the subject company at the date of the valuation.

In addition to providing general valuation guidelines, Revenue Ruling 59-60 outlines other considerations and techniques for valuing the stock of closely held businesses. The techniques are commonly divided into general approaches, i.e., the Asset, Income and Market approaches. Specific methods are then used to estimate the value of the total business entity under each approach. Our conclusion of Fair Market Value is determined based on the results of these methods and the specific circumstances surrounding the interest being valued.

Overview of Valuation Approaches and Methods

As previously specified, various approaches have been used to value Sample Mid-Size Company, Inc.. These approaches, described below, are the: 1) Asset Approach, 2) Income Approach, and 3) Market Approach.

Asset Approach

The Asset Approach is generally considered to yield the minimum benchmark of value for an operating enterprise. The most common methods within this approach are Net Asset Value and Liquidation Value. Net Asset Value represents net equity of the business after assets and liabilities have been adjusted to their fair market values. The Liquidation Value of the business represents the present value of the estimated net proceeds from liquidating the Company's assets and paying off its liabilities.

Income Approach

The Income Approach serves to estimate value by considering the income (benefits) generated by the asset over a period of time. This approach is based on the fundamental valuation principle that the value of a business is equal to the present worth of the future benefits of ownership. The term income does not necessarily refer to income in the accounting sense but to future benefits accruing to the owner.

The most common methods under this approach are Capitalization of Earnings and Discounted Future Earnings. Under the Capitalization of Earnings method, normalized historic earnings are capitalized at a rate that reflects the risk inherent in the expected future growth in those earnings. The Discounted Future Earnings method discounts projected future earnings back to present value at a rate that reflects the risk inherent in the projected earnings.

Additional methods under the Income Approach are Capitalization of Excess Earnings and Multiple of Discretionary Earnings. Commonly referred to as the “formula method,” the Capitalization of Excess Earnings method determines the value of tangible and intangible assets separately and combines these component values for an indication of total entity value. Under the Multiple of Discretionary Earnings method, the entity is valued based on a multiple of “discretionary earnings,” i.e., earnings available to the owner who is also a manager. Both of these methods are normally used to value small businesses and professional practices.

Market Approach

The Market Approach compares the subject company to the prices of similar companies operating in the same industry. Comparable companies can be privately owned or publicly traded where the valuation multiples are determined from the purchase/sale price for the company. A common problem for privately owned businesses is a lack of publicly available comparable data. Comparable companies can also be publicly traded where the valuation multiples are derived from the trading price for the public companies stock as of the date of the valuation.

The methods utilized under each approach are presented and discussed in the following sections.

COMMENT: The following sections discuss all of the valuation methods available in the Business Valuation Specialist program and their respective results. You are encouraged to modify these sections for each different valuation assignment as follows:

Modify this document based on the specific methods used and procedures performed in each valuation assignment.

Elaborate on the methods that were accepted and discuss the selection process used to accept the individual valuation methods. Valuation weights can be assigned at the individual valuation method level, at the data-source level (for market approach methods), at the valuation approach level (i.e. asset, Income, market approaches), or by any combination thereof. Identify your selection criteria at each level.

Certain valuation methods may be presented in the report but have not been given any weight in the conclusions. Any valuation method that is presented but not given any weight is considered rejected. For each rejected method, include an explanation of why the method was rejected.

If any past transactions in the subject company's stock have been identified, discuss why they were or were not considered in the valuation conclusions.

Prior Sales of Company's Stock

Prior sales of a Company's stock can potentially provide a meaningful indication of the stock's value if the transactions were at arm's length. The following table presents details about past sales of the company's stock.

Transaction Description	Number of Shares	Purchase Price	Price Per Share	Equity Class	Transaction Date
Sellers Family Trust 2	700,000	1,470,000	2.1	B	9/25/2009
Sellers Family Trust 1	1,000,000	1,975,000	2.0	A	3/13/2008
Sellers Family Trust 3	300,000	540,000	1.8	B	6/25/2006

COMMENT: For each prior transaction, discuss whether or not the transaction provides a meaningful indication of value as of the valuation date. Factors to consider include but are not limited to whether or not the transaction was conducted at arm's length, whether the sale was forced or distressed, the size of the block of shares sold and the date of the transaction in relation to the valuation date.

Preferred Stock Valuation

The value of Sample Mid-Size Company, Inc.'s preferred stock based on market yields for comparable preferred stocks is estimated to be $850,000. In the preferred stock valuation, each class of Sample Mid-Size Company, Inc.'s preferred stock is valued by dividing the preferred dividends for that class by the market yield for comparable preferred stocks. The value of total preferred stock is presented in the following table.

Classes of Preferred Stock	Stated Yield	Market Yield Stated	Market Yield Adjustment	Market Yield Adjusted	Selected Yield (a)	Dividends Per Class (b)	Value Per Class (b/a)
Preferred A, Convertible	10.00%	10.00%	0.00%	10.00%	10.00%	42,500	425,000
Preferred B, Cumulative	10.00%	10.00%	0.00%	10.00%	10.00%	42,500	425,000
Total						85,000	850,000
	Indicated Value of Preferred Stock						850,000
	Book Value of Preferred Stock						850,000
	Premium of FMV over Book Value						0

Asset Approach

Net Asset Value

The Net Asset Value of Sample Mid-Size Company, Inc. is estimated to be $10,590,000. In the Net Asset Value method, the assets and liabilities are valued individually and the assets are assumed to be disposed in an *orderly disposition.* The proceeds from the orderly disposition of assets are used to pay all liabilities and pay any taxes resulting from gains on disposal of the assets. The value of total assets less the value of total liabilities less any tax from gains on the orderly disposal of assets results in the Calculated Equity Value.

Assets and liabilities from the most recent historic, normalized balance sheet have been adjusted to their individual tax bases. Assets and liabilities were further adjusted to reflect their individual values. A tax adjustment in the amount of $766,731 was then estimated based on the difference between the value and the tax basis of assets using an effective tax rate of 40.60%.

> COMMENT: Describe the method(s) used for determining the individual asset and liability values, e.g., by separate appraisal. Also state the standard of value used to value the individual assets and liabilities, e.g., fair market value. The standard of value used in the Net Asset Value method should generally be consistent with the standard of value used in the overall business appraisal.

Net Asset Value	
Total Asset Value	16,189,311
Less: Value of Total Liabilities	3,984,766
Less: Estimated Taxes on Gain / (Loss) from Sale of Assets	766,731
Less: Fair Market Value of Preferred Stock	850,000
Calculated Equity Value	**10,587,814**
Indicated Equity Value	**10,590,000**

Liquidation Value

The Liquidation Value of Sample Mid-Size Company, Inc. is estimated to be $9,690,000. In the Liquidation Value method, the assets and liabilities are valued individually and the assets are assumed to be disposed in a *forced liquidation.* The proceeds from the forced liquidation of assets are used to pay all liabilities, pay any taxes resulting from gains on liquidation of the assets and pay any associated liquidation costs. The liquidation value of total assets less the value of total liabilities less any tax from gains on the liquidation of assets, less any liquidation costs results in the Calculated Equity Value.

Assets and liabilities from the most recent historic normalized balance sheet have first been adjusted to reflect their individual values in an orderly disposition. Assets and liabilities were further adjusted to reflect their value in a forced liquidation. A tax adjustment in the amount of $156,272 was then estimated based on the difference between the liquidation value and the tax basis of assets and liabilities using an effective tax rate of 40.60%. In addition, estimated liquidation costs in the amount of $139,694 have been deducted. See the Liquidation Value schedule for detailed value calculations and the Estimated Liquidation Cost schedule for the calculation of estimated liquidation costs.

> COMMENT: Describe the method(s) used for determining the individual asset and liability values, e.g., by separate appraisal. Also state the standard of value used to value the individual assets and liabilities, e.g., fair market value. The standard of value used in the Liquidation Value method should generally be consistent with the standard of value used in the overall business appraisal.

Liquidation Value	
Liquidation Value of Assets	14,825,411
Less: Liquidation Value of Liabilities	3,984,766
Less: Estimated Taxes on Gain / (Loss) from Liquidation of Assets	156,272
Less: Estimated Liquidation Costs	139,694
Less: Fair Market Value of Preferred Stock	850,000
Calculated Equity Value	**9,694,679**
Indicated Equity Value	**9,690,000**

Income Approach

Discount & Capitalization Rate Estimates

In order to value the enterprise based on earnings it generates, various risk rates applicable to historic and projected earnings have been estimated. Generally stated, these risk-adjusted rates reflect the expected rate of return attainable on alternative investment opportunities with comparable risk.

First, a Discount Rate applicable to projected earnings has been calculated for use in the Discounted Cash Flow and Discounted Future Earnings valuation methods. This Discount Rate is then converted into a Capitalization Rate which is applicable to historic earnings for use in the Capitalization of Earnings valuation method. The calculations are summarized in the table below.

Discount Rate Method: Build-Up Method

Risk-Free Rate	2.54%
<u>**Other Risk Factors / Premiums**</u>	
Premium	17.46%
Discount Rate	20.00%
(Applied to future benefit stream.)	
Less: Long-Term Growth in Benefit Stream	9.00%
Capitalization Rate	11.00%
Divided by: (1 + Long-Term Growth Rate)	<u>109.00%</u>
Historic Earnings Capitalization Rate	10.09%
(Applied to historic benefit stream.)	
Excess Earnings Capitalization Rate	19.00%
(Applied to historic excess earnings benefit stream.)	

In developing the Discount and Capitalization Rates to apply to the benefit stream of Sample Mid-Size Company, Inc., the Build-Up Model was used. The Build-Up Model is based on a combination of risk factors including a Risk-Free Rate, a Market Equity Risk Premium, a Size Premium and other identifiable risk factors specific to the subject company. When added together, these risk factors provide an indication of the Discount Rate for the subject company. This Discount Rate represents the total return, in terms of cash flows and appreciation in value that an investor would require in order to make an equity investment in the subject company.

COMMENT: Provide an explanation of each of the risk factors identified in the Build-Up Model and document the source of the data. The Long-Term U.S. Treasury Bond yield to maturity prevailing on the date of (or within the week of) the effective date of the valuation is commonly used to represent the Risk-Free Rate. The Market Equity Risk Premium is the return in excess of the Risk-Free Rate that an average equity investor would require. The Size Premium is generally used if the subject company is significantly smaller than the companies used in the formulation of the Market Equity Risk Premium. Document all other incremental risk factors identified in the development of the discount rate. Please note that the Build-Up Model is normally used for small companies or if no valid comparable company data is available. If no valid comparable company data is available, that fact should be disclosed here.

Subject Company Data Used in Capitalization of Earnings and Excess Earnings Methods

We used the following benefit streams for the subject company to apply in certain valuation methods under the Income Approach.

COMMENT: Provide your rationale for the selected benefit stream and time period used for the subject company's benefit stream, e.g. Equity Free Cash Flow and most recent historic, etc. Also, if you are using Weighted Average, document your assumptions for the weights you assigned to each year's benefit stream.

Equity Net Cash Flow, Most Recent Normalized	2012
Net Income	2,639,863
Plus: Depreciation & Amortization	1,107,330
Less: Fixed Asset Purchases	660,000
Less: Changes in Net Working Capital (Adjusted)*	338,500
Plus: Changes in Short-Term Notes Payable	0
Plus: Changes in Current Long-Term Notes Payable	38,630
Plus: Changes in Long-Term Notes Payable	(297,295)
Less: Preferred Dividends	85,000
Equity Net Cash Flows	**2,405,028**

Changes in Net Working Capital, Most Recent Normalized	2011	2012
Current Assets:		
Cash & Equivalents	2,314,000	2,638,000
Less: Adjustment to Cash & Equivalents	2,314,000	2,638,000
Accounts Receivable (Net)	2,220,890	2,285,390
Inventory	2,765,000	2,815,000
Short-Term Notes Receivable	0	0
Less: Adjustment to Short-Term Notes Receivable	0	0
All Other Current Assets	138,540	142,390
Total Current Assets (Adjusted)	**5,124,430**	**5,242,780**
Current Liabilities (Except Notes Payable):		
Accounts Payable	1,329,650	1,294,600
Revolving Lines of Credit	0	0
Less: Adjustment to Revolving Lines of Credit	0	0
Taxes Payable	389,400	267,900
All Other Current Liabilities	457,000	393,400
Total Current Liabilities (Adjusted)	**2,176,050**	**1,955,900**
Net Working Capital (Adjusted)	**2,948,380**	**3,286,880**
Change in Net Working Capital (Adjusted)		***338,500**

Capitalization of Earnings Method

The Capitalization of Earnings method arrives at an estimate of value by dividing current normalized earnings, which are weighted and averaged to approximate future earnings expectations, by a capitalization rate. As shown below, The Total Entity Value of Sample Mid-Size Company, Inc. based on the Capitalization of Earnings method is estimated to be $23,100,000. In the Capitalization of Earnings method, normalized Most Recent Annual Equity Net Cash Flows is divided by the capitalization rate, 10.09%, to determine Total Entity Value. See the Income Statement Adjustments section for a listing of any adjustments made to historic earnings and the Discount & Capitalization Rates section for the capitalization rate calculations.

Most Recent Normalized Equity Net Cash Flow	**2,405,028**
Divided by: Historic Capitalization Rate	10.09%
Operating Value	**23,835,761**
Plus: Market Value of Net Nonoperating Assets	118,144
Total Entity Value	**23,953,905**
Less: Fair Market Value of Preferred Stock	850,000
Calculated Equity Value	**23,103,905**
Indicated Equity Value	**23,100,000**

Net Nonoperating Assets have been valued separately and added to the operating value calculated in this valuation method. Seethe Nonoperating Assets and Liabilities section of this report for the presentation of the estimated value of Net Nonoperating Assets.

Capitalization of Excess Earnings

Usually, intangible assets are not reported on the balance sheet unless purchased. However, the existence of and the value for any intangible assets should be considered. A number of methodologies have been developed to estimate intangible assets of a business. One commonly used method is the excess earnings method. The excess earnings method was developed by the U.S. Treasury Department in 1920 in Appeals and Review Memorandum 34 (ARM34). Its current version is found in Revenue Ruling 68-609. The excess earnings method is commonly used in valuing small businesses and professional practices. The Internal Revenue Service suggests that it is to be used only when no better basis exists for separately estimating the value of the intangible assets.

The model for the excess earnings method computes the company's equity value based on the "appraised" value of tangible assets plus an additional amount for intangible assets. A company's tangible assets should provide a current return to the owner. Since there are risks associated with owning the company's assets, the rate of return on those assets should be commensurate with the risks involved. That rate of return should be either the prevailing industry rate of return required to attract capital to that industry or an appropriate rate above the risk-free rate. Any returns produced by the company above the rate on tangible assets are considered to arise from intangible assets. Accordingly, the weighted average capitalization rate for tangible assets and intangible assets should be equivalent to the capitalization rate of the entire company.

In using the excess earnings method, a reasonable rate of return on net tangible assets was first calculated based on the cost of borrowing against those assets plus the cost of equity required to support the remaining investment in those assets, as shown in the following schedule.

	Cost	Percent of Total Capital	Weighted Cost
Required Return on Debt	4.32%	51.84%	2.24%
Required Return on Equity	10.09%	48.16%	4.86%
Rate of Return on Net Tangible Assets			**7.10%**

(See the Rate of Return on Net Tangible Assets schedule for the calculation of the required return on debt.)

Then, weighted average, normalized Equity Net Cash Flows is compared to the reasonable rate of return. Excess earnings are defined as the difference between the weighted average earnings and the "normal" return. These excess earnings are then capitalized using the excess earnings capitalization rate of 19.00%. Therefore, capitalized excess earnings are an estimate of intangible value. This intangible value is then added to the appraised value of net tangible equity to estimate Total Entity Value. See the Income Statement Adjustments section for a listing of any adjustments made to historic earnings, the Discount and Capitalization Rates section for the excess earnings capitalization rate and the Net Asset Value schedule for the appraised value of net tangible equity.

As shown below, the Indicated Equity Value of Sample Mid-Size Company, Inc. based on the Capitalization of Excess Earnings approach is estimated to be $19,053,157 and the selected (rounded) value is $18,380,000.

Most Recent Normalized Equity Net Cash Flow		**2,405,028**
Net Tangible Assets	11,379,195	
Multiplied by: Rate of Return on Net Tangible Assets	7.10%	
Normal Return On Net Tangible Assets	**807,923**	
Most Recent Normalized Equity Net Cash Flow		**2,405,028**
Less: Normal Return on Net Tangible Assets		807,923
Excess Earnings		**1,597,105**
Divided by: Excess Earnings Capitalization Rate		19.00%
Intangible Value		**8,405,818**
Plus: Net Tangible Assets		11,379,195
Operating Value		**19,785,013**
Plus: Market Value of Net Nonoperating Assets		118,144
Total Entity Value		**19,903,157**
Less: Fair Market Value of Preferred Stock		850,000
Calculated Equity Value		**19,053,157**
Indicated Equity Value		**18,380,000**

Net Nonoperating Assets have been valued separately and added to the operating value calculated in this valuation method. Seethe Nonoperating Assets and Liabilities section of this report for the presentation of the estimated value of Net Nonoperating Assets.

Discounted Future Earnings

The underlying premise for this valuation method is the basic valuation principle that an investment in a business is worth the present value of all the future benefits it will produce for its owner(s), with each expected future benefit discounted back to present value at a discount rate that reflects the risk (degree of uncertainty) that those benefits may not be realized. Therefore, the application of this method requires a determination of the present value of an expected future benefit stream that the business generates for that owner.

To determine the expected future income stream, we assisted management in preparing projections of the financial statements for the first 5 years after the valuation date.

COMMENT: A summary of the projections and the underlying assumptions is created automatically and can be included as an appendix to the valuation report. The appendix has been excluded from this sample report.

COMMENT: As discussed in Section 505 of PPC's Guide to Business Valuations, the financial statements may be forecasts or projections as defined by the AICPA. Thus, the term "projection" may need to be replaced with the term "forecast" depending on the assumptions used in preparing the financial statements.

Equity Net Cash Flows (FCF-Equity), Projected:	**2013**	**2014**	**2015**	**2016**	**2017**
Net Income	3,356,324	3,407,104	3,404,047	3,509,320	3,598,341
Plus: Depreciation & Amortization	1,157,333	1,207,333	1,246,353	1,296,353	1,296,353
Less: Fixed Asset Purchases	500,000	500,000	500,000	500,000	0
Less: Changes in Net Working Capital (Adjusted)	958,310	231,776	160,445	153,634	109,838
Plus: Changes in Short-Term Notes Payable	0	0	0	0	0
Plus: Changes in Current Long-Term Notes Payable	(24,077)	34,651	39,045	43,997	49,577
Plus: Changes in Long-Term Notes Payable	(218,389)	(307,868)	(346,914)	(390,911)	(440,488)
Less: Preferred Dividends	85,000	85,000	85,000	85,000	85,000
Equity Net Cash Flows	**2,727,881**	**3,524,445**	**3,597,087**	**3,720,125**	**4,308,946**

Changes in Net Working Capital Used in FCF-Equity, Projected

	2012	2013	2014	2015	2016	2017
Current Assets:						
Cash & Equivalents	2,638,000	3,385,148	4,467,604	4,591,517	4,840,450	5,180,434
Less: Adjustment to Cash & Equivalents	2,638,000	3,385,148	4,467,604	4,591,517	4,840,450	5,180,434
Accounts Receivable (Net)	2,285,390	2,770,743	2,881,573	2,968,020	3,057,061	3,118,202
Inventory	2,815,000	3,281,721	3,491,683	3,621,214	3,735,357	3,819,335
All Other Current Assets	142,390	146,802	153,813	159,880	166,281	171,617
Total Current Assets (Adjusted)	**5,242,780**	**6,199,266**	**6,527,069**	**6,749,114**	**6,958,699**	**7,109,154**
Current Liabilities (Except Notes Payable):						
Accounts Payable	1,294,600	1,276,225	1,357,877	1,408,250	1,452,639	1,485,297
Taxes Payable	267,900	281,592	292,855	301,641	310,690	316,904
All Other Current Liabilities	393,400	396,259	399,371	401,813	404,325	406,071
Total Current Liabilities (Adjusted)	**1,955,900**	**1,954,076**	**2,050,104**	**2,111,704**	**2,167,655**	**2,208,272**
Net Working Capital (Adjusted)	**3,286,880**	**4,245,190**	**4,476,965**	**4,637,410**	**4,791,044**	**4,900,882**
Changes in Net Working Capital (Adjusted)		**958,310**	**231,776**	**160,445**	**153,634**	**109,838**

Discounted Equity Net Cash Flows Value Calculations

The selected Equity Value of Sample Mid-Size Company, Inc. based on the Discounted Equity Net Cash Flows method is estimated to be $29,380,000 as presented below. In the Discounted Equity Net Cash Flows method, Equity Net Cash Flows, also commonly referred to as Equity Free Cash Flows, have been projected for 5 years and each year's earnings have been discounted back to present value using an annual discount rate of 20.00% and Mid Year discounting calculations.

Because it is assumed that the business will continue as a going concern beyond the term of the projections, a terminal value (also referred to as residual value) has been calculated based on Equity Net Cash Flows from projected year 5. These residual earnings are first capitalized using the capitalization rate of 11.00% and then that quantity is discounted back to present value using the discount rate of 20.00%.

The selected Equity Value based on the Discounted Equity Net Cash Flows method is $ as presented below. The underlying theory of the Discounted Cash Flow method states that the business is worth the present value, at the valuation date, of all expected future cash flows that the business will generate and are available to the owner(s).

We projected the expected Equity Net Cash Flows, also commonly referred to as Equity Free Cash Flows, for 5 years and then discounted each year's cash flows back to present value using an annual discount rate of 20.00% that reflects the risk inherent in realizing the projected cash flows. Please see the Discount and Capitalization Rates section of this report for a description of the risk-adjusted Discount Rate.

Because we assume that the business will continue as a going concern beyond the term of the projections, we estimated a Terminal Value (also referred to as residual value) based on Equity Net Cash Flows from projected year 5. In determining Terminal Value, we first capitalized, or divided, the residual cash flows by the Capitalization Rate of 11.00% and then discounted that quantity back to present value.

Discounted Equity Net Cash Flows	**Projected Equity Net Cash Flows**	**Discount Factor**	**Present Value Factor**	**Present Value**
FY 2013	2,727,881	0.500000	0.912871	2,490,204
FY 2014	3,524,445	1.500000	0.760726	2,681,137
FY 2015	3,597,087	2.500000	0.633938	2,280,330
FY 2016	3,720,125	3.500000	0.528282	1,965,275
FY 2017	4,308,946	4.500000	0.440235	1,896,949
Terminal Value of Equity Net Cash Flows **	42,697,734	4.500000	0.440235	18,797,037
Operating Value				**30,110,931**
Plus: Market Value of Net Nonoperating Assets				118,144
Less: Fair Market Value of Preferred Stock				850,000
Calculated Equity Value				**29,379,075**
Indicated Equity Value				**29,380,000**
Mid-Year Discount Factors are Based on the Discount Rate of:			20.00%	
Terminal Value is Based on the Capitalization Rate of:			* 11.00%	

* * Calculated as Terminal Equity Net Cash Flows x (1 + LT Growth Rate) / Capitalization Rate

We calculated the Present Value of each projected benefit in the previous table by multiplying the benefit by the Present Value Factor. The Present Value Factor is the multiplier that converts a projected benefit to its present value. It is derived for each projected period using the following formula:

$$\text{Present Value Factor} = 1/(1+\text{Discount Rate})^N$$

Where:

The *Discount Rate* is the annual, risk-adjusted rate discussed previously.

N is the *Discount Factor* is the projected time period, in years, when the benefit occurs. This factor can use a mid-year or end-of-year convention as described below. Additionally, the Discount Factor is adjusted if the first projected period is a partial year.

The Discount Factor used in the Present Value Factor formula above must consider the timing of the projected benefits. If we assume that the benefits occur more or less evenly throughout the year, then a Mid-Year convention is appropriate. If we assume that the benefits occur at the end of the year, then an End-of-Year convention is appropriate. This is important because the convention can have a significant effect on the overall value. All other things equal, an End-of-Year convention will result in a higher level of discounting and therefore yields lower present values.

When end-of-year discounting is used, the Discount Factor for the first projected year is 1, for the second projected year is 2, etc. When mid-year discounting is used, the Discount Factor for the first projected year is .5, for the second projected year is 1.5, etc. We have selected Mid Year discounting as the most appropriate convention to apply to Sample Mid-Size Company, Inc.'s estimated future benefit stream.

Net Nonoperating Assets have been valued separately and added to the operating value calculated in this valuation method. Seethe Nonoperating Assets and Liabilities section of this report for the presentation of the estimated value of Net Nonoperating Assets.

Market Approach

The Market Approach utilizes market prices of comparable companies to approximate the value of the subject company. Companies that are considered comparable are in the same or similar line of business as the subject company and are a similar size in terms of profitability and financial position as the subject company. Market price information can be gathered from the stock trading prices of guideline public companies and/or from the prices paid in purchase or sale transactions for publicly traded and privately held companies.

Under the Market Approach, the price for a comparable company is expressed as a multiple of various measures of profitability and financial position. The price multiple from the comparable company is then applied to the respective measures of profitability and/or financial position of the subject company to determine the value of the subject company.

Transaction-By-Transaction Method

The Transaction-by-Transaction method is most appropriately utilized when detailed information is available for each comparable company transaction. Transactions are identified for companies in the same or similar line of business as the subject company and each transaction is analyzed individually. The transaction price and financial metrics are adjusted, if necessary, so that the purchase price and the financial metrics are calculated the same way for each comparable company transaction. Then the price multiples derived from each transaction are analyzed and multiples are selected to be applied to the subject company's measures of profitability and/or financial position.

Procedures for the Transaction-By-Transaction Method:

COMMENT: Modify the procedures below based on the actual procedures performed.

1. Identify transactions for comparable companies.
2. Analyze each transaction and, if necessary, adjust purchase price and financial metrics of each comparable company so that the price and financial metrics are calculated the same way for each transaction.
3. Calculate price multiples for each transaction.
4. Perform statistical analysis on each multiple group to determine if that group of multiples is statistically reliable.
5. Select a multiple from each multiple group that is deemed to be statistically reliable.
6. Apply the selected price multiples to the respective profitability and/or financial position metric for the subject company to determine the indicated Market Value of Invested Capital (MVIC) or Equity value.
7. Certain types of assets are assumed to have not transferred in the transactions and therefore those assets are not included in the transaction price. If the same asset types exist for the subject company, add the value of the assets to the indicated MVIC and/or Equity value.
8. Convert each MVIC indication for the subject company to Equity value by deducting total debt. This procedure is bypassed for those multiples that directly result in an Equity value when they are applied to the subject company.
9. Deduct the value of any preferred stock to arrive at the indicated Equity value.

Guideline Public Company Method

In the Guideline Public Company Method, public companies are identified that are in the same or similar line of business as the subject company and are a similar size in terms of profitability and financial position as the subject company. Then the stock trading prices for the guideline public companies as of the date of the valuation are used to estimate the value of the subject company.

Procedures for the Guideline Public Company Method:

COMMENT: Modify the procedures below based on the actual procedures performed.

1. Identify guideline public companies that are in the same or similar line of business as the subject company and are a similar size in terms of profitability and financial position as the subject company.
2. Determine the stock trading price for each guideline public company as of the date of the valuation of the subject company.
3. Analyze each guideline public company and, if necessary, adjust the financial metrics of each guideline public company so that the financial metrics are calculated the same way as for the subject company.
4. Calculate price multiples for each guideline public company based on the stock trading price and the financial metrics of each guideline public company.
5. Perform statistical analysis on each multiple group to determine if that group of multiples is statistically reliable.
6. Select a multiple from each multiple group that is deemed to be statistically reliable.
7. Apply the selected price multiples to the respective profitability and/or financial position metric for the subject company to determine the indicated Market Value of Invested Capital (MVIC).
8. Certain types of assets are assumed to not be included in the stock trading price. If those types of asset exist for the subject company, add the value of the assets to the indicated MVIC value.
9. Convert each MVIC indication for the subject company to Equity value by deducting total debt.
10. Deduct the value of any preferred stock to arrive at the indicated Equity value.

Done Deals Transactions Method

Business sale transactions from the Done Deals database have been used to estimate the value of Sample Mid-Size Company, Inc. When searching the Done Deals database, we selected transactions for companies that are considered comparable to Sample Mid-Size Company, Inc. and then selected pricing multiples to apply to Sample Mid-Size Company, Inc.'s earnings and financial position.

Done Deals® is published by Practitioners Publishing Company, a Thompson Reuters company. Done Deals contains transaction details for public and private companies with purchase prices between USD$1 Million and USD$1 Billion. Transaction information is compiled from SEC filings made by public companies after acquiring other entities. Done Deals transaction data can include a sufficient level of detail to be analyzed under the Transaction-By-Transaction method.

Search Criteria

> The search criteria paragraph(s) below contain the search parameter values that were used each time Done Deals records were exported. Edit each paragraph below and delete the search parameter items that do not include values.

The primary Done Deals search parameters used in our search were: SIC Code 3949 with a Transaction Closing Date Range from 1/1/2000 to 12/31/2012.

Search Results

Our search resulted in the identification of 2 asset sale transactions and 6 stock sale transactions. Of the total asset sale transactions identified, 2 were used in our analysis. Of the total stock sale transactions identified, 6 were used in our analysis.

> COMMENT: Document the composition of your search results. Be sure to explain your reasons for excluding any transactions identified in your search of the Done Deals database.

Statistical Analysis of Transactions

We performed a statistical analysis of the data in each multiple group. The analysis includes measures of statistical significance of the sample for each multiple group along with measures of distribution and central tendency of the data.

The following table presents statistics for Stock Sale transactions from the Done Deals database:

Done Deals *Stock* Transactions	**Equity Price To:**					
Statistical Analysis	**Revenue**	**EBITDA**	**Net Income**	**Cash Flow**	**Assets**	**Equity**
Summary						
Total Records	6	6	6	6	6	6
Records Used for Statistical Analysis	6	5	5	4	6	6
Statistical Significance						
R-Squared	0.58496	0.62875	0.00189	0.06060	0.53305	0.82383
Standard Deviation	0.48684	6.13189	8.85382	2.85711	1.19937	2.15997

Coefficient of Variation	0.55350	0.55039	0.61008	0.31482	0.68666	0.49797
Distribution						
Maximum	1.635	18.161	28.667	13.087	3.833	7.441
Minimum	0.478	4.546	5.069	6.587	0.636	2.014
Range	1.157	13.615	23.598	6.500	3.197	5.427
Upper Decile	1.491	16.917	23.242	11.872	3.136	6.726
Upper Quartile	1.177	15.050	15.105	10.049	2.195	5.675
Median	0.647	13.033	14.056	8.314	1.363	4.242
Lower Quartile	0.549	4.915	9.667	7.340	0.950	2.511
Lower Decile	0.501	4.693	6.908	6.888	0.741	2.045
Central Tendency						
Mean	0.880	11.141	14.513	9.075	1.747	4.338
Harmonic Mean	0.710	8.043	10.572	8.499	1.224	3.418
Median	0.647	13.033	14.056	8.314	1.363	4.242

Multiple Selection

Based on our analysis of the transaction data, we have selected the following multiples to be applied to Sample Mid-Size Company, Inc.'s profitability and financial position metrics.

Stock Transactions / Multiple of Equity Price to:	Mean	Median	Selected Multiple
Total Revenue	0.880	0.647	0.650
EBITDA	11.141	13.033	13.000
Total Assets	1.747	1.363	1.400
Total Equity	4.338	4.242	4.200

COMMENT: Selection of the transaction multiples is one of the most critical steps in the valuation methods under the Market Approach. Provide an explanation of your reasons for selecting each multiple. Also, provide an explanation of your reasons for rejecting any multiples.

Value Calculations Based on Done Deals Price to Revenue Multiple

We have calculated the Equity Value for Sample Mid-Size Company, Inc. based on the selected Price to Revenue Multiple from the Done Deals database. The calculations are presented below.

	Stock Transactions
Selected Price to Revenue Multiple	0.650
Times: Total Revenue	31,551,420
Equity Value	**20,508,423**
Plus: Asset Adjustments (a)	145,144
Less: Liability Adjustments (b)	27,000
Less: Value of Preferred Stock	850,000
Calculated Equity Value	**19,776,567**
Indicated Equity Value	**19,780,000**

Value Calculations Based on Done Deals Price to Total Assets Multiple

We have calculated the Equity Value for Sample Mid-Size Company, Inc. based on the selected Price to Total Assets Multiple from the Done Deals database. The calculations are presented in the following table.

	Stock Transactions
Selected Price to Total Assets Multiple	1.400
Times: Total Assets	14,300,811
Equity Value	**20,021,135**
Plus: Asset Adjustments (a)	145,144
Less: Liability Adjustments (b)	27,000
Less: Value of Preferred Stock	850,000
Calculated Equity Value	**19,289,279**
Indicated Equity Value	**19,290,000**

Guideline Public Company Method

The notion behind the Guideline Public Company method is that prices of publicly traded stocks in the same or a similar industry provide objective evidence as to values at which investors are willing to buy and sell interests in companies in that industry. We identified companies considered to be comparable to Sample Mid-Size Company, Inc. and then calculated pricing multiples to apply to Sample Mid-Size Company, Inc.'s earnings and financial position.

In applying the comparative company valuation method, the analyst usually computes a value multiple for each comparative company. The appropriate multiple is then determined and adjusted for the unique aspects of the company being valued. This multiple is then applied to the company being valued to arrive at an estimate of value for the appropriate ownership interest.

A value multiple represents a ratio that uses a comparative company's stock price as the numerator and a measure of the comparative company's operating results (or financial position) as the denominator. Value multiples are usually computed on a per share basis, but can also be determined by dividing a company's total common stock market value by its total annual earnings or other measure. The most well-known value multiple is price/earnings (P/E) whereby a company's stock price is divided by its earnings per share. The process of computing the value multiples normally consists of the following procedures:

1. Determination of the appropriate stock price for each comparative company. This represents the numerator of the multiple.

2. Determination of the measure of operating results (earnings, gross cash flow, etc.) for the appropriate time period or financial position as of the valuation date. This represents the denominator of the multiple.

Comment: Insert the source and description of any Guideline Public Company data used in the valuation.

Search Criteria

The application of this method depends on the selection of publicly traded comparative companies that are similar enough to Sample Mid-Size Company, Inc. so as to provide a meaningful comparison. In our search for guideline public companies, we used the following search criteria:

COMMENT: Include a list of the search criteria and parameters you used when searching for guideline public companies. Your search criteria can include but are not limited to the following:

SIC Code, NAICS Code, Location and/or keywords.

Profitability and financial position measures including ranges for: Net Sales, Gross Profit, Operating Profit, EBIT, EBITDA, Net Income, Total Assets and Total Equity.

Financial performance ratios and other search criteria.

Search Results

Our search resulted in the identification of 3 guideline public companies. Of the total identified, data from 3 guideline public companies were used in our analysis.

> COMMENT: Document the composition of your search results. Be sure to explain your reasons for excluding any companies identified in your search for Guideline Public Companies.

Statistical Analysis of Transactions

We performed a statistical analysis of the data in each multiple group. The analysis includes measures of statistical significance of the sample for each multiple group along with measures of distribution and central tendency of the data.

The following table presents statistics for the selected Guideline Public Companies:

Guideline Public Company Multiples	**Invested Capital Price To:**				
Statistical Analysis	**Net Sales**	**Gross Profit**	**EBITDA**	**EBIT**	**BVIC**
Summary					
Total Records	3	3	3	3	3
Records Used for Statistical Analysis	3	3	3	3	2
Statistical Significance					
R-Squared	0.01461	0.00029	0.00009	0.34640	0.66162
Standard Deviation	0.78867	2.06170	15.25918	60.01494	0.84754
Coefficient of Variation	0.78859	0.76722	0.70662	1.51388	0.56650
Distribution					
Maximum	1.906	4.984	37.111	108.817	2.095
Minimum	0.468	0.997	6.607	1.444	0.897
Range	1.438	3.987	30.505	107.373	1.199
Upper Decile	1.650	4.403	33.902	88.787	1.976
Upper Quartile	1.266	3.532	29.088	58.743	1.796
Median	0.626	2.080	21.065	8.669	1.496
Lower Quartile	0.547	1.539	13.836	5.056	1.196
Lower Decile	0.500	1.214	9.499	2.889	1.017
Central Tendency					
Mean	1.000	2.687	21.595	39.643	1.496
Harmonic Mean	0.704	1.781	13.287	3.671	1.256
Median	0.626	2.080	21.065	8.669	1.496

Multiple Selection

Based on our analysis of the Guideline Public Company price multiples, we have selected the following multiples to be applied to Sample Mid-Size Company, Inc.'s profitability and financial position metrics.

Multiple of Market Value Invested Capital (MVIC) Price to:	Mean	Median	Selected Multiple
Net Sales	1.000	0.626	0.63
Gross Profit	2.687	2.080	2.10
EBIT	39.643	8.669	8.67
Book Value of Invested Capital (BVIC)	1.496	1.496	1.50

COMMENT: Selection of the price multiples is one of the most critical steps in the valuation methods under the Market Approach. Provide an explanation of your reasons for selecting each multiple. Also, provide an explanation of your reasons for rejecting any multiples.

Value Calculations Based on Guideline Public Company MVIC Price to Net Sales Multiple

We have calculated the Equity Value for Sample Mid-Size Company, Inc. based on the selected MVIC Price to Net Sales Multiple from the Guideline Public Companies. The calculations are presented in the following table.

Selected MVIC Price to Net Sales Multiple	0.63
Times: Net Sales	31,551,420
MVIC	**19,877,395**
Plus: Asset Adjustments (a)	2,783,144
Adjusted MVIC	**22,660,539**
MVIC to Equity Value Conversion	
Less: Liability Adjustments (b)	2,028,866
Less: Normalized Value of Preferred Stock	850,000
Plus: 10% Premium to Adjust to Control Level	1,691,204
Calculated Equity Value	**21,472,877**
Indicated Equity Value	**21,470,000**

Value Calculations Based on Guideline Public Company MVIC Price to Book Value of Invested Capital (BVIC) Multiple

We have calculated the Equity Value for Sample Mid-Size Company, Inc. based on the selected MVIC Price to Book Value of Invested Capital (BVIC) Multiple from the Guideline Public Companies. The calculations are presented in the following table.

Selected MVIC Price to BVIC Multiple	1.50
Times: BVIC	12,047,616
MVIC	**18,071,424**
Plus: Asset Adjustments (a)	2,783,144
Adjusted MVIC	**20,854,568**
MVIC to Equity Value Conversion	
Less: Liability Adjustments (b)	2,028,866
Less: Normalized Value of Preferred Stock	850,000
Plus: 10% Premium to Adjust to Control Level	1,472,900
Calculated Equity Value	**19,448,602**
Indicated Equity Value	**19,450,000**

Guideline Public Company Value Conclusions

We have assigned a relative weight to each selected equity value derived from the Guideline Public Company market data. The weighted-average equity value is $20,460,000. The selected equity value conclusion for Sample Mid-Size Company, Inc. based on the Guideline Public Company market data is $20,460,000.

COMMENT: Provide an explanation of the rationale used to assign weights to the individual Guideline Public Company valuation methods. Include the reasons why any method(s) were given a higher relative weight and therefore given more emphasis than other methods in the conclusions.

Guideline Public Company Method MVIC Price to:	**Indicated Value**	**Weight**	**Weight / Total**	**Weighted Value**
Net Sales	21,470,000	1	0.50	10,735,000
Book Value of Invested Capital (BVIC)	19,450,000	1	0.50	9,725,000
Total		2		20,460,000
Indicated Equity Value: Guideline Public Company Method				**20,460,000**

Equity Value Conclusions

We have estimated the Fair Market Value on a controlling interest, non-marketable basis for 100.00% of Sample Mid-Size Company, Inc.'s voting diluted common shares as of 12/31/2012 as described within this report.

Our conclusion is $3.04933 Per Share, as presented below. This conclusion is subject to the Statement of Assumptions and Limiting Conditions and the Representations presented in this report.

In arriving at this opinion of value, we relied on a “value in use” or going-concern premise. This premise assumes that the Company is an ongoing business enterprise with management operating in a rational way with a goal of maximizing shareholder value.

> COMMENT: If some premise of value other than going concern is used, modify the above paragraph accordingly. Example 1: “In arriving at this opinion of value, we relied on a premise of orderly liquidation. This premise assumes that the assets of the business are disposed on a piecemeal basis with normal exposure for sale on the secondary market.” Example 2: “In arriving at this opinion of value, we relied on a premise of forced liquidation. This premise assumes that the assets of the business are disposed on a piecemeal basis with less than normal exposure for sale on the secondary market.”

Enterprise-Level Equity Value

When there is more than one indication of value produced by the different valuation approaches and methods, the analyst must reconcile these values. Therefore, in arriving at our conclusion of the enterprise equity value for Sample Mid-Size Company, Inc., we assigned relative weights to the individual indications of enterprise-level equity value and calculated a weighted average of these values. The weighted-average enterprise-level equity value is $29,380,000 as presented in the following table.

COMMENT: Provide an explanation of the rationale used to assign weights to the individual valuation methods. Include the reasons why any method(s) were given a higher relative weight and therefore given more emphasis than other methods in the conclusions.

Enterprise-Level Equity Value	Indicated Equity Value	Assigned Weight	Assigned Weight / Total Weights	Weighted Equity Value
Asset Approach:				
Net Asset	10,590,000	0	0.00	0
Liquidation	9,690,000	0	0.00	0
Income Approach:				
Capitalization of Earnings	23,100,000	0	0.00	0
Capitalization of Excess Earnings	18,380,000	0	0.00	0
Discounted Equity Net Cash Flow	29,380,000	1	1.00	29,380,000
Market Approach:				
Done Deals Database				
Stock Transactions:				
Revenue	19,780,000	0	0.00	0
Assets	19,290,000	0	0.00	0
Guideline Public				
Indicated Equity Value: Guideline Public Co. Method	20,460,000	0	0.00	0
Total		**1**		
Total Weighted Equity Value				**$29,380,000**

Selected Enterprise-Level Equity Value (Rounded) **29,380,000**

Enterprise-Level Premiums / Discounts

The following enterprise-level premiums and/or discounts have been applied to the selected enterprise-level value.

> COMMENT: Provide a description of each of the enterprise-level premiums and/or discounts and the procedures used to determine the amount of each premium/discount and your rationale for why each is applicable.

	Percentage	Amount of Premium/Discount	Carrying Balance After Adjustments
Selected Enterprise-Level Equity Value			$29,380,000
Less Marketability Discount	14.00%	$4,113,200	
Adjusted Enterprise Equity Value			**$25,266,800**

We have selected the following conclusion of enterprise-level equity value:

Enterprise-Level Equity Value (Rounded)	**25,260,000**

Voting and Non-Voting Equity Value Allocation

Sample Mid-Size Company, Inc.'s common stock includes both voting and non-voting shares. We have determined that the appropriate premium for voting shares is 4.50000% over the value of the non-voting shares. Therefore, based on the applicable premium for voting shares, the selected enterprise-level equity value has been allocated between Sample Mid-Size Company, Inc.'s voting and non-voting common stock as follows.

Total Number of Common Shares Outstanding	8,000,000
Average Value Per Share	$3.15750
Number of Voting Common Shares	7,000,000
Percent of Total	87.5%
Number of Non-Voting Common Shares	1,000,000
Percent of Total	12.50000%
Premium for Voting Shares	4.50000%
Value Per Voting Common Share	**$3.17459**
Value Per Non-Voting Common Share	**$3.03788**
Spread	$0.13670

> COMMENT: Provide a description of how you determined the percentage premium for the voting shares.

Shareholder-Level and Per-Share Valuation

Dilution Analysis

In addition to the common shares outstanding, Sample Mid-Size Company, Inc.'s capital structure includes equity instruments that are convertible into common shares. If converted, these instruments will dilute the total number of common shares outstanding. Therefore, we have calculated the number of diluted shares In order to determine the value per common share on a diluted basis.

The equity instruments are assumed to be converted if they are “in-the-money”. For the purposes of this valuation assignment, convertible equity instruments are considered to be “in-the-money” if the exercise price per share is less than the enterprise equity value per share (after any enterprise-level discounts and/or premiums have been applied). The calculation of the number of new common shares, i.e., the dilutive commons shares, is presented below.

Convertible Preferred Stock – Convertible to Voting Common Shares

Enterprise Equity Value Per Voting Share before Dilution: $3.17

Convertible Preferred Tranche	Convertible Preferred Amount	Convertible Preferred Shares	Conversion Price Per Share	Conversion Ratio	New Common Shares
Preferred Tranche A, Convertible	$500,000	500,000	$2.00	0.50	250,000
Totals	**$500,000**	**500,000**			**250,000**

Options and Warrants – Converts to Voting Common Shares

Enterprise Equity Value Per Voting Share before Dilution: $3.17

Group / Tranche	Total Shares	Exercise Price Per Share (A)	In-The-Money Shares (B)	Proceeds (A x B)	Common Shares Repurchased with Proceeds	Dilutive Common Shares Net of Repurchases (B-C)
Options Held by Current Shareholders	10,000	2.00	10,000	$20,000.00	6,300	3,700
Options Held by Non-Owner Employees	100,000	2.10	100,000	$210,000.00	66,150	33,850
Totals	**110,000**		**110,000**	**230,000**	**72,450**	**37,550**

Share Summary

	Voting	Non-Voting	Total
Allocated Enterprise Equity Value	$22,222,117	$3,037,883	$25,260,000
Outstanding Shares	7,000,000	1,000,000	8,000,000
Convertible Preferred	250,000	0	250,000
In-The-Money Options and Warrants	37,550	0	37,550
Total Shares / Units Valued	**7,287,550**	**1,000,000**	**8,287,550**

Interest Being Valued

The specific interest in Sample Mid-Size Company, Inc. being valued is as follows:

Total Number of Diluted Voting Shares to be Valued	7,287,550
Equity Value of Diluted Voting Shares	$22,222,117
Percent of Interest Valued	100.00%
Value of Block of Shares	$22,222,117
Selected Conclusion of Value Per Share (Rounded)	**$3.04933**

Appendix A — Representations

The following factors guided our work during this engagement:

- The analyses, opinions, and conclusions of value included in this report are subject to the assumptions and limiting conditions specified previously in this report, and they are our personal analyses, opinions, and conclusion of value.

- The economic and industry data included in this report were obtained from sources that we believed to be reliable. We have not performed any corroborating procedures to substantiate that data.

- This engagement was performed in accordance with the American Institute of Certified Public Accountants Statement on Standards for Valuation Services.

- We have previously identified the parties for whom this information and report have been prepared. This valuation report is not intended to be, and should not be, used by anyone other than those parties.

- Our compensation for this engagement is not contingent on the outcome of this valuation.

- [If a third party specialist was used during the engagement, identify the specialist here and include a statement to identify the level of responsibility, if any, you are assuming for the specialist's work. For example, “In connection with the excess earnings method, ABC Equipment Appraisers (ABC) was used estimate the fair market value of the Company's equipment. Although ABC's employees are licensed equipment appraisers, we assume no responsibility for their work.]

- We have no obligation to update this report or our opinion of value for information that comes to our attention after the report date.

____ ____________________

(Signature) (Date)

____ ____________________

(Signature) (Date)

Comment: Modify or add to the above list as considered necessary. Note that if no third party specialists were used, the next to last statement should be deleted. The valuation analysts and any other person(s) taking responsibility for this valuation should sign and date the representation page.

Appendix B — Qualifications

This report was prepared by Michael Smith Managing Director, Director of Business Valuation of Smith & Associates, LLC. Michael Smith holds the following professional designations and certifications: CPA, ABV, CVA, ABAR, ASA, CM&AA, CMEA.

Comment: Use this appendix to provide a detailed description of the qualifications of the appraiser/valuation analyst. This section can include of resume of professional certifications and experience, description of prior valuation engagements completed, etc.