Valuation Report

April 30th, 2012

Introduction and Summary

Based on the information you provided, we estimate the value of The Sample Company to be between $847,200 and $936,300.

Our EZValuation used the following elements in arriving at our estimate:

-This year's profitability

-Company assets

-Type of business

-Business longevity

-Competitive environment

-Customer concentration

-Vendor concentration

-Geographic location

-Profitability trend

-Revenue trend

-Estimated value of plant and equipment owned by The Sample Company

-Working-capital requirements

Method of Valuation

There are a number of different methods that can be used to place an estimated value on a business. Different methods can yield different results. In fact, even the same method can yield varied results because different appraisers will make different assumptions.

In valuing The Sample Company, our EZValuation used a modified version of the classic excess earnings method of valuation. We know from experience that this method offers a good estimate of value for small businesses.

In its simplest form, the method for excess earnings method of valuation makes use of the following items:

A. Fair market value of the assets owned by the business less any debts owed by the business

B. REAL income being earned by the owner(s) of the business (including items such as excess salary, profit, dividends, and business paid expenses that are not essential to business operations).

C. Costs associated with the money tied-up in owning the business (Opportunity Cost)

D. An *earnings multiplier*

The methods used for calculating the real owner income and for the appropriate earnings multiplier are detailed within the report.

This method, when used properly, is able to predict the range of prices at which a business is likely to be sold

A. Fair market value of the assets owned by the business

In valuing a company, we must determine exactly what is being valued, or, more precisely, what is and what is not included in the valuation.

We have modeled this valuation as if the company was being sold; and we have taken account of those items that are typically included in the sale of a small to medium size business. In such a transaction, all the assets of the company are included in the sale, except for cash; also, a buyer takes over the accounts payable, but does not take over any long-term liabilities.

EZValuation makes adjustments to the value of the plant and equipment. The plant and equipment shown on the balance sheet are normally depreciated according to the IRS permitted formulas. Our valuation program, however, uses the estimated value that you have provided. Appendix II represents the balance sheet of the underlying assets and liabilities of the company being valued.

In the case of The Sample Company, the calculated fair market value of the assets being transferred is estimated at $31,745. See the balance sheet as calculated in Appendix II.

B. "Excess Earnings" being earned by the business owner(s)

To arrive at the Income being earned by the owner(s) of the business, we used net income as you entered it, and add to it the following items

-Depreciation *
-Amortization
-Charitable contributions
-Interest Expense
-Owners salary and benefits **

and we deduct from it the following items:

-Interest Income
-Annual cost of salary to replace the owner(s) (estimated fair market salary for the owners)

According to the information you entered, total owner salary is:

$104,000

And the fair market salary would be

$75,000

Therefore the "excess salary" added back to the excess earnings is

$29,000

Excess Earnings

Based upon the above, our program computes the excess earning of The Sample Company to be $245,717. The details for this excess earning computation are included in Appendix I. The ways in which this value was used and modified are explained in the balance of this report.

* A note regarding depreciation

Financial statements are typically prepared using an accelerated depreciation schedule as allowed by IRS rules. That is, fixed assets are depreciated more quickly for tax and income reporting purposes than their actual decrease in market value. In addition, small businesses are allowed to depreciate some assets in the year they are purchased, regardless of their anticipated longevity.

** A note regarding owners salary:

As the owner of your company, you can set your own salary, providing, of course, there is enough money available to meet that salary. In valuing your business, we used your estimate as to how much it might cost to hire someone to replace the owner as a manager of your company (or we made that estimate if you didn't provide your own estimate). Your salary, of course, is an expense for your company and needs to be considered as an expense whether it is being paid to the owner or to a non-owner. Rather than use your actual salary, we adjust salary expense up or down based on the answer you gave us and our estimated market rate salary for a business of your size. For example, if your salary is $10,000 more than estimated market rate for the work you are doing, we will add $10,000 back to earnings for the company. Likewise, if your salary is $10,000 less than market rate, we will, for valuation purposes, decrease earning by $10,000.

C. Opportunity Cost

The excess earnings method of valuation takes into account the fact that a buyer will have to tie up some money in the business being bought. A buyer may purchase the firm with his or her own cash, with borrowed money, or with some combination of the two. In the current lending market, borrowing costs for small business acquisition are about 7.25%. If a buyer uses his or her own money, an opportunity cost for the money must be considered. That is, the same money can be put into any number of alternative investments and earn a return in the form of interest, dividends, or both.

To put the cost of money on a level playing field, we use a value that disregards whether it is obtained on a borrowed or opportunity cost basis. In either case the interest rate is applied to the amount of money that needs to be tied up in working capital on a continuous basis. The cost of money that we use to calculate opportunity cost is the current prime rate plus 4 points.

Balance Sheet Net Worth	$31,745
Interest Rate	7.25 %
Opportunity Cost	$2,302

D. Earnings Multiplier

Ultimately, an investor's return on a business acquisition hinges on the future performance of that company. While there are several factors that an investor will consider when evaluating a small company for acquisition, one of the best indicators an investor has on the future performance of a company is its past performance. The excess earnings method uses the most recent annual excess earnings of a company and applies a multiplier to those excess earnings. The multiplier is made up of several factors as noted below.

The valuation factors and its estimated multiple that EZValuation considered for The Sample Company are:

-Type of business

-Business longevity

-Competitive environment

-Customer concentration

-Vendor concentration

-Geographic location

-Profitability trend

-Revenue trend

After weighing the factors above, EZValuation assigned a multiple of 3.5 to The Sample Company.

E. Excess Earnings of The Sample Company

The excess earnings value simply equals:

excess earnings value
X earnings multiplier

In the case of The Sample Company:

$245,717
X 3.5

= $860,011

F. Final Step

Add *excess earnings value* plus *net asset value*.

The final step in calculating a value for The Sample Company is simply to add the excess earnings value (recast excess earnings * multiplier as explained above) to the actual net asset value being transferred as part of the business sale or on the date for which the actual valuation is calculated if it is not being done for sale purposes. The net asset value is simply the fair market value of all assets being transferred minus the value of the liabilities that the buyer is assuming.

The value of The Sample Company based on the above is:

$860,011

+ 31,745

$891,756

Valuation is not an exact number. In the best of circumstances it is a range. In our opinion, the fair market value of The Sample Company based on the explanation and calculations shown in this report is in the range of $847,200 to $936,300.

Important: This valuation assumes a balance sheet net worth (assets minus liabilities) being transferred of approximately $31,745.

The actual balance sheet can and almost definitely will be different upon the closing of a sale. This needs to be accounted for in the final valuation and acquisition price. That is, if the actual balance sheet at closing varies up or down from the net worth of the balance sheet in Appendix II, the actual acquisition price needs to be adjusted up or down accordingly.

The following Appendices detail the assumptions and calculations we made to arrive at this valuation range.

Appendix I - Recast Income Statement (P&L)

Appendix II - Recast Balance Sheet

Appendix I. Calculation of Excess Earnings

This is the recast (and summarized) income statement that EZValuation used to compute owner's excess earnings for The Sample Company

Sales	$1,000,000
Expenses	$790,000

Net Income	$210,000
Add Backs:	
Depreciation	$899
Amortization	$0
Charitable Contributions	$340
Compensation	$104,000
Interest Expense	$780
Other Non-Essential Expenses	$7,000

Total Add Backs	$113,019
Deduct From Earnings:	
Interest Income	$0
Fair market owner compensation	$75,000
Opportunity Cost	$2,302

Total Deduct from Earnings	$77,302
Adjusted Excess Earnings	$245,717

Appendix II. Adjusted Balance Sheet

This appendix includes the adjusted balance sheet used to calculate opportunity cost. It is based upon fair market value of tangible assets and is designed to approximate the actual net worth that will be transferred should a sale take place. Of course actual balance sheet will likely be different at time of sale. If the difference is significant, the company valuation should be adjusted accordingly.

Assets:		
	Accounts Receivable	$11,000
	Inventory	$4,000
	Other Current Assest	$2,345
	Estimated Value of Plant and Equipment	$20,000

	Total Assets	$37,345
Liabilities:		
	Accounts Payable	$1,200
	Other Short Term Liabilities	$1,400
	Long Term Liabilities	$3,000

	Total Liabilities	$5,600
Tangible Net Worth:		$31,745