AMERICAN
BUSINESS
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Certified Business Valuations and Machinery / Equipment Appraisals

Valuation of:

ABC Accounting Professionals, Inc.

Date of Valuation: December 31, 20XX

Report Date: February 28, 20XX

Independent Member of the
AMERICAN BUSINESS APPRASIERS
NATIONAL NETWORK

Offices in Principal U.S. Cities

AMERICAN BUSINESS APPRAISERS™

Certified Business Valuations and Machinery / Equipment Appraisals

Based upon the information contained in this report using the valuation approaches and methods, which are subject to the assumptions and limiting conditions described in this report dated February 28, 20XX, the fair market value of a 100% interest holder, in a business known as ABC Accounting Professionals, Inc., as of December 31, 20XX, is best expressed as;

$ 337,000.00
(Three Hundred Thirty Seven Thousand Dollars)

APPRAISERS' CERTIFICATION

- The statement of facts, opinions and conclusions expressed are correct to the best of the appraisers' knowledge and belief.
- The report analysis, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are the appraisers' personal, unbiased analysis, opinions and conclusions.
- The appraisers have no present or prospective interest in the property that is the

The reader is reminded all useful information has been changed. This is a sample report to give you an idea of our final work product (report). The figures have been distorted, as well as other financial information contained this sample report.

- This appraisal has been prepared and this report issued pursuant to the Business Appraisal Standards of the Institute of Business Appraisers and USPAP.

As indicated above, our report and conclusions are attached hereto and must be attached to this transmittal letter as an integral part of it. Authorized reports will carry the appraisers' original signature in blue ink. Copies, which do not have the appraisers' signature in blue ink, are unauthorized and incomplete.

Appraiser One, CBA, CMEA, ASA
Principle, American Business Appraisers, LLC

Appraiser Two, AIBA, CMEA, ABAR
Principle, American Business Appraisers, LLC

Executive Summary

The value established is for the "business enterprise value" *(as if debt free)* for the purpose of obtaining financing. This is a summery limited appraisal report and is designed to provide only essential information with limited discussion and omitting certain procedures that require additional time.

The opinion of value is restricted to ABC Bank, Eric Bell and the Small Business Administration (SBA) in its determination whether or not to provide financing to Eric Bell *(the buyer)* to acquire a 100% interest in ABC Accounting Professionals, Inc*., hereafter referred to as* the "Company" or "Subject". This report and value results have been prepared solely for this use and benefit of ABC Bank and the Small Business Administration.

The reader is advised that this valuation report is heavily dependent upon information provided to the appraisers. The appraisers have been assigned to prepare this opinion of value report on the basis of including information provided by the client regarding certain assets of the Company. This report is dependent upon the information provided. A material change in critical information relied upon in this report would be cause for a reassessment in order to determine the effect, if any, on the appraisers' conclusion of value.

Based upon the information contained in this report the following table illustrates our final opinion of value for ABC Accounting Professionals, Inc.

Summary of Indicated Values

Method	Indicated Value	Weighting	Weighted Value
Adjusted Asset Value Method	$ 18,491	-	$ -
Single Period Capitalization Method	$ 362,433	60%	$ 217,460
Direct Market Data Method - Revenues	$ 366,696	20%	$ 73,339
Direct Market Data Method - Earnings	$ 229,382	20%	$ 45,876
Initial Indication of Fair Market Value		100%	$ 336,676
FMV of a 100% "Invested Capital" Interest, on a Closely Held Basis (rounded)			$ 337,000

The analysis in this valuation report has largely focused on the hypothetical willing buyer of ABC Accounting Professionals, Inc., except to the extent that market-derived data reflects prices paid between buyer and seller. Neither buyer nor seller is *particular* under the definition of fair market value, but rather *typical* of the market for 100% interest in the Company. The evidence clearly demonstrates why a willing buyer would pay the aforementioned expressed value to acquire AZ Accounting &Tax Professionals, Inc., based upon the outlook for the economy, industry and potential financial gains.

The reasoning applies similarly to the willing seller. Conditions are speculative about the future operating performance of the Company. However, based upon historical financial information provided and what others in the market place deem reasonable for a return on investment – the aforementioned expressed value is desirable from a wiling seller's perspective. While every seller wishes to maximize the amount of money they receive, the reality is, the longer a business has been exposed in the marketplace, selling prices decline. The aforementioned value is based upon the business being place on the market for a *normal length of time* to realize a transaction between a hypothetical buyer and seller as stated by the fair market value definition.

Table of Contents

1 Scope of the Assignment ... 6
1.1 Scope of Work Rule ... 6
1.2 Scope of Work Limitations ... 6
1.3 Subject of the Appraisal ... 6
1.4 Confidentiality and Privacy ... 6
1.5 Restricted Use of the Appraisal ... 7
1.6 Nature and Purpose (Use) of the Appraisal ... 7
1.7 Definition of the Standard of Value ... 7
1.8 Effective Date of the Valuation (Appraisal Date) ... 8
1.9 Principal Sources of Information ... 8
1.10 Assumptions & Limiting Conditions ... 9

2 Analysis of the Organization ... 11
2.1 General Business Information ... 11
2.2 Location ... 11
2.3 Management ... 11
2.4 Employees ... 12
2.5 Product and Service Lines ... 12
2.6 Competition ... 12
2.7 Sales and Marketing ... 13
2.8 Barriers to Entry ... 13
2.9 Historical Financial Performance of Subject ... 13
2.9.1 Historical Balance Sheet ... 13
2.9.2 Historical Income Statement ... 15
2.9.3 Summary of Company Financial Performance ... 16
2.10 Company Future Expectations ... 17

3 Economic Conditions ... 17
3.1 National Economy ... 17
3.1.1 Overview of the National Economy ... 18
3.1.1 Economic Outlook ... 18
3.2 Overview of the State Economy ... 20
3.2.1 Summary of State Economy ... 21
3.3 Summary of Economic Performance ... 22

4 Overview of the Industry ... 22
4.1 Industry Snapshot ... 22
4.1.1 Products, Operations & Technology ... 23
4.1.2 Sales & Marketing ... 24
4.1.3 Finance & Regulations ... 24
4.1.4 Business Challenges ... 25
4.1.5 Industry Forecast ... 26
4.2 Summary of Industry Performance ... 26

5 Financial Analysis of the Company 26
5.1 Ratio Analysis of Income Statement 27
5.2 Ratio Analysis of Balance Sheet 27
5.3 Summary of Financial Performance 28

6 Valuation of the Company 29
6.1 Methods Available to Estimate FMV 29
6.2 Premises of Value 29
6.3 Selection of Appropriate Rate of Return 30
6.4 Valuing Equity or Invested Capital 32
6.5 Valuation of the Subject 33
6.5.1 Adjusted Asset Value Method - Going Concern 33
6.6 Income Approach Methods 35
6.6.1 Selecting a Pre-Tax earnings Stream 35
6.6.2 Single Period Capitalization Method 36
6.7 Market Approach Methods 37
6.7.1 Search Criteria (Private Company) 37
6.7.2 Application of the Direct Market Data Method 38

7 Adjustments to the Indication of Values 40
7.1 Adjustments for Control & Marketability 40

8 Reconciliation of the Valuation Estimates 40

9 Appendices A - Professional Qualifications 42

1 Scope of the Assignment

1.1 Scope of Work Rule

Scope of work rule[1] states an appraiser must; (i) identify the problem to be solved; (ii) determine and perform the scope of work necessary to develop credible assignment results and (iii) disclose the scope of work in the report. This section of the valuation report discusses in detail the aforementioned.

1.2 Scope of Work Limitations

The scope of this appraisal assignment is limited to the development of a good-faith estimate or opinion of value based on the standard of value and assumptions set forth herein. The scope of this appraisal precludes forensic accounting, and is no more than a reasonable inquiry into the quality of management. American Business Appraisers has relied on management's representations, without independent investigation or corroboration, and has no reason not to believe they fairly and accurately represent the financial status and activities of the Company.

Neither this engagement nor this report can be relied upon to disclose any misrepresentation, fraud, deviations from Generally Accepted Accounting Principles (GAAP), or other errors or irregularities. American Business Appraisers assumes no responsibility for legal or tax matters relative to its findings. The opinion of value is stated without reference to applicable legal or tax matters. The Company is considered in full compliance with all applicable local, state and federal laws, unless otherwise stated in this report.

1.3 Subject of the Appraisal

The subject of this appraisal is to determine the enterprise value *(as if debt free)* of a 100% interest in a business known as ABC Accounting Professionals, Inc.

1.4 Confidentiality and Privacy

American Business Appraisers will maintain the conformity and privacy of the Company's information obtained in the course of this valuation assignment in compliance with the Institute of Business Appraisers' Standards, American Society of Appraisers and Title V of Gramm, Leach, Bliley Financial Modernization Act.

Information about the Company's business model will not be sold to others. American Business Appraisers' objectives are to protect the security and any confidential information about the Company's personnel and business related activities. Information is shared outside of this assignment only when necessary to administer products or services provided when we have permission, or when required or permitted by law or the courts.

[1] Source: Uniform Standards of Professional Appraisal Practice (USPAP)

1.5 Restricted Use of the Appraisal

The use and distribution of this appraisal report is restricted to: ABC Bank; Eric Bell *(buyer)* and the Small Business Administration (SBA) with regard to the possible purchase of ABC Accounting Professionals, Inc. The use of this report and the information contained in it is restricted to the use set forth and if used for any other application is invalid.

1.6 Nature and Purpose (Use) of the Appraisal

The nature and purpose (use) of the appraisal assignment is to develop an independent opinion of the fair market value of a 100% interest in the Company, an operating company, and is for the sole use of ABC Bank and the SBA, to support SBA financing arrangements for the purchase of ABC Accounting Professionals, Inc. Any other use is invalid and may be misleading.

1.7 Definition of the Standard of Value

The standard of value for this assignment is "fair market value"[2] and is defined as; the price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm's length in an open and unrestricted market, when neither is under any compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.

The fair market value standard includes the following assumptions:

- The equivalent of cash is being paid for 100% of the Subject's shares as of the valuation date.
- The interest being valued has been placed for sale on the open market for a reasonable amount of time for a sufficient number of potential buyers to be aware of its existence.
- The hypothetical buyer will not bring synergistic benefits to the seller's interest.
- The seller is not forced to sell (i.e., quick sale).
- The business will continue as a going concern and not be liquidated.
- The hypothetical buyer is assumed to provide financial and management skills significantly equivalent to those of the seller.

The buyer under fair market value is considered to be a financial buyer. This excludes a buyer who because of other business activities brings some value-added benefits to the Company, thus enhancing the Company, and the buyer's other similar business activities. This also excludes buyers who are already shareholders or relatives, who might be willing to acquire the interest at an artificially greater or lower price due to considerations not typical of the arm's-length financial buyer.

The seller in the fair market value appraisal process is also hypothetical and is, therefore, prudent with knowledge of the relevant facts, *(i.e., the market influences on the value, risks specific to the business, specific factors that influence value and investment characteristics appropriate to the Company)*. In the appraisal process, as it relates to the hypothetical status of

[2] Source: International Glossary of Business Valuation Terms

the seller and buyer, the appraiser is a substitute for both parties and the independence of the appraiser is essential in determining the fair market value of the Company. The appraisers do not have a present or contemplated interest in the Company and has no personal bias with respect to the parties involved.

1.8 Effective Date of the Valuation (Appraisal Date)

The appraisal date *(as of date)*, which the appraisers' opinion of value applies, is December 31, 20XX. The appraisal date was selected because it is at the end of an accounting period, which is important from the standpoint of availability of various kinds of information on which the appraisal is based.

1.9 Principal Sources of Information

While the appraisers have been diligent in preparing this valuation, it is important to all concerned that the appraisers have relied heavily upon information given by others. For those persons who may review this valuation now and in the future, the appraisers have endeavored to clearly identify the principal sources and documents used in this assignment;

- Internally prepared Financial Statements ending December 31, 20XX.
- Business Purchase Agreement – dated 1-7-11.
- Buyer's business plan – submitted by Eric Bell.
- Federal Tax Returns for 20XX, 20XX and 20XX.
- The questionnaire completed by management of the Company.
- Research conducted with respect to the Subject's business and industry.
- Economic and industry studies, statistics and forecasts as mentioned in this report.
- Other sources which are footnoted throughout this report.

Information for this report has been obtained from management, public information and other sources considered reliable and is of the type reasonably relied upon by experts in the field of business valuation.

In all cases, the appraisers have relied upon the referenced information without independent verification. This report is, therefore, dependent upon the information provided. A material change in critical information relied upon in this report would be cause for a reassessment in order to determine the effect, if any, on the appraisers' conclusion of value.

1.10 Assumptions & Limiting Conditions

The appraisal process requires assumptions and must be limited by certain conditions. Although every effort is made to refine these assumptions and conditions, modifications may have a material impact on the final opinion of value. This appraisal is therefore subject to the following:

1. The valuation process is not a finding of fact, but is a good faith finding of opinion. The opinion is supported by a reasonable amount of research and analysis, but is ultimately only the appraisers' personal, unbiased professional judgment.

2. This appraisal report is designed to provide an opinion of value. It is not an accounting report and should not be relied upon to disclose hidden assets or to verify financial reporting.

3. The valuation report is based upon facts and conditions existing as of the date of valuation. The appraisers have not considered subsequent events. Unless specifically requested by the client and agreed upon by us, we have no obligation to update this valuation report for such events and conditions.

4. The estimate of value included in this report assumes the existing business will maintain the character and integrity of the business through any sale, reorganization or reduction of any owner's/manager's participation in the existing activities of the business.

5. The appraisers relied upon representations made by the Company regarding the background and history of the business. Management has acknowledged information provided was complete and accurate. However, the appraisers assume no responsibility for the accuracy of the information provided to American Business Appraisers by the Company's representatives.

6. The various estimates of value presented in this report apply to this valuation only and may not be used out of the context presented. This valuation is valid only for the purpose specified.

7. The appraisers assume no responsibility for the legal description or matters including legal or title considerations. Title to the Subject's assets, properties, or business interests is assumed to be good and marketable unless otherwise stated.

8. Subject's assets, properties, or business interests are appraised free and clear of any or all liens or encumbrances unless otherwise stated.

9. This report is based on financial information provided by management of the Company and other third parties. The appraisers have not audited the underlying financial data. Accordingly, the appraisers take no responsibility for the underlying financial data presented in this report and users of this valuation report should be aware that valuations may be based on future earnings potential that may or may not materialize. Therefore, the actual results achieved may vary from the information utilized in this valuation and the variations may be material.

10. American Business Appraisers accepted the financial information of the Company without testing its accuracy. The financial information consists of internally prepared income statements and balance sheet. The accuracy of the financial information is the sole responsibility of the Company's management.

11. The appraisers are not aware of any information that was knowingly withheld. However, we make no guarantee that the Company or others have disclosed all relevant information to the appraisers. The information furnished by others is believed to be reliable. However, American Business Appraisers issues no warranty or other form of assurance regarding its accuracy.

12. The appraisers assume there are no hidden or unapparent conditions regarding the Subject's assets, properties, or business interests. The Subject is assumed to be in full compliance with all applicable federal, state, and local regulations and laws unless the lack of compliance is stated, defined, and considered in the appraisal report.

13. American Business Appraisers assume that all required licenses, certificates of occupancy, consents, or legislative or administrative authority from any local, state, or national government, or private entity or organization have been or can be obtained, renewed or reviewed for any use on which the opinion contained in this report is based.

14. Unless otherwise stated in this report, the appraisers did not observe and have no knowledge of, the existence of hazardous materials with regard to the Subject's assets, properties, or business interests. However, the appraisers are not qualified to detect such substances and accept no responsibility for such conditions or for any expertise required to discover them.

15. The appraisers, nor American Business Appraisers are a guarantor of value. Valuations of closely held companies are an imprecise science, with value being a question of fact and reasonable people can differ in their estimates of value. The appraisers, however, used conceptually sound and commonly accepted methods and procedures of valuation theory in determining the estimate of value included in this report.

16. Possession of this report, or a copy thereof, does not carry with it the right of publication of all or part of it, nor may it be used for any purpose without our previous written consent, and in any event only with proper authorization. Authorized copies of this report will be signed in blue ink by the appraisers of American Business Appraisers. Unsigned copies, or copies not signed in blue ink, should be considered to be incomplete.

17. The terms of this engagement do not require the appraisers to give testimony in court, be in attendance during any hearings or depositions, or appear at any Internal Revenue Service examination, with reference to the Company being valued, unless previous arrangements have been made.

18. Neither all nor any part of the contents of this report shall be disseminated to the public through advertising, public relations, news, sales, or other media without our prior written consent and approval.

19. American Business Appraisers are not licensed attorneys. Any comments, discussions, or analyses of Company documents or any other federal or state law, provision, or regulation are not to be considered legal opinions. The appraisers' focus is to consider all relevant factors that might impact value and estimate the extent of the impact of such factors.

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

21. The analyses, conclusions and opinions are based on information and data provided as of the date of valuation and could change, based on obtaining additional information and having additional time to analyze such additional data. The appraisers, therefore, reserve the right to amend this report based on additional analysis and data. Further, in the case of testimony, the appraisers reserve the right to offer rebuttal testimony.

22. To ensure compliance with requirements imposed by the IRS, the appraisers inform you that any U.S. federal tax advice contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of; (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.

2 Analysis of the Organization

This section of the valuation report informs the reader about pertinent information relating to the Company's activities and financial status as recorded on the tax returns and/or income statements and balance sheets.

2.1 General Business Information

The Company was formed and started by Sam Holder in January of 20XX, with the concept of servicing the public and private businesses with tax and accounting services.

2.2 Location

The Company is located at XXXX Baseline Rd, Mesa Arizona. This is a leased facility with a current monthly rent of $3,200 for 2,200 square feet. The lease is assignable, terms are unknown to the seller – current lease expires August 20XX.

2.3 Management

The Company is managed by Sam Holder, the sole owner. He works on average approximately 50 hours per week throughout the year. His time is allocated as follows: (i) tax prep, accounting 75%, management/human resources 20% and the balance collections/billing.

2.4 Employees

According to the owner, the Company does not employ any relatives or compensates anyone who does not actively work in the business.

Exhibit 2-1

Employee Breakdown

Name	Position	Date Hired	Hrs/Wk	Weekly Pay	Benefits
Name One	Accountant	Aug-08	40	760	None
Name Two	Admin Assist	Jun-10	30	390	None
Name Three	Accountant	Nov-10	40	720	None

2.5 Product and Service Lines

This is an accounting and tax preparation firm. Business owners and individuals use the Company's services. According to the Owner, the busiest months are January – May which account for approximately 60% of sales earned. The slowest months are November – December, representing approximately 15% of generated revenues. According to information supplied no single business or individual, accounts for more than five-percent of total revenues earned in the past year. Exhibit 2-1 presents an approximate revenue breakdown[3].

Exhibit 2-2

Revenue Breakdown

Product/Services	% of Sales
Tax Preparation	47%
Accounting	23%
Consulting, QuickBooks, etc	11%
Payroll Services	10%
Audit Representation	5%
Tax Planning	4%
Total	100%

2.6 Competition

The Company did not list any competitors when asked, however the industry is highly fragmented and competition between industry participants is high. The appraisers checked a data source called ReferenceUSA and defined a radius search based on the Company's location.

Our first search included any business operating under SIC 8721 *(same SIC as the Company)* that operate within a 30 mile radius. Approximately 975 businesses were identified by ReferenceUSA. We narrowed our search to a five mile radius which showed slightly fewer than 100 businesses identified as being competitors.

[3] Source: Questionnaire completed by the Owner.

2.7 Sales and Marketing

According to the Owner, nearly 80 percent of the Company revenues are from repeat clients, and 20% from referrals. The Company's marketing efforts are primarily due to the owner's efforts. Most clients stay with the Company for more than five years[4].

2.8 Barriers to Entry

An important consideration in valuing an accounting business is the degree of difficulty someone would experience trying to enter the Company's market niche. If it were extremely easy to enter the marketplace there would be little reason to purchase an existing business, other than to pay for the assets.

But if it is difficult to obtain a client base, reputation, and existing market share held by the Company, along with their expertise, all of these factors become more valuable. Individuals attempting to enter this type of profession at the current level achieved by the Company would likely experience the following barriers or challenges:

- Client Base: An established marketing plan, client and referral base is necessary to ensure ongoing business, particularly in times of economic decline.
- Trained & Assembled Work Force: The Company has an established workforce, trained in the use and application of its current assets.
- Trade Name: The business' name and location is categorized as marketing-related intangible assets, which evolves over time by recognition of the purchaser of goods or services from the Company.

2.9 Historical Financial Performance of Subject

Detailed income statements and balance sheets were relied upon for this appraisal, and are summarized in this section of the report. The actual financial information provided to us is contained in the appraisers' work file. The Company provided un-audited financial information for calendar years ending December 31, 20XX thru 20XX.

Generally the analysis of the Company's financial statements, the income statement and balance sheet, are performed in order to assist in measuring trends, and identifying the assets and liabilities of the Company.

2.9.1 Historical Balance Sheet

The balance sheet indicates the financial status of a business as of a certain date. Year-end balance sheets for December 31, 20XX thru 20XX were used to compile this information.

High points of the analysis in Exhibit 2-3 are:

- The Company does not record any receivables or inventory amounts.

[4] Source: Business Questionnaire completed by Management

- Total FF&E remained the same for 20XX and 20XX calendar year. Roughly $7k was added in 20XX, and another $4k was added in 20XX. The general makeup of FF&E is presented in the following table *(recorded at cost)*.

Computer	26,845
Office Equipment	5,805
Website	2,046
Lease Improv	14,400
Total FF&E Assets	49,096

- Liabilities will not transfer under the current business purchase agreement.

Exhibit 2-3

Historical Internal Analysis of Balance Sheet

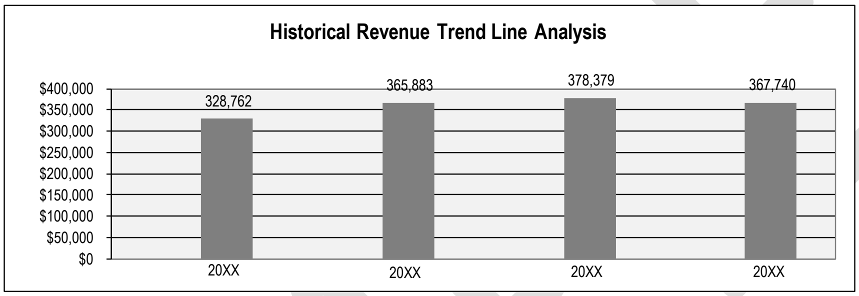
Source	*Tax Return*	*Tax Return*	*Tax Return*	*Internal*	*Common-size as a % of Total Assets*			
As of December 31,	**20XX**	**20XX**	**20XX**	**20XX**	**20XX**	**20XX**	**20XX**	**20XX**
Months of Operations	12	12	12	12	12	12	12	12
Assets								
Cash	5,264	6	2,463	3,798	10.8	0.0	5.1	16.4
Receivables	-	-	-	-	-	-	-	-
Inventory	-	-	-	-	-	-	-	-
Other	-	17,812	-	-	-	50.3	-	-
Total Current Assets	5,264	17,818	2,463	3,798	10.8	50.3	5.1	16.4
Total FF&E Assets	38,932	38,522	45,157	49,096	79.8	108.7	94.2	211.9
Total Accum Depreciation	(25,252)	(26,210)	(34,076)	(34,076)	(51.8)	(73.9)	(71.1)	(147.1)
Net FF&E Assets	13,680	12,312	11,081	15,020	28.1	34.7	23.1	64.8
Intangible Assets (net)	-	-	-	-	-	-	-	-
Other	29,815	5,314	34,375	4,348	61.1	15.0	71.7	18.8
Total Assets	48,759	35,444	47,919	23,166	100.0	100.0	100.0	100.0
Liabilities								
Short Term Debt	13,595	19,976	31,001	300	27.9	56.4	64.7	1.3
Payables	-	-	-	-	-	-	-	-
Other	-	-	-	10,307	-	-	-	44.5
Total Current Liabilities	13,595	19,976	31,001	10,607	27.9	56.4	64.7	45.8
Long Term Debt	23,509	14,468	6,681	3,643	48.2	40.8	13.9	15.7
Loans from Shareholders	-	-	-	-	-	-	-	-
Total Long Term Liabilities	23,509	14,468	6,681	3,643	48.2	40.8	13.9	15.7
Total Liabilities	37,104	34,444	37,682	14,250	76.1	97.2	78.6	61.5
Stockholder's Equity								
Capital Stock	1,000	1,000	1,000	1,000	2.1	2.8	2.1	4.3
Dividend Draw	-			(85,894)	-	-	-	(370.8)
Retained Earnings	10,655	-	9,237	9,237	21.9	-	19.3	39.9
Other	-	-	-	84,573	-	-	-	365.1
Total Equity/Capital (Net Worth)	11,655	1,000	10,237	8,916	23.9	2.8	21.4	38.5
Liabilities & Shareholder's Equity	48,759	35,444	47,919	23,166	100.0	100.0	100.0	100.0

2.9.2 Historical Income Statement

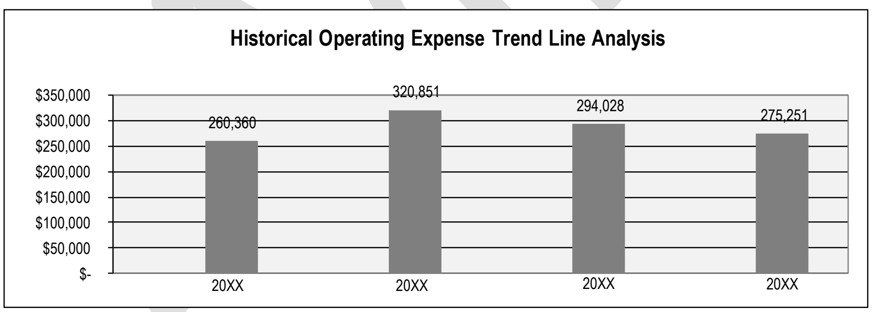
The income statement shows the financial activities of a business over a specific time period. This information is useful in determining costs associated with revenues and operating line item expenses of the Company. Federal tax return information was used for year-end 20XX, 20XX and 20XX. Internally prepared income statement information was used for year-end 20XX in their unadjusted form. (*See Exhibit 2-4*)

High points of the income statement analysis are:

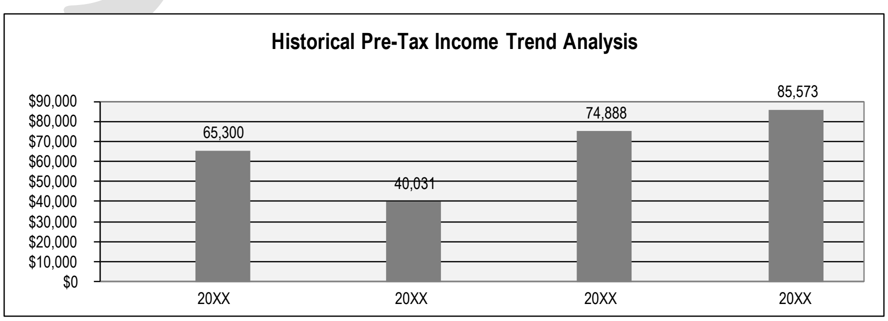
- Gross revenues (sales) have remained relatively flat over the past three years. (*See table below*)



- Historical operating expenses (on an unadjusted basis) have followed a similar trend line as shown in the revenue trend analysis. (*See table below*)



- Pre-tax income fluctuates over the four year period. The most significant factor is pre-tax income and owner's compensation levels expensed. By adding both, we see a smoothing trend; '0XX-$98k; '0XX-$125k; '0XX-$105k and '0XX-$106k.



- Selected line item expenses (as a percentage of revenues) shows owner's compensation fluctuating significantly over the four-year period. Travel/Meals/Entertainment percentage jumps in 20XX, however this may be due to how this line item is accounted or, as the internally generated income statement differs versus the prior years tax returns.

Exhibit 2-4

Historical Internal Analysis of Income Statement

Source	*Tax Return*	*Tax Return*	*Tax Return*	*Internal*	*Common-size as a % of Gross Revenues*			
As of December 31,	**20XX**	**20XX**	**20XX**	**20XX**	**20XX**	**20XX**	**20XX**	**20XX**
Months of Operations	12	12	12	12	12	12	12	12
Gross Revenues	328,762	365,883	378,379	367,740	100.0	101.0	103.0	104.0
Cost of Goods	-	-	-	-	-	-	-	-
Gross Profit	328,762	365,883	378,379	367,740	100.0	100.0	100.0	100.0
Operating Expenses	(260,360)	(320,851)	(294,028)	(275,251)	(79.2)	(87.7)	(77.7)	(74.8)
Operating Income EBIT	68,402	45,032	84,351	92,489	20.8	12.3	22.3	25.2
Interest Income (Expenses)	(3,102)	(5,001)	(9,463)	(6,916)	(0.9)	(1.4)	(2.5)	(1.9)
Pre-Tax Income	65,300	40,031	74,888	85,573	19.9	10.9	19.8	23.3
Selected Line Items								
Advertising	1,163	873	-	800	0.4	0.2	-	0.2
Bad Debts	-	-	-	-	-	-	-	-
Owner Compensation	36,000	85,000	30,000	21,000	11.0	23.2	7.9	5.7
Pension, Profit Sharing, Annuity	4,057	3,064	1,771	3,820	1.2	0.8	0.5	1.0
Rent	33,420	34,200	32,761	36,080	10.2	9.3	8.7	9.8
Repairs/Maintenance	-	-	1,872	710	-	-	0.5	0.2
Total Non-Cash Charges	720	1,368	1,231	-	0.2	0.4	0.3	-
Payroll	76,850	109,876	108,693	107,318	23.4	30.0	28.7	29.2
Travel/Meals/Entertainment	10,434	4,911	6,531	20,632	3.2	1.3	1.7	5.6
Insurance	1,075	1,164	1,219	1,374	0.3	0.3	0.3	0.4
Utilities	3,743	3,627	3,290	3,597	1.1	1.0	0.9	1.0
Telephone	7,566	8,571	8,715	8,742	2.3	2.3	2.3	2.4
Taxes and License	10,159	11,270	11,957	10,541	3.1	3.1	3.2	2.9
Gifts/Promotion/Marketing	2,261	2,095	3,859	3,713	0.7	0.6	1.0	1.0
Office Expenses	11,044	12,865	10,873	12,013	3.4	3.5	2.9	3.3
Education, Publication, Software	9,287	6,346	6,622	13,413	2.8	1.7	1.8	3.6
Legal & Professional Fees	443		-	400	0.1	-	-	0.1
NSTP Costs	-	-	20,154	-	-	-	5.3	-
Vehicle Gas/Oil/Repairs	6,708	4,843	12,133	-	2.0	1.3	3.2	-
Misc	45,430	30,778	32,347	31,098	13.8	8.4	8.5	8.5
Total Operating Expenses	260,360	320,851	294,028	275,251	79.2	87.7	77.7	74.8

2.9.3 Summary of Company Financial Performance

The appraisers' summary risk assessment of the historical (unadjusted) financial performance of the Company is presented in the following table. The total risk tolerance is examined to identify the Company's value drivers or risk factors.

The five areas examined are sales, profitability, financing, volatility, and the likelihood of bankruptcy.

Company Specific Risk Analysis - Company					
	Company	*Economy*	*Industry*	*Financial*	*Risk Tolerance*
Growth in Sales Risk	Increase				
Profit Margin Risks	Increase				
Borrowing Costs Risk	Neutral				
Business Risk (volatility)	Increase				
Financial Risk (bankruptcy)	Decrease				

The appraisers reviewed the Company's historical financial information to determine if adjustments were required to the operating performance to create normalized financial statements. Normalized financial statements are used to convert accounting figures into economic figures for valuation purposes.

Depending on the purpose, management can either increase earnings by minimizing operating expenses or decrease earnings by increasing operating expense. The same can be said for assets and liabilities recorded at their booked value. The implications gleaned from the historical financial statements indicate certain adjustments are warranted to present a truer economic picture of the Company. These adjustments will be discussed further in the section titled Valuation of Subject.

2.10 Company Future Expectations

Management feels it has a well-established market position, with a strong client base and excellent industry reputation. Company expectations, provide by Eric Bell , are sales and profitability are projected to increase by 5% annually for the next five years.

3 Economic Conditions

As with any business operating as a going concern, the status of the economy will certainly impact revenues, operations and profitability. This section of the report is used to inform the reader of the economic factors considered relevant and material to the appraisal process and opinion of value conclusion.

Established appraisal theory and regulatory rulings have repeatedly reaffirmed that which is intuitively logical – no business operates in a vacuum. Economic conditions, both national and local, as well as the status of the industry with which the Business is allied, and must be considered in order to gain insight into the economic climate in which the Business has been operating and what holds for the Business' revenues, operations and profitability in the future.

3.1 National Economy

In any business valuation, the general economic outlook, as of the appraisal date, should be considered, since the national economic outlook is often the basis of how investors perceive alternative investment opportunities at any given time. In this analysis, the appraisers have examined the general economic climate that existed at the end of December 20XX.

3.1.1 Overview of the National Economy

The U.S. economy continues to climb out of the worst recession since the Great Depression, but growth remains slow. At its current pace, economic growth is insufficient to provide a substantial downward push to the unemployment rate.

The gross domestic product (GDP), the broadest measure of the U.S. economy, grew at an annual rate of 3.2% in the fourth quarter of 20XX. This came after a revised rate of 2.6% in the third quarter. The fourth quarter GDP was weaker than some expected—a group of 27 economists surveyed by CNNMoney had predicted GDP growth of 3.5%.

Increased consumer spending, particularly on durable goods, was a major driver of the increased GDP pace. Business inventories increased at a slower pace and acted as a drag on the GDP growth rate. Net exports also contributed to growth, but the Economic Policy Institute (EPI) stated "it seems very unlikely that net exports will be a reliable contributor to growth over the next year, especially given the economic weakness of many of the most important export markets for U.S. goods."

The Council of Economic Advisers, an agency within the Executive Office of the President, remains optimistic. The Council took the fourth quarter growth as a further sign that the economy continues to gain momentum as it recovers from the recession. The Council concluded that the trend of economic data over the past several months has been encouraging.

> *"The measures we worked with Congress to pass last month that continue tax cuts for the middle class and extend unemployment insurance are important for strengthening the recovery in 20XX and putting more money in the pockets of American families. The incentives for business investment will further boost the economy. The Administration will continue to focus on actions that the President has recommended to increase growth and job creation, such as providing incentives to encourage businesses to invest and hire here at home, investing in education and infrastructure, and promoting exports abroad."*

3.1.1 Economic Outlook[5]

Consensus Economics, Inc., publisher of *Consensus Forecasts - USA*, forecasts real GDP to increase at a seasonally adjusted annual rate of 2.5% in the first quarter of 20XX, then at a rate of 2.8% in the second quarter. They expect GDP to grow 2.7% in 20XX, 3.3% in 20XX, and 3.4% in 20XX.

In the long term, they report that real GDP will grow by an average annual rate of 2.6% between 20XX and 20XX. Every month, Consensus Economics surveys a panel of 28 prominent U.S. economic and financial forecasters ("the forecasters") for their predictions on a range of variables including future growth, inflation, current account and budget balances, and interest rates. The forecasters polled by Consensus Economics believe unemployment will average 9.6%

[5] *Source: "All of the contents of the economic outlook section of this valuation report are quoted from the Economic Outlook Update™ 4Q 20XX published by Business Valuation Resources, LLC, © 20XX, reprinted with permission. The editors and Business Valuation Resources, LLC, while considering the contents to be accurate as of the date of publication of the Update, take no responsibility for the information contained therein. Relation of this information to this valuation engagement is the sole responsibility of the author of this valuation report."*

in first quarter of 20XX, before averaging 9.5% in the second quarter. They forecast unemployment will average 9.4% for all of 20XX.

According to the forecasters, consumer prices will increase 1.5% in 20XX, 2.0% in 20XX, and 2.1% in 20XX. In the long term, the forecasters report that consumer prices will grow at an average annual rate of 2.3% between 20XX and 20XX. The forecasters project producer prices to increase 1.8% in 20XX. They expect real disposable personal income to grow 1.9% in 20XX.

The forecasters believe interest rates on three-month Treasury bills and 10-year Treasury bonds will rise over the next year. According to the forecasters, the three-month Treasury bill rate will be approximately 0.2% at the end of March 20XX, and then will rise to 0.3% by the end of December 20XX. The yield on the 10-year Treasury bond will be approximately 2.9% at the end of March 20XX, and then will rise to 3.5% by the end of December 20XX.

Nominal pre-tax corporate profits will be 6.7% and 7.5% in 20XX and 20XX, respectively, according to the forecasters. They also believe industrial production will grew 3.9% in 20XX and 4.1% in 20XX.

The 40 participants in *The Livingston Survey* (the "*Survey*") released their newest predictions in December. The participants, who are surveyed by the Federal Reserve Bank of Philadelphia twice a year, project real GDP to grow at an annual rate of 2.5% between 4Q 20XX and 2Q 20XX (down from their previous estimate of 3.0%). They then expect GDP will increase at an annual rate of 2.9% between 2Q 20XX and 4Q 20XX. They believe GDP will grow 2.8% annually over the next 10 years.

The *Survey* also noted that forecasts for the unemployment rate have been revised upward from their previous survey. They expect the unemployment rate to be about 9.4% by June 20XX, up from their previous estimate of 9.1%. They expect unemployment to decrease to 9.2% by December 20XX.

The forecasters in the *Survey* have lowered their predictions for consumer price (CPI) inflation. They expect CPI inflation to rise 1.6% in 20XX, down from the previous estimate of 1.7%. They predict CPI inflation will rise 2.0% in 20XX. The *Survey* expects inflation (as measured by the consumer price index) to average 2.5% over the next 10 years, slightly higher than the forecast of 2.3% estimated in the prior *Survey*. The *Survey* expects producer price (PPI) inflation to increase 1.9% in 20XX—down from the previous estimate of 2.4%—before increasing another 1.9% in 20XX.

The *Survey* predicts the interest rate on three-month Treasury bills to be 0.19% at the end of June 20XX—revised down from their previous estimate of 1.21%. The Livingston forecasters predict that the rate will then rise slightly to 0.35% in December 20XX before rising to 1.63% in December 20XX. The interest rate on 10-year Treasury bonds is predicted to reach 2.93% at the end of June 20XX, down from the previous estimate of 4.28%. According to the *Survey*, it will then rise to 3.26% in December 20XX and to 4.00% in December of 20XX.

The forecasters from the *Survey* have increased their previous projections for future S&P 500 values. They expect the S&P 500 will be around 1,250.0 at the end of June 20XX, before climbing to 1,298.5 by the end of December 20XX. They believe the S&P 500 will end 20XX at 1,350.0.

Consensus Economics expects the price for a barrel of WTI crude oil—which ended the fourth quarter at $91.38—will decrease slightly. The forecasters believe WTI prices will be about $84.8 per barrel at the end of March 20XX and $88.4 per barrel at the end of December 20XX.

The EIA forecasts that a barrel of WTI crude oil will be about $89 at the end of 20XX. The EIA forecasts that the annual average price for motor gasoline will be $3.00 per gallon in 20XX. They also forecast that U.S. residential retail electric prices will grow 0.9% during 20XX.

	HISTORICAL DATA						CONSENSUS FORECASTS**					
	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX-XX
Real GDP*	3.1	2.7	1.9	0.0	-2.6	2.9	2.7	3.3	3.4	3.1	2.9	2.6
Industrial Production*	3.2	2.2	2.7	-3.3	-9.3	5.8	3.9	4.1	3.6	3.4	3.1	2.8
Personal Consumption*	3.4	2.9	2.4	-0.3	-1.2	1.8	2.5	2.7	2.7	2.8	2.7	2.5
Real Business Investment*	6.7	7.9	6.7	0.3	-17.1	5.5	9.3	8.3	7.2	6.1	5.2	4.2
Nominal Pre-Tax Corp. Profits*	16.8	10.5	-6.1	-16.4	-0.4	29.3	6.7	7.5	6.7	6.4	5.4	4.9
Government Spending*	0.3	1.4	1.3	2.8	1.6	1.1	1.1	NA	NA	NA	NA	NA
Consumer Prices*	3.4	2.5	4.1	0.1	2.7	1.5	1.5	2.0	2.1	2.1	2.1	2.3
Unemployment Rate	5.1	4.6	4.6	5.8	9.3	9.6	9.4	NA	NA	NA	NA	NA
Housing Starts (*millions*)	2.068	1.801	1.355	0.906	0.554	0.588	0.690	NA	NA	NA	NA	NA

Source of historical data: U.S. Department of Commerce, U.S. Department of Labor, U.S. Census Bureau and The Federal Reserve Board.
Source of forecasts: Consensus Forecasts - USA, October 11, 20XX and December 6, 20XX.
Real Business Investment is also known as Nonresidential Fixed Investment.

3.2 Overview of the State Economy

Arizona's seasonally adjusted unemployment rate for December remained unchanged at 9.4%. The U.S. unemployment rate declined almost half of a percentage point from 9.8% in November to 9.4% in December. A year ago the U.S. rate was 9.9% and the Arizona rate 9.2% (see Exhibit 3-1). Both the Arizona rate and the U.S. rate have been above 9% for over a year and a half. Arizona's Nonfarm employment gained a modest 0.1% (+3,400 jobs) in December. The previous two Decembers (during the recession) posted losses.

Before the recession ('98-'07) the average rate of gain for December was 0.5%. The Private Sector added 7,000 jobs while Government lost 3,600. Both the Private sector gains and the Government losses were mostly seasonal. The Private sector gains were below historical average for December while losses in Government were above historical average. The majority of losses in Government were in Local Public Education from holiday breaks, but there were also losses in other State and Local Government agencies. Federal Government showed only slight employment gains (+0.4%).

Exhibit 3-1

Arizona & U.S. Economic Indicators

Percentage Jobless Rate (Seasonally Adjusted)

Area	Dec 'XX	Nov 'XX	Dec 'XX
United States	9.4%	9.8%	9.9%
Arizona	9.4%	9.4%	9.2%
Phoenix - Metro	8.4%	8.5%	8.3%

Among the eleven major sectors, Trade, Transportation, and Utilities (TTU) had the largest over-the-month gains, dominated by seasonal hiring in Retail Trade. Of the 7,100 jobs gained in TTU, 4,000 were in Retail Trade. While these gains are better than both Decembers during the recession years, they are not quite up to pre-recession rates. The pre-recession ten-year average ('98 -'07) for TTU was a gain of 8,200 jobs in December. General Merchandise along with Clothing and Accessories stores accounted for most of the retail job gains.

More often than not the Leisure and Hospitality (LH) sector gains jobs in the month of December. LH posted gains in fifteen out of the last twenty Decembers. The 1.1% gain in Leisure and Hospitality last month was better than the average December gain. All industries in LH gained jobs for the month, but Food Services and Drinking Places were responsible for over two thirds of the LH job gains.

Another sector that gained in December was Manufacturing which added 1,400 jobs. The vast majority of manufacturing gains were in Nondurable goods (+1,300). Financial Activities gained 800 with Credit Intermediation and Related Activities adding 600 of the 800 jobs.

Professional and Business Services (PBS) also added 800 jobs. Within PBS, the Professional Scientific and Technical Services industry added 800 while gains and losses in the other industries in PBS offset each other. Educational and Health Services added 300 jobs. An uncharacteristic loss of 400 jobs in Health Care offset some of 700 jobs gained in Educational Services.

The remaining five major sectors all lost jobs in the month of December, with construction posting the most losses (-4,200). The losses were primarily in Building Construction and Specialty Trades. Monthly Construction employment job gains and losses from January through December 20XX have essentially cancelled each other out with a net effect of the sector being flat for the year. Seasonal losses in Local Public Education were responsible for most of the losses in Government, but there were some losses in other State and Local agencies with slight gains in Federal Government employment.

3.2.1 Summary of State Economy

Overall in December 20XX, six major sectors posted job gains and five had losses. Trade, Transportation and Utilities (TTU) had the most gains in December, adding 7,100 jobs. Retail accounted for 56% of the gains in TTU. Most of the gains in Retail were from General Merchandise and Clothing and Accessories stores. Leisure and Hospitality (LH) added 2,800 jobs. LH typically gains jobs in December, posting gains in fifteen out of the last twenty Decembers.

Food Services and Drinking Places were responsible for over two thirds of the LH job gains. Manufacturing added 1,400 jobs, with almost 93% of the gains in Non Durable goods. For more details on each sector and published industries for the state, metro areas, and counties, see the tables starting on page seven. Arizona's employment situation continues to show some signs of gradual improvement.

Over the month, the gains in Total Nonfarm employment for December were less than pre-recession averages, but better than the previous two years. Over the year comparisons indicate Arizona employment improvements are at a pace slightly better than the nation as a whole. The unemployment rate in Arizona remained unchanged from the previous month at 9.4% while the U.S. rate dropped from 9.8% to 9.4 percent.

3.3 Summary of Economic Performance

In the appraisers' opinion, the economic information suggests improving business conditions, tempered by the forecasted slow economic recovery. The economic risk assessment is presented in the following table.

Company Specific Risk Analysis - Economy					
	Company	*Economy*	*Industry*	*Financial*	*Risk Tolerance*
Growth in Sales Risk	Increase	Increase			
Profit Margin Risks	Increase	Increase			
Borrowing Costs Risk	Neutral	Neutral			
Business Risk (volatility)	Increase	Decrease			
Financial Risk (bankruptcy)	Decrease	Decrease			

4 Overview of the Industry

The Company operates within the North American Industrial Classification System (NAICS) code 541211 and Standard Industrial Classification (SIC) code 8721. This category covers establishments primarily engaged in providing accounting, bookkeeping, and related auditing services. These establishments may use data processing and tabulating techniques as part of the services they provide.

- Accounting service
- Auditing service, accounts
- Bookkeeping and billing service
- Certified public accountants (CPAs)
- Payroll accounting service
- Public accountants certified

However, establishments primarily engaged in providing data processing and tabulating services are classified in Industry 7374. Establishments providing income tax return preparation service, without also providing accounting, auditing, or bookkeeping services are classified in Industry 7291.

4.1 Industry Snapshot[6]

The US accounting services industry includes about 100,000 firms with combined annual revenue of about $120 billion. Major companies include "Big Four" accounting firms Deloitte Touche Tohmatsu, PricewaterhouseCoopers, KPMG, and Ernst & Young, as well as payroll services provider Automatic Data Processing (ADP) and tax preparer H&R Block. The industry is fragmented: the 50 largest companies hold less than 50 percent of the market. Besides offices of certified public accountants, the industry includes firms that provide bookkeeping, payroll, tax preparation, and other accounting services.

Demand for accounting services depends on new business formations, the increasing complexity of corporate business accounting and higher personal income. The profitability of

[6] Source: First Research Report dated 11/22/20XX for SIC 8721

individual firms depends on the right mix of services and effective marketing. Large firms have advantages in providing wider ranges of services to large corporate clients and having the resources to serve customers with many locations. Small firms can compete effectively by specializing and providing superior service. The industry is labor-intensive: average annual revenue per worker is about $130,000.

4.1.1 Products, Operations & Technology

Major services include payroll, tax preparation, auditing, bookkeeping, tax consulting, and general accounting. Payroll services account for 25 percent of industry revenue, tax preparation for 20 percent, and auditing for 15 percent. Bookkeeping represents 10 percent of industry revenue, and tax consulting and general accounting, 5 percent each. Other services include computerized accounting systems, training, financial statement review and procedures, and management consulting. Some accountants have branched into accounting-related information technology consulting, business consulting, and personal financial planning. Small business owners often rely heavily on their accounting firms for advice.

Operations focus on providing a set of accounting-related services to businesses, individuals, or both. Most activities involve preparing, analyzing, and verifying financial documents as a way to provide information to clients. Common activities include setting up and maintaining accounting procedures and books, developing budgets, auditing accounting records, preparing financial statements and tax returns, processing payrolls, and billing. Metrics include client retention and acquisition rates, billing recovery rates, and quality, as measured by percentage of results contested by government or lawsuits.

Bookkeeping and accounting work involves the classification of financial transactions into appropriate account categories in the double-entry accounting system used in the US. Accountants may handle tasks directly for a client or supervise the customer's own accounting practices, whether manual or computer-based. Successful bookkeeping and accounting work often leads to tax preparation and related consulting for the same clients.

Audit work typically involves investigating the accuracy of a client's accounting system and tracking sample financial transactions through it. Typically, a small team of accountants conducts an audit over a period of weeks or months. In large client corporations with complicated businesses, external auditors may have an ongoing onsite presence. Auditing is challenging: to audit properly, an accounting firm must ask hard questions of the client, but to retain the client's business, the auditor must present an acceptable audit. The government requires publicly traded companies to have their accounts audited annually, and forbids an external auditing firm from providing consulting and certain other services to audit clients.

Technology helps accounting firms operate more efficiently and accurately. Software tailored to the industry is common and typically has separate modules for specific functions, such as accounting, auditing, tax preparation, and payroll and billing services. Software producers update industry-specific products to reflect changes in accounting, tax, and auditing rules. An accounting firm's knowledge of a variety of commercially available accounting programs helps serve clients who use different software in their own businesses or personally. Accounting firms often use websites to project the firm's image and promote services.

4.1.2 Sales & Marketing

Typical customers are businesses, nonprofits, government, and individuals; some accounting practices specialize by segment or industry. The major sales channel is the practice's partners, who maintain a wide range of professional and personal contacts. Customer referrals are an important source of new business.

Major types of industry marketing are direct mail, customer visits, seminars, and ads in Yellow Pages, newspapers, and magazines. Tax preparation firms often advertise heavily in local media. Corporate marketing may include PR like sponsoring sports events and participating in customer industry conferences and trade shows. Accounting firms that ally with other practices benefit from expanded marketing reach and sales capability. Customer service and account relationships are important for retention.

Typical prices vary greatly, from $50 to thousands hourly, depending on locale, specialty, and competition. Per-project fees depend on the complexity of the tasks or the number of transactions, such as in payroll or billing services. Tax software designed for individuals and small businesses, such as Turbo Tax competes with walk-in facilities like those of H&R Block.

4.1.3 Finance & Regulations

Cash flow is often seasonal, coinciding with the preparation of annual reports and tax returns. Accounting firms derive revenue from hourly billing or fixed-price contracts. For long assignments or ongoing services, like billing or payroll, clients are billed periodically. Receivables make up a large percentage of assets. Accounting firms with large corporate customers have a more balanced cash flow, due to quarterly reporting requirements. Practices maintain liability insurance to protect against lawsuits.

The accounting industry is mainly self-regulated through professional organizations and peer review. Accounting and auditing standards are defined by the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA). The SEC has the power to establish accounting standards for publicly traded companies, but delegates much regulatory authority to the industry itself through FASB and AICPA. The SEC and AICPA generally set rules of professional conduct for accountants, while FASB determines technical aspects of what constitutes generally accepted accounting principles (GAAP) through a series of more than 160 statements.

The Sarbanes-Oxley Act of 2002 (SOX), passed in response to several large corporate accounting frauds, prohibits public accounting firms from auditing clients to whom they're simultaneously providing certain other services, including bookkeeping, IT consulting, valuations, investment advice, and legal services. SOX prohibits multidisciplinary practice (MDP) in the US, restricting accounting firms from joining with other professional firms -- like law, financial planning, or healthcare consulting companies - to create one-stop, cross-disciplinary mega firms. SOX established a new Public Company Accounting Oversight Board (PCAOB), under the SEC's supervision, to oversee the auditing of public companies.

Increased regulations now require tax preparers to register with the IRS, pass competency exams, and fulfill continuing education credits. Additional oversight over the tax preparation industry aims to reduce fraud and error by small tax preparation firms. Consequences could include higher costs for consumers, higher monitoring costs for regulators, and further regulation into related practices such as tax refund anticipation loans.

Accountants and accounting firms must have licenses in the states where they do business. Some states have reciprocity agreements in which they recognize licenses granted to accountants and accounting firms by other states and allow accountants and firms to do business without undergoing another licensing examination.

4.1.4 Business Challenges

New Regulatory Restrictions - Congress can legislate changes in regulations that affect how accounting firms operate and how companies and other organizations report on their operations and pay taxes. The Sarbanes-Oxley Act (SOX) created more disclosures and greater federal scrutiny of the public accounting industry and increased accounting fraud penalties. SOX bans accounting firms from providing many services to audit clients and subjects foreign operations to new US rules.

Dependence on Skilled Personnel - Accounting firms depend heavily on the reputation and expertise of senior partners and the competence of junior accountants, who often do most of the actual work. In large firms, turnover can be high, especially among entry-level personnel, due to the heavy work load. Experienced employees often find that their large firm experience is highly valued at smaller practices. The departure of a senior partner in a small firm can greatly impact revenue.

Litigation Risk - Accounting firms are increasingly implicated in lawsuits regarding their clients' business reporting and operational results. Accounting practices that serve as consultants in shaping clients' business decisions are at high risk. Other factors that can lead to lawsuits against accounting firms include preparing financial statements that don't adequately disclose risks, and failure to detect corporate fraud.

Complexity of Customer Needs - Smaller accounting firms may have difficulty keeping up with the increasing needs of customers who expand into international trade, have operations in several states, or who are engaged in acquisitions. As client corporations grow, they need accounting firms that can supply a wider array of services. Consolidation in many industries has created big companies that need larger accounting firms.

High Regulatory Complexity - Accounting firms must comply with numerous directives from government and industry groups. Government regulators include the IRS, SEC, and the Public Company Accounting Oversight Board (PCAOB). Major industry self-regulating groups include the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA). Practices must stay current with hundreds of official rules and formal opinions, a special challenge for small firms with little or no staff.

Customer Concentration - Most accounting firms are small, local, and may earn a large percentage of revenue from a few business customers. Loss of a major client can be devastating, especially to small accounting practices serving a limited geography. Economic forces that negatively affect a region's main industries in turn impact businesses that serve or sell to them; downturns cause company bankruptcies that can significantly decrease a local accounting firm's revenue.

<u>Competition from Do-it-Yourself Accounting</u> - Smaller accounting practices, especially sole practitioners, lose business to people who use commercially available software to do their own accounting. Integrated bookkeeping, accounting, and tax preparation software enables individuals and companies to set up and maintain accounts, prepare taxes, and issue financial reports. Auditing functions are built-in, enabling users to catch mistakes that accountants generally would find.

4.1.5 Industry Forecast

The output of US accounting and bookkeeping services is forecast to grow at an annual compounded rate of 3 percent between 20XX and 20XX.

4.2 Summary of Industry Performance

The expectations of the industry are modest at best with very low growth over the next five years. State and Federal regulations can have a positive effect on the Company and industry as it keeps the barriers to entry high. The appraisers' summary risk assessment of the industry and outlook for the Company is presented in the following table.

Company Specific Risk Analysis - Industry					
	Company	*Economy*	*Industry*	*Financial*	*Risk Tolerance*
Growth in Sales Risk	Increase	Increase	Increase		
Profit Margin Risks	Increase	Increase	Increase		
Borrowing Costs Risk	Neutral	Neutral	Neutral		
Business Risk (volatility)	Increase	Decrease	Increase		
Financial Risk (bankruptcy)	Decrease	Decrease	Decrease		

5 Financial Analysis of the Company

Ratios are among the best-known and most widely used tools of financial analysis. A financial ratio is a relationship between two quantities on a company's financial statements, which is derived by dividing one quantity by another.

The purpose of using ratios is to reduce the amount of data to a workable form and to make it more meaningful. Ratios are tools of analysis that in most cases provide us with clues and symptoms of underlying conditions. In Exhibit 5-1, the Company data is compared against the industry SIC code 8721 "accounting, auditing and bookkeeping[7]" within a sales range of $500,000 and below. BizMiner analyzed 32,390 firms in compiling this benchmark information.

5.1 Ratio Analysis of Income Statement

The income statement analysis reveals selected line items that required further explanation; the high points of the analysis are as follows:

- Owner compensation is below the industry norm.
- Salary and wages fall in line with the industry average.
- Rent is higher for the Company, as compared to the industry data.
- EBITDA and pre-tax profits would be below the industry if owner compensation was being expensed at the industry norm.

Exhibit 5-1

Industry Comparison Analysis - Historical

Income Statement	**20XX**	**20XX**	**20XX**	**20XX**	**Industry**
Revenue	100.0%	100.0%	100.0%	100.0%	100.0
Cost of Goods	-	-	-	-	(5.0)
Gross Margin	100.0	100.0	100.0	100.0	95.0
Selected Line Items					
Selling, General & Administrative	32.9	23.6	31.6	28.9	17.1
Owner Compensation	11.0	23.2	7.9	5.7	23.9
Salary-Wages	23.4	30.0	28.7	29.2	28.1
Pension, Profit Sharing, Annuity	1.2	0.8	0.5	1.0	4.0
Advertising	0.4	0.2	-	0.2	0.6
Rent	10.2	9.3	8.7	9.8	5.4
Depreciation & Amortization	0.2	0.4	0.3	-	1.2
Operating Expenses	79.2	87.7	77.7	74.8	85.0
Operating Income %					
EBITDA	21.0	12.7	22.6	25.2	11.1
Interest (Expenses)	(0.9)	(1.4)	(2.5)	(1.9)	(0.3)
Pre-Tax Income	19.9	10.9	19.8	23.3	11.1

5.2 Ratio Analysis of Balance Sheet

The balance sheet analysis (see Exhibit 5-2) reveals selected line items that are not recorded, such as, accounts receivables and inventory. According to industry data, inventory is a minor factor; A/R would tell us if there are any collection problems within the Company.

The Company carries high current liabilities and low long-term debt; however, overall total liabilities for 20XX are in line with the benchmark information.

[7] Source: BizMiner Industry Financial Profile

Exhibit 5-2

Industry Comparison Analysis - Historical

Balance Sheet	**20XX**	**20XX**	**20XX**	**20XX**	**Industry**
Cash	10.8	0.0	5.1	16.4	28.4
Accounts Receivable (net)	-	-	-	-	15.3
Inventory	-	-	-	-	1.4
Other Current Assets	-	50.3	-	-	5.5
Total Current Assets	10.8	50.3	5.1	16.4	50.6
Gross Fixed Assets	79.8	108.7	94.2	211.9	104.6
Accumulated Depreciation	(51.8)	(73.9)	(71.1)	(147.1)	(67.7)
FF&E (net)	28.1	34.7	23.1	64.8	37.0
Other Non- Current	61.1	15.0	71.7	18.8	12.5
Total Assets	100.0	100.0	100.0	100.0	100.0
Liabilities & Net Worth					
Short Term Debt	27.9	56.4	64.7	1.3	9.4
Payables	-	-	-	-	4.9
Other	-	-	-	44.5	13.2
Total Current Liabilities	27.9	56.4	64.7	45.8	27.5
Long Term Debt	48.2	40.8	13.9	15.7	36.5
Total Liabilities	76.1	97.2	78.6	61.5	61.0
Equity	23.9	2.8	21.4	38.5	39.0
Total Liabilities & Equity	100.0	100.0	100.0	100.0	100.0

5.3 Summary of Financial Performance

The Company's industry comparison risk assessment suggests an increase in risk based upon the historical financial information. The appraisers believe if detailed balance sheet information (current assets) was provided, this might show an above average performance by the Company.

Company Specific Risk Analysis - Financial					
	Company	*Economy*	*Industry*	*Financial*	*Risk Tolerance*
Growth in Sales Risk	Increase	Increase	Increase	Neutral	
Profit Margin Risks	Increase	Increase	Increase	Increase	
Borrowing Costs Risk	Neutral	Neutral	Neutral	Neutral	
Business Risk (volatility)	Increase	Decrease	Increase	Neutral	
Financial Risk (bankruptcy)	Decrease	Decrease	Decrease	Decrease	

6 Valuation of the Company

6.1 Methods Available to Estimate FMV

Estimating or arriving at a conclusion of fair market value for a business or an ownership interest begins with an analysis of the Company and the external forces that affect it. In this analysis the appraisers:

- Gain an understanding of the history of the business, its industry, products, facilities, suppliers, customers, the organizational structure, marketing philosophy and management personnel;
- Perform a financial review of the business' financial statements and performance ratios;
- Investigate outside forces affecting the business such as general and industry economic conditions, competitors, government regulations and technology;
- Forms an opinion about the businesses ability to effectively compete in its competitive environment.

After these analyses are completed and the appraisers form opinions about the Company's future prospects, its strengths and weaknesses, the appraisers determine the valuation approaches and methods to be considered in forming an opinion of value. Valuation approaches are defined as "a general way of determining value using one or more specific valuation methods." All valuation methods can be described in terms of three broad approaches to value; (i) Asset Approach, (ii) Income Approach, (iii) Market Approach.

6.2 Premises of Value

The term "premise of value" relates to either; (i) going-concern value or (ii) liquidation value. The value of the Subject's interest is deemed to be the higher of the two values, or stated another way, the highest and best use.

Going-concern value is generally thought of; *as if the Subject's earning capacity were greater than the value of the Subject's assets, then the highest and best use would be as a going-concern*. Going-concern value implies that the business will continue into the future.

Typically there are two levels of liquidation; (i) forced liquidation and (ii) orderly liquidation.

- Forced liquidation value is for immediate sale. (i.e., auctioneer)
- Orderly liquidation value is considered to be a period of time sufficient to allow items to be sold on a piecemeal basis to obtain the highest possible price.

The appraisers have considered both premises of value and it is the intentions of management to continue to operate the business as a going-concern. The appraisers have analyzed the data and have established going-concern value to be the highest and best use. Thus, the valuation will not be based on liquidation value.

6.3 Selection of Appropriate Rate of Return

Capitalization and discount rates are used in the income approach to valuation. These rates are applied to an expected stream of earnings to arrive at a business' entity value. Steps involved in using capitalization and discount rates are:

- Determine an appropriate capitalization and discount rate.
- Estimate the business' pro-forma sustainable earnings.
- Discount/Capitalize sustainable earnings into an indication of value.
- Add/subtract non-operating assets and/or liabilities to determine the Fair Market Value for the entire entity as of the date of valuation.

Discount/Capitalization rates vary among particular types of businesses and from one period of time to another. Expressed as a percentage, the more speculative a business' income stream, the higher a discount/capitalization rate (produces less value); conversely, the more stable an income stream, produces a lower discount/capitalization rate (produces a higher value). This stability or non-stability is termed "risk".

While various methods exist to estimate discount and capitalization rates *(rates of return)*, a model used in this appraisal is Morningstar's[8] "build-up" model. The build-up model breaks the rate of return into various components for analysis. Once these separate components are derived, they are added together to "build up" a discount rate. To convert a discount rate into a capitalization rate, an estimate of annual growth in earnings is subtracted from this discount rate. The basic components are illustrated in Exhibit 6-1 followed by a discussion of each component.

Exhibit 6-1

Development of Rate of Return Applicable to Equity

as of December 31, 20XX

Description	Rate
Long-Term Treasury Bond Yield	4.2
Equity Risk Premium	5.2
Small Company Risk Premium	12.1
Illiquidity of Closely Held Status	3.0
Specific Company Risk Adjustments	3.0
Net Cash Flow Discount Rate	27.5
Minus: Long-Term Growth Rate	(3.0)
Net Cash Flow Capitalization Rate	24.5
Equity Net Cash Flow to Net Income Conversion Factor	1.10
Net Income Capitalization Rate	26.9
Divided by Tax Rate (1 minus tax rate)	0.83
Pre-Tax Income Capitalization Rate	29.6
Add: long-Term Growth Rate	3.0
Pre-Tax Income Discount Rate	32.6

[8] *Stocks, Bonds, Bills, and Inflation (SBBI) Valuation Yearbook;* published by Morningstar.

- Risk-Free Rate (i.e., a risk-free base rate) is the rate one could receive from an investment free of risk of default. This includes the investors' required rate of return for the "riskless" use of their funds and a factor for inflation. The rate of return earned on long-term U.S. Government Bonds (i.e., U.S. Treasury Bonds of 20-year duration) is considered to be a common proxy for the risk-free rate of return.
- Equity Risk Premium is designed to recognize for the next level of risk. Risk associated with investing in a portfolio of large publicly traded stocks. This is, in essence, an additional rate of return required by investors in the market place to compensate them for this additional risk in investing in a stock security as compared to a long-term U.S. government security. In a study published by Morningstar, it was calculated that between 19XX (when these statistics were available) and 20XX, the average total returns earned on large corporate stocks were higher than the total annual returns on long-term U.S. government bonds.
- Small Company Risk Premium addresses the additional increment of risk associated with investing in common stock of smaller companies. In addition to the equity risk premium, the same Morningstar study indicated the smallest stocks traded on the New York Stock Exchange (defined as the lower 20 percent) earned an additional premium over the larger stocks traded on the Exchange.
- Industry Risk Premium: Prior to 2000, formation of an industry premium for use in the buildup model was not quantitative in nature. Since 2000, however, Morningstar has under taken the development of an industry premium for use in the model. The introduction of quantifiable objective industry data can now account for a specific industry risk premium that was once determined by the appraiser. Industry risk premium in a given SIC code can be a negative number (as is our Subject's) that must be subtracted from the cost of equity. This makes sense, because just as many industries should have more or less risk than the market premium of one.
- Illiquidity of Closely Held Status: This amount reflects the difference between the publicly traded data being marketable and the non-marketable or closely held basis of our Company. This difference is often recognized as a separate discount, however in this case, we have acknowledge and accounted for this as an additional risk factor in our rate of return for the Company.
- Specific Company Risk Premium is the component that provides a return increment for the risk specific and unique to the Company and its industry - an increment of risk not reflected in any of the above components. The only source for this component is the appraisers' informed and intuitive judgment. Although this may indeed be imprecise; it is, however, not without foundation. While considering the management team, financial structure, market place, and comparative ratios expected by the industry's mean performance producers, the appraisers can review risk assessment factors, as presented in the following table. Based upon this analysis, the appraisers have assigned a risk tolerance of three-percent.

Company Specific Risk Analysis - Summary					
	Company	*Economy*	*Industry*	*Financial*	*Risk Tolerance*
Growth in Sales Risk	Increase	Increase	Increase	Neutral	Increase
Profit Margin Risks	Increase	Increase	Increase	Increase	Increase
Borrowing Costs Risk	Neutral	Neutral	Neutral	Neutral	Neutral
Business Risk (volatility)	Increase	Decrease	Increase	Neutral	Neutral
Financial Risk (bankruptcy)	Decrease	Decrease	Decrease	Decrease	Decreae

As presented in Exhibit 6-1, the "equity" net cash flow discount rate is converted into a capitalization rate by subtracting the long-term growth rate for earnings. The appraisers develop a long-term sustainable growth in earnings power for the Company based upon an analysis of local, regional, and national economic conditions, as they affect the Company and industries in which it competes.

The growth rate assumption is not necessarily the Company's expected growth rate next year, but rather what can be expected for the long-term (ten-year) growth expectation, based upon a fundamental understanding of the Company and the industry. The long-term growth rate for earnings is an average of future growth rates in earnings and not one expected to occur every year into perpetuity. Some of the Company's growth years will be higher or lower, but the expectation is that future long-term growth will represent the average over time. It is also essential to understand that the determination of a sustainable growth rate depends upon the base of assumed ongoing earning power.

The appraisers' view is the principal driver of long-term sustainable growth for the Company is growth in the general level of economic activity in its market. The best indicator of this growth is the industry forecast suggesting 3% to 4% growth. We selected 3% based upon the Company's historical earnings performance as measured against the industry benchmark data.

Estimating Effective Tax Rate Table 2010		
Shareholder Rates	Tax Rate	20XX
Income before Provision for Taxes		$ 66,448
State Tax Provision	4.5%	2,990
Income before Provision for Federal Taxes		63,458
Federal Tax Provision		
0 - 11,950	10.0%	1,195
11,951 - 45,500	15.0%	5,032
45,501 - 117,650	25.0%	4,490
117,651 - 190,550	28.0%	-
190,551 - 373,650	33.0%	-
373,650 - Over	35.0%	-
Federal Tax Provision		10,717
Total Provision for State & Federal Taxes		13,707
Blended Federal & State Tax Rate		20.6%

Next, the net cash flow capitalization rate must be adjusted to a pre-tax capitalization rate. Pre-tax earnings were selected as the earnings stream that could be reasonably estimated based upon available financial information.

This conversion requires estimating an effective tax rate (see table). We used the four-year historical unadjusted average pre-tax earnings as a proxy in estimating an effective tax rate.

6.4 Valuing Equity or Invested Capital

Generally speaking "equity" means ownership, assets minus liabilities. "Enterprise value", oftentimes referred to as "invested capital" is the debt free value of the business.

A simplified example of the above explanation for each model is when a real estate appraiser, let's say, values a property at $200,000. The appraiser is not concerned with how much debt is associated with that property, thus the value is based on an "enterprise value" model. If you were to subtract the debt amount, let's say in our example, of $50,000, you would have "equity" in the property of $150,000.

The assignment in this case is to determine the fair market value of "enterprise value" for a 100 percent interest in the Company. It should be noted the rate of return developed (see Exhibit 6-1) is applied to an equity earnings stream. To arrive at an enterprise value, appraisers generally use a "weighted average cost of capital (WACC) model which is applicable to an invested capital pre-tax earnings stream. This is accomplished by using market capital structure (debt and equity) as presented in Exhibit 6-2. This rate will be used later in the report to capitalize an expected earnings stream.

			Exhibit 6-2
			Weighted Average Cost of Capital (WACC)
Applicable to Next Year's Pre-Tax Earnings Available to Invested Capital			
Cost of Equity			32.1%
Cost of Debt			6.0%
Market Capital Structure			
Equity			39.0
Debt			61.0
Computation of WACC			
Component	Net Rate	Ratio	Calculation to WACC
Debt @ Borrowing Rate	6.0%	61.0	3.7
Equity Rate (Discount Rate)	32.1%	39.0	12.5
WACC Applicable to Invested Capital *(Discount Rate)*			16.2
Long-Term Growth Rate			(3.0)
WACC Applicable to Invested Capital *(Capitalization Rate)*			13.2

6.5 Valuation of the Subject

The selection of valuation approaches used in a valuation assignment is based on the information that is available as of the date of valuation and is based on the appraisers' judgment. The choice of methods used from within each valuation approach in a given assignment is determined by the characteristics of the business, reliable data, statutory and case law.

The market and income approaches were deemed the most appropriate for this valuation assignment. Selected methods and/or models were used from each approach to arrive at an indication of value. In the following sections we present the methodology employed in providing a final opinion of value for the Company.

6.5.1 Adjusted Asset Value Method - Going Concern

The adjusted asset value method gives consideration to the fair market value of the tangible assets of the business being valued as a starting point in determination value of the Company, as if debt free. A current and accurate accounting of these assets is essential in obtaining an accurate indication of value.

The main focus of this method is to determine a reasonable approximation of the net tangible assets that will be owned by the buyer. Certain assets do not transfer in a sale, such as, cash, and accounts receivables.

Exhibit 6-3 presents the normalized balance sheet, followed by a detailed discussion for each adjustment.

Exhibit 6-3

Normalized Balance Sheet

Balance Sheet Item	Historical	Adjusted		Normalized
Cash	3,798	(3,798)	[1]	-
Receivables	-	-		-
Inventory	-	-		-
Other	-	-		-
Total Current Assets	3,798			-
Computer	26,845	(18,792)	[2]	8,054
Office Equipment	5,805	(3,386)	[2]	2,419
Website	2,046	(1,228)	[2]	818
Lease Improv	14,400	(7,200)	[2]	7,200
Total FF&E Assets	49,096			18,491
Total Accum Depreciation	(34,076)	34,076	[3]	-
Net FF&E Assets	15,020			18,491
Other	4,348	(4,348)	[4]	-
Total Fixed Assets	23,166			18,491

[1] Cash is not transferring; hence this line item is removed.

[2] The table below shows the estimated remaining economic life and the corresponding assigned values. A detailed machinery and equipment appraisal was not preformed due to budget restrictions; however the appraisers believe if such an appraisal of the tangible assets was performed, the values would be reasonably similar.

	Economic Life			Adjustment	
	Total Years	Remaining	Expired	Percent	Amount
Computer	5	1.5	3.5	70.0%	18,792
Office Equipment	12	5	7	58.3%	3,386
Website	5	2	3	60.0%	1,228
Lease Improv	12	6	6	50.0%	7,200

[3] Depreciation was removed as the goal is to estimate the fair market value of the tangible assets.

[4] This line item was removed as this relates to Nina Tross retirement funds.

6.6 Income Approach Methods

Income methods are earnings, or cash flow based and is calculated for the Company, then a risk-related rate of return is determined and applied to the selected earnings stream to estimate the fair market value of the business. If the income approach is used to determine fair market value, goodwill is inclusive in the indication of value. The following sections present the methodology incorporate to develop an indication of value for the Company using this approach.

6.6.1 Selecting a Pre-Tax earnings Stream

Before an income-based method can be applied, the Company's income stream must be adjusted to remove *NONBUSINESS EXPENDITURES* and *NONBUSINESS INCOME*, and add back costs not borne by the business as well as adjust for any business income not reflected in its operations. Owner's discretionary expenses such as trips, insurance, entertainment, etc. as well as excess or inadequate owner's compensation were also reviewed.

Income statements for each year have been adjusted to reflect what could be considered discretionary and not entirely necessary to the daily operations of this particular business. Exhibit 6-4 presents the information followed by a discussion for each adjustment.

Exhibit 6-4

Normalized Income Statement

As of December 31st	**20XX**	**20XX**	**20XX**	**20XX**
Gross Sales	328,762	365,883	378,379	367,740
Cost of Goods	-	-	-	-
Gross Profit	328,762	365,883	378,379	367,740
Operating Expenses	(260,360)	(320,851)	(294,028)	(275,251)
Operating Income EBIT	68,402	45,032	84,351	92,489
Interest (Expense)	(3,102)	(5,001)	(9,463)	(6,916)
Pre-Tax Income	65,300	40,031	74,888	85,573
Normalized Adjustments				
Pre-Tax Income	65,300	40,031	74,888	85,573
Less: Sales Adjustment	-	(10,900)	(21,800)	(21,800)
Add: Travel (related to teaching)	-	7,500	15,000	15,000
Add: Reported Owner's Compensation	(24,236)	22,901	(34,020)	(45,000)
Add: Interest	3,102	5,001	9,463	6,916
Adjusted Pre-Tax Income	44,166	64,533	43,531	40,689
Weighting Applied	1	2	4	4
Weighted Pre-Tax Income	44,166	129,065	174,124	162,758
Aggregate Weighted Pre-Tax Income to Invested Capital				$ 510,112
Divided by Aggregate Weights Applied				11
Weighted Normalized Pre-Tax Income				$ 46,374
Long-Term Sustainable Growth Rate				1.03
Normalized Pre-Tax Income (Next Year) Available to Invested Capital				$ 47,765

- Our first adjustment is related to gross revenues, this adjustment is required to account for Sam Holders' teaching for the National Accounting Professionals. These fees have been included in the annual revenue figures of the Company and must be removed, as they are not directly related to the operations of the Company. According to a conversation held with Mr. Holder, he estimated the same amount for 20XX and 20XX. He estimated 20XX at 50% of the 20XX and 20XX estimate. The appraisers do not have documentation to support these figures; however, Mr. Holder states he can produce support for these amounts.

- Travel expenses were added back to earnings, as this was deemed a non-business related expenditure. This line item is associated with Sam Holders' teaching. Again, the appraisers have relied upon verbal statements by Mr. Holder.

- During our financial analysis, we discovered owner's compensation ranged from 5.7% to 23.2% of gross revenues, a wide dispersion. Hence, a replacement salary adjustment for owners compensate at market rates is warranted. Since we selected pre-tax income as our earnings stream, the deduction of reasonable owner's compensation must be reflected in the earnings stream for each period. We obtained salary information from Economic Research Institute (ERI) for Presidents with SIC 8721, as of December 31, 20XX as being a reasonable replacement salary. Each of the prior years was adjusted by an inflation factor of 3% annually. Presented in the following table is a breakdown of the calculation.

	20XX	20XX	20XX	20XX
Reported Owner's Compensation	36,000	85,000	30,000	21,000
Replacement Owner's Salary (ERI)	(60,236)	(62,099)	(64,020)	(66,000)
Adjustment to Owner's Compensation	(24,236)	22,901	(34,020)	(45,000)

- Interest charges are added back to the earnings stream, as our assignment is to provide an opinion of value of the Company, as if debt free (invested capital).

Next, the appraisers have applied a confidence weighting for each year. A heavier weighting implies the appraisers have more confidence in that period occurring again in the future, conversely a lower weighting represents the opposite.

Finally, the weighted pre-tax income (current year) is increased by the estimated sustainable long term growth rate to show next year's normalized pre-tax earnings stream. This figure is used in the single period capitalization method to develop an indication of value for the Company

6.6.2 Single Period Capitalization Method

The goal in selecting an appropriate return stream is to select a level of benefits which is a reasonable proxy for the probable future return applicable to the Company's invested capital.

In this case, the appraisers have selected a pre-tax income stream and is the type of return which is directly compatible with the rate of return developed in the manner commonly developed for companies of this size.

This method estimates the value of the Company based only on the value of the projected future pre-tax income stream that the owners of the Company could reasonably expect to derive from the Company, every year into perpetuity.

		Exhibit 6-5
Single Period Capitalization Method		
Pre-Tax Cash Flow Available to Invested Capital	$	47,765
Pre-Tax WACC Capitalization Rate		0.132
Fair Market Value *on a Control, Closely-Held Basis*	$	362,433

6.7 Market Approach Methods

The market approach includes a collection of methods which uses transactional data from the market. The general theory is that if one can find sufficiently similar companies that have been sold in arms-length transactions, those transactions may form a foundation for an indication of value for the interest being valued.

6.7.1 Search Criteria (Private Company)

The search for transactional data on closely held businesses begins with developing a search criteria that is a representative sample of the same or similar types of businesses:

- Controlling Interest
- Primary SIC 8721 and NAICS 541211 codes.
- Annual sales from $150,000 to $725,000. This range was selected because businesses with annual sales in this range would probably operate in a similar fashion (i.e., management style, business model, etc).
- Status: Closely held companies, whether or not they are in financial trouble, is not known. This is due to the limited information available on sales of closely held companies. Also they must be domiciled as a U.S. based businesses.
- Time Frame: Executed within the past five years. This stipulation is based on one business cycle of (stability and unstable) economic and market conditions during this period.

Inquires were made into Pratt's Stats database of sales of controlling interests in closely held similar businesses. Our initial search revealed 16 transactions; however, we eliminated four transactions because either owner's compensation or earnings before interest, taxes, depreciation and amortization (EBITDA) were missing thus deemed unprofitable. Exhibit 6-6 presents the transactions meeting the aforementioned search criteria.

Exhibit 6-6

Private Transactional Data

SIC Code	Date Sold	Gross Sales	EBITDA	Sold Price	Owner's Compensation	Owner's Comp & EBITDA	Owner's & EBITDA as a % of Sales	Price/Sales Ratio	Price/Owner & EBITDA Ratio
8721	3/12/20XX	707,338	11,189	804,000	135,485	146,674	20.7%	1.14	5.48
8721	6/22/20XX	639,457	157,858	875,000	25,988	183,846	28.8%	1.37	4.76
8721	11/7/20XX	249,037	20,205	80,000	2,470	22,675	9.1%	0.32	3.53
8721	11/29/20XX	545,431	1,271	605,000	192,800	194,071	35.6%	1.11	3.12
8721	8/17/20XX	512,000	13,077	640,000	240,000	253,077	49.4%	1.25	2.53
8721	11/30/20XX	585,450	118,504	600,000	148,952	267,456	45.7%	1.02	2.24
8721	4/11/20XX	319,356	68,322	326,000	81,340	149,662	46.9%	1.02	2.18
8721	2/20/20XX	353,000	109,000	450,000	150,000	259,000	73.4%	1.27	1.74
8721	11/17/20XX	254,566	150,198	260,000	-	150,198	59.0%	1.02	1.73
8721	10/28/20XX	248,000	58,260	270,000	120,000	178,260	71.9%	1.09	1.51
8721	5/5/20XX	178,000	44,010	178,000	78,000	122,010	68.5%	1.00	1.46
8721	1/26/20XX	151,258	37,520	60,000	69,409	106,929	70.7%	0.40	0.56
Mean		395,241	65,785	429,000	103,704	169,488	48.3%	1.00	2.57
Median		336,178	51,135	388,000	100,670	164,229	48.1%	1.06	2.21
Company		367,740	106,689		21,000	127,689	34.7%		
							Mean	1.00	2.57
							Standard Deviation	0.32	1.43
							STD/Mean equals Coefficient of Variance	0.32	0.56

As gleaned from the exhibit, owner's compensation and EBTIDA (as a percentage of sales) range from a high of 73.4% to a low of 9.1 percent. The mean and median of these twelve transactions falls near 48% of owner's comp & EBTIDA, as a percentage of sales. Our Company's percentage for 20XX is 34.7 percent. A statistical analysis was performed on the market transactions that showed the "coefficient of variance" fell within a reasonable confidence range to select the mean as our base market valuation multiples. However, due to the wide dispersion of the valuation multiples themselves, the appraisers felt more comfortable selecting the median valuation multiple as our starting point, thus eliminating the extreme high and low multiples.

Selecting market valuation multiples and applying this to our Company's normalized financial measurements, our first step is to consider the appropriateness of each selected multiple. Selecting the median price-to-sales valuation multiple would be reasonable, as the Company's sales are similar to the average transactions obtained from market. However, an adjustment is warranted for the price-to-owner's compensation plus EBITDA median valuation multiple, based upon the Company's underperformance, as compared to the market transactions. We believe hypothetical investors would place great importance on the availability of earnings and as such, we have selected a valuation multiple of 2.15 (slightly below the median market valuation multiple).

6.7.2 Application of the Direct Market Data Method

The Direct Market Data Method (DMDM), a method within the Market Approach, is a market-based method, meaning you need at least six transactions to determine the market average. The "sold" companies selected must closely match a set of criteria established by the appraisers, based on the closely held status of the business being valued.

This method conventionally estimates “value” by taking the Company’s normalized historical financial measurements and applying the market valuation multiple(s). The greatest drawback in the application of this method is there were no transactions in the database for SIC 8721 code within the past twelve months of the valuation date to see whether there has been a change in the valuation multiples resulting from a deteriorating economy. While some research indicates that private transaction valuation multiples generally do not change over time, consideration must be given for the recession and its impact on the industry in deciding if sufficient and reliable data is available to reach a supportable conclusion of value.

Exhibit 6-7 presents the price-to-revenue model, which is fairly straight forward. You start with the most recent year-end sales figure and apply the selected valuation multiple.

Exhibit 6-7

Direct Market Data Method

Price/Revenue Valuation Multiple		
Reported Gross Revenue	367,740	
Less: Teaching Revenues	(21,800)	
Normalized 20XX Gross Revenue Measurement	345,940	
Selected P/S Valuation Multiple		1.06
FMV of Invested Capital on a Control, Closely-Held Basis		$366,696

Exhibit 6-8 presents the normalized earnings stream. The price-to-owner’s compensation & EBITDA financial measurement considers any adjustments to the earnings stream for the most recent year. As gleaned from the exhibit, the percentage of revenues calculation for each year is fairly consistent over time.

Exhibit 6-8

Historical & Adjusted Earnings

As of December 31,	**20XX**	**20XX**	**20XX**	**20XX**
	Revenue Growth	*11.3%*	*3.4%*	*-2.8%*
Gross Revenues	328,762	365,883	378,379	367,740
Cost of Goods	-	-	-	-
Gross Profit	328,762	365,883	378,379	367,740
Operating Expenses	(260,360)	(320,851)	(294,028)	(275,251)
Operating Income EBIT	68,402	45,032	84,351	92,489
Non-Cash Charges	720	1,368	1,231	-
Historical EBITDA Total	69,122	46,400	85,582	92,489
as % of revenues	*21.0%*	*12.7%*	*22.6%*	*25.2%*
Adjustments				
Less: Revenue Adjustment	-	(10,900)	(21,800)	(21,800)
Add: Teaching Expenses	-	7,500	15,000	15,000
Add: Reported Owner's Compensation	36,000	85,000	30,000	21,000
Total Adjustments	36,000	81,600	23,200	14,200
Adjusted Earnings Total	105,122	128,000	108,782	106,689
as % of revenues	*32.0%*	*35.0%*	*28.7%*	*29.0%*

As with the price-to-sales model, the selected valuation multiple is applied to the most recent year-end figure.

		Exhibit 6-9
		Direct Market Data Method
Price/EBITDA & Owner's Comp Valuation Multiple		
Application of the P/EBITDA & Owner's Comp Ratio	Financial Measurement	Valuation Multiple
	$ 106,689	2.15
FMV of Invested Capital on a Control, Closely-Held Basis	$ 229,382	

7 Adjustments to the Indication of Values

Before arriving at a final opinion of value, the appraisers must consider adjustments appropriate to this valuation assignment. The most common adjustments to values initially determine the differences between the level of control and/or marketability in the interest being appraised versus the level reflected in the value initially determined by each method employed.

Although adjustments may be required for differing levels of control and marketability, each are considered separately. Therefore, the issues related to level of control must first be considered and once correctly reflected, any adjustments necessary to properly reflect marketability will be determined. Adjustments may also be required for non-operating assets that were previously excluded from this analysis, but must be considered in determining the final opinion of value.

7.1 Adjustments for Control & Marketability

The valuation assignment here was to estimate an opinion of value for a 100% controlling interest. The income-based method used controlled adjustments; hence no control adjustment is required.

In addition, the other market-based method utilized in this report generated an estimate of value on a control basis; therefore an adjustment for control is not necessary. An adjustment for marketability is not necessary as the estimate of value was obtained by making control adjustments to the financial return stream. The rates of return *(discount and capitalization rate)* considered a lack of marketability in the developed rate of return, hence no adjustments are warranted.

8 Reconciliation of the Valuation Estimates

At this point in the appraisal process the appraisers must consider the relative merits of each method employed and determine the degree of influence or weight each method will have in the final opinion of value. The weighting of valuation methods is not an exact science and is presented in mathematical terms only to assist the reader in interpreting the appraisers thinking as to the relative influence given to each method.

Exhibit 8-1 presents the appraisers' weighted estimate for each method used, along with the final opinion of value for the Company. We applied zero weight to the adjusted asset value method, as this model does not consider any intangible asset values.

We did apply the most weight to the income approach method, as this method considered few adjustments to the earnings stream – also historical performance is seen as a reasonable indicator of future earnings. We accorded the least amount of weight to the market based methods, as we had only two sales transactions occurring in early 20XX and none for 20XX. The question remains, what economic risk would have been taken into consideration if transactions were available during this time frame?

Exhibit 8-1

Reconciliation of Indicated Values

Method	Indicated Value		Weighting	Weighted Value	
Adjusted Asset Value Method	$	18,491	-	$	-
Single Period Capitalization Method	$	362,433	60%	$	217,460
Direct Market Data Method - Revenues	$	366,696	20%	$	73,339
Direct Market Data Method - Earnings	$	229,382	20%	$	45,876
Initial Indication of Fair Market Value			100%	$	336,676
FMV of a 100% "Invested Capital" Interest, on a Closely Held Basis (rounded)				$	337,000

9 Value Justification and Pricing Scenarios

To test the reasonableness of the final opinion of value, we performed a proof of purchase price justification test. This test includes certain assumptions regarding buyer's cash down payment, terms of the purchase and an applicable interest rate. These assumptions are presented in the following table.

10-YR. DEAL STRUCTURE & FINANCING					
		Estimated Fair Market Value		**$**	**337,000**
Funds Provided By:					
Buyer Down Payment		$ 67,400	20.0%		
Assumption of Payables		$ -	0.0%		
Assumption of Existing Debt/Leases		$ -	0.0%		
Seller Financing		$ -	0.0%		
New Bank/other Financing		$ 269,600	80.0%		
Contingent/Performance Earnouts		$ -	0.0%		
TOTAL FUNDS		**$ 337,000**	**100.0%**		
Debt Amortization Detail					
Loan Amount Subject to Interest		$ 269,600			
Interest Rate		6.0%			
Term: Years	10 Months	120			
Pymt.-Annual	$35,917 Monthly	$ 2,993			
Project Earnings				$	47,765
Blended Tax Rate		21.0%		$	(10,031)
Net Earnings				$	37,734
Earnings Growth During Projection		3.0%			

Annual Principal & Interest and Remaining Cash Flow

YEARS	**1**	**2**	**3**	**4**	**5**
Beg. Principal	$ 269,600	$ 249,307	$ 227,762	$ 204,888	$ 180,603
Annual Principal	$ 20,293	$ 21,545	$ 22,874	$ 24,285	$ 25,783
Ending Balance	$ 249,307	$ 227,762	$ 204,888	$ 180,603	$ 154,820
Principal	$ 20,293	$ 21,545	$ 22,874	$ 24,285	$ 25,783
Interest	$ 15,624	$ 14,372	$ 13,043	$ 11,633	$ 10,135
Total Yrly. Pmts	$ 35,917	$ 35,917	$ 35,917	$ 35,917	$ 35,917
Assumed Earnings	$ 37,734	$ 38,866	$ 40,032	$ 41,233	$ 42,470
Less: Ylry. Pymts	$ (35,917)	$ (35,917)	$ (35,917)	$ (35,917)	$ (35,917)
Gross Cash Flow	$ 1,817	$ 2,949	$ 4,115	$ 5,316	$ 6,553

YEARS	**6**	**7**	**8**	**9**	**10**
Beg. Principal	$ 154,820	$ 127,448	$ 98,387	$ 67,533	$ 34,777
Annual Principal	$ 27,373	$ 29,061	$ 30,853	$ 32,756	$ 34,777
Ending Balance	$ 127,448	$ 98,387	$ 67,533	$ 34,777	$ -
Principal	$ 27,373	$ 29,061	$ 30,853	$ 32,756	$ 34,777
Interest	$ 8,545	$ 6,856	$ 5,064	$ 3,161	$ 1,141
Total Yrly. Pmts	$ 35,917	$ 35,917	$ 35,917	$ 35,917	$ 35,917
Assumed Earnings	$ 43,744	$ 45,057	$ 46,408	$ 47,801	$ 49,235
Less: Ylry. Pymts	$ (35,917)	$ (35,917)	$ (35,917)	$ (35,917)	$ (35,917)
Gross Cash Flow	$ 7,827	$ 9,139	$ 10,491	$ 11,883	$ 13,317

Based upon a hypothetical willing buyer, the opinion of value as presented in this report for ABC Accounting Professionals, Inc. projects remaining cash flows are adequate to cover debt service, future capital expenditures and one owner's replacement salary. Please note, the hypothetical post-acquisition cash flow shown will most likely be very different from the actual buyer's post-acquisition cash flows due to the asset allocation and its related tax implications.

10 Appendices A - Professional Qualifications

Firm Overview

American Business Appraisers a firm located in Arizona is nationally recognized for performing business valuations and machinery & equipment appraisals for family-owned and closely-held businesses, professional practices, limited liability companies, corporations and partnerships.

American Business Appraisers performs appraisal services for mid-size to larger entities for a variety of purposes. We develop an independent, unbiased report designed to clearly help define the value of a business or business interest. This is what we do full-time, not as a value added service.

Appraiser One, AIBA, CMEA, CSBA

Appraiser Two, CBA, CMEA, ASA