Valuation Of:	**Local Restaurant, Inc.**
Valuation Date:	**September 30, 2012**
Report Date:	**January 3, 2013**
Prepared By:	**Darren Mize, ASA**
Prepared For:	**ABC Business Brokers**

Prepared by:

GCF Valuation

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Calculation of Value

The undersigned appraiser, using accepted methods of valuation and subject to the assumptions and limiting conditions incorporated herein, has estimated the Fair Market Value of the 100% Asset Interest of Local Restaurant, Inc., as of September 30, 2012 to be best expressed as:

$940,000 (rounded)

Appraiser's Certification

1. The statements of fact expressed herein are true and correct to the best of the appraiser's knowledge and belief. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and is the appraiser's personal, impartial, unbiased opinions, professional analyses, opinions, and conclusions.

2. Neither Darren Mize nor any employee of GCF Valuation, nor any of the appraisers who contributed to this report has any present or prospective interest in the subject property; nor any personal interest with respect to the parties, nor any other interest or bias which would impair a fair and unbiased appraisal.

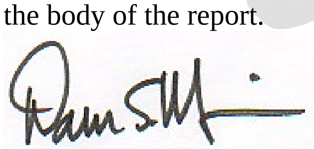
3. Compensation paid to the appraiser for this appraisal is independent of the value reported. It is not contingent on the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of the appraisal.

4. The appraiser HAS NOT made a personal inspection of the subject property.

5. This appraisal has been conducted and this report issued pursuant to the Business Appraisal Standards and Code of Ethics of the Institute of Business Appraisers; the Principles of Appraisal Practice Code of Ethics of the American Society of Appraisers, and the Uniform Standards of Professional Appraisal Practice in effect at the date this report is issued.

6. David Micelli has helped with the research and analysis, but has not acted as an "appraiser". No person except the undersigned participated materially in the conclusion of this appraisal.

The value considerations herein are contingent upon the analysis, and limiting conditions as set forth in the body of the report.



Darren S. Mize, ASA

NOTICE TO NON-INTENDED USERS

Letter of Authorization for Non-Intended Users of Merger or Acquisition Valuations

Purpose of Authorization:	Report Distribution to Non-Intended Users
GCF Valuation Client:	ABC Business Brokers
GCF Valuation Client Contact:	John Smith
Report of:	Local Restaurant, Inc.
Report Date:	January 3, 2013

As our client, (clients listed above as GCF Valuation Client and Broker if applicable) you are listed as the intended user of the report listed above. This Letter of Authorization is to be used in the event you wish to provide a copy of the report to any non-intended users during the listing and selling process. It is your responsibility to review this letter to any non-intended users so they specifically understand what they are about to receive and what they can or cannot do with the report.

A Non-Intended User is anyone other than those listed in the report, which could include but are not limited to: (1) a prospective buyer (2) lenders (3) CPAs (4) attorneys (5) financial advisors (6) other appraisers. The report cannot be used for any other purpose other than what is stated in the report without additional written authorization from GCF Valuation.

Before receipt of the report listed above, the non-intended user must acknowledge the following:

1. The information provided as part of this report has been provided by the seller and/or the seller's broker and is assumed to be an accurate representation of the subject company, with no verification from the appraiser.

2. As a non-intended user you are not authorized to distribute a copy of the report to other non-intended users

3. Receipt of a copy of the report does not make GCF Valuation an advocate of the non-intended user, even if called upon to answer questions regarding the conclusion.

4. Non-intended users are in no way to use the report as a means to replace their own due diligence

5. It is the non-intended user's responsibility to verify the information provided to the appraiser until satisfied that the information can be supported and verified.

6. GCF Valuation is in no way responsible for information not provided (either willingly or unwillingly) by the seller and/or the broker and is held harmless if it is determined this has occurred.

7. Prospective buyers should not rely on the report in any way as a means of making a decision to purchase the subject company. Proper financial and operational due diligence is required, which the appraiser has not been engaged to do.

Executive Summary

Business Name: Local Restaurant, Inc.

NAICS / Industry: 722211 – Franchised Limited Service Restaurant

Estimate of Value: $940,000 for the 100% Asset Interest (see below for assets & liabilities included). A summary of the economic value basis and ending "multipliers" are shown below:

Table 1
Valuation and Multiples

Economic Basis	
Projected Revenue	$2,444,689
Projected EBITDA	$232,138
Projected Seller's Discretionary Earnings (SDE)	$309,388

Values	
Final Value (all assets and liabilities included)	$940,000
Enterprise Value (fixed assets, inventory & goodwill)	$944,485

Value Multiples

	3-Year Average	Last Full Year	Appraiser Projections
EV / Revenue	0.40	0.40	0.39
EV / EBITDA	4.25	4.36	4.07
EV / SDE	3.18	3.24	3.05

Adjusted Balance Sheet: The calculation of value assumes the following assets and liabilities are included in the value (see table 4.4.1a for balance sheet adjustments made):

Cash Assumed	$0
Accounts Receivable Assumed	$0
Inventory Assumed	$20,652
Other Current Assets Assumed	$0
Fixed Assets Assumed	$215,402
Other Assets Assumed	$0
Excess Working Capital Assumed	$0
Other Non-Operating Assets Assumed	$0
Total Liabilities Assumed	($0)
Assets Less Liabilities Assumed	$236,054
Estimated Goodwill [1]	$703,946

[1] "Final Value" minus ("Assets Less Liabilities Assumed")

Table 2
Adjusted Cash Flow Analysis

December:	Tax Return 2009	Tax Return 2010	Tax Return 2011	Projected 2012
Revenue				
Gross Sales	$2,455,069	$2,279,768	$2,336,717	$2,427,522
Sales Adjustment	$0	$0	$0	$0
Adjusted Sales	$2,455,069	$2,279,768	$2,336,717	$2,427,522
Cost of Goods Sold				
Historical Cost of Goods Sold	$778,432	$771,042	$808,942	$849,457
COGS Adjustment	$0	$0	$0	$0
Adjusted COGS	$778,432	$771,042	$808,942	$849,457
Cash Flow Adjustments				
Interest expense	$25,398	$12,662	$21,750	$52,097
Depreciation/Amort.	$62,415	$51,407	$47,823	$46,688
Officer's compensation	$220,681	$152,906	$153,000	$151,847
Officers' payroll txaes	$15,607	$13,875	$13,169	$17,925
Officers' benefits	$18,536	$17,656	$8,230	$18,657
Other add-backs	$0	$0	$0	$0
Replace 2nd owner	($52,000)	($52,000)	($52,000)	($52,000)
Other add-backs	$0	$0	$0	$0
Other add-backs	$0	$0	$0	$0
Historical rent	$0	$0	$0	$0
Fair market rent	$0	$0	$0	$0
Total Add Backs	$290,637	$196,506	$191,972	$235,214
Cash Flow Calc.				
Pre-Tax Profit +	$74,604	$39,092	$99,519	$88,000
Total Adjustments =	$290,637	$196,506	$191,972	$235,214
Seller's Discretionary Earnings	$365,241	$235,598	$291,491	$323,214
Less Replacement Salary	($75,000)	($75,000)	($75,000)	($75,000)
EBITDA	$290,241	$160,598	$216,491	$248,214
as % of Sales	11.82%	7.04%	9.26%	10.22%
Cash Flow Weight	10%	20%	30%	40%
Weighted Revenue	$2,373,484	*100.00%*		100%
Weighted SDE	$300,377	*12.66%*		
Weighted EBITDA	$225,377	*9.50%*		

Notes. None.

Table 3
Summary of Valuation Methods

Valuation Method	Value and Basis Indicated By Method	Adjustments for Differences in Degree of: Marketability	Control	Adjusted Value and Basis	Confidence Level	Incremental Value
Cost Approach						
Adjusted Book Value	$236,054 Illiquid, Control	0%	0%	$236,054 Illiquid, Control	0%	$0
Market Approach						
Direct Market Data Method (DMDM)	$933,980 Illiquid, Control	0%	0%	$933,980 Illiquid, Control	33%	$311,296
Income Approach						
Capitalization of Net Cash Flow	$1,145,050 Liquid, Control	10%	0%	$1,030,545 Illiquid, Control	33%	$343,481
Capitalization of Discretionary Earnings	$869,214 Illiquid, Control	0%	0%	$869,214 Illiquid, Control	33%	$289,709

Value Conclusion

Fair Market Value: 100% Interest - Private / Illiquid, Control Basis - Excluding Nonoperating As	100%	$944,485
Fair Market Value: Excess Working Capital		$0
Fair Market Value: Other Nonoperating Assets		$0
Fair Market Value: 100% Interest - Private / Illiquid, Control Basis - Including Nonoperating Assets		$944,485
Interest Appraised		100%
Value Conclusion		$944,485
Value Conclusion (rounded)		$940,000

Notes. None.

Table of Contents

1.0 Introduction

1.1 Subject of the Report

GCF Valuation was retained by John Smith of ABC Business Brokers to estimate the Fair Market Value of the 100% Asset Interest of Local Restaurant, Inc., herein described as "Local Restaurant" or "the Company".

1.2 Purpose and Use of the Report

This appraisal is expected to be used by the client, ABC Business Brokers, to assist with establishing an asking price for the potential sale of the business. This report is not intended for any other purpose, and the conclusions found herein may not be applied to other purposes without additional consideration of all the relevant facts.

1.3 Intended Users

The use of this report and the information contained in it is restricted to use by ABC Business Brokers for the purpose set forth above in Section 1.2. All others possessing this report are not intended users. The appraiser does not authorize and is not responsible for use of this report by any party other than the client or an intended user. Intended users may not provide this report to any third party without the prior written consent of GCF Valuation.

1.4 Date of the Report

The effective date:	September 30, 2012[2]
The report was issued:	January 3, 2013
The inspection date:	None[3]

1.5 Form of Report – Calculation of Value

We have performed a calculation engagement, as that term is defined in the Statement on Standards for Valuation Services (SSVS) of the American Institute of Certified Public Accountants. We performed certain calculation procedures on Local Restaurant as of September 30, 2012. The specific calculation procedures are detailed in para-34 Statement on Standards for Valuation Services. The calculation procedures were performed solely to assist in the matter of establishing an initial asking price, and the resulting calculation of value should not be used for any other purpose or by any other party for any purpose. The estimate of value that results from a calculation engagement is expressed as a calculated value and is not a conclusion of value. The results of a self-contained comprehensive valuation might differ materially from those expressed in this calculation of value. Although the analyst has used "valuation" and "calculation of value" interchangeably, the reader should understand this is a "calculation of value". This calculated value is subject to the Statement of Assumptions and Limiting Conditions found in Section 1.11.

[2] The effective date is the date of the latest financial statement.
[3] To minimize fees and expedite a report, the client did not request a site visit. The appraiser was engaged subject to time and budget limitations.

1.6 Standard of Value

The standard of value applied for this appraisal is Fair Market Value. Revenue Ruling 59-60 is quoted on the following page and is the most broadly accepted definition:

> …the price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts.[4]

As used here, this definition of Fair Market Value includes the following assumptions:

- The hypothetical prospective purchaser is prudent and profit seeking, and **without any synergistic benefit**. The buyer is also anonymous, represents an arms-length interest, and is presumed to be financially capable of closing.

- The hypothetical seller is also anonymous and thought to be acting prudently, with knowledge of the market with respect to risk and return from alternative investments, the effect of control characteristics on value, and the effect of lack of marketability.

- The business will continue as a going concern and not be liquidated.

- The business will be sold for cash or cash equivalent.

- The business would be held on the market for a reasonable period of time.

1.7 Control and Marketability of Interest Valued

The subject interest is assumed to be transferable, but such transfer is subject to the legal restrictions imposed by law on unregistered securities. I've been engaged by the client to estimate the value of a 100% controlling interest of selected assets and/or liabilities. Therefore, discounts for lack of control or marketability are not warranted.

1.8 Brief Description of the Subject Company

Local Restaurant is best described by North American Industrial Classification System Code (NAICS), 722211. The Company is located at 100 S. Howard Avenue, in Tampa, FL 33609. As indicated above, the subject interest represents a 100% controlling non-marketable (privately held) value of selected assets and liabilities.

1.9 Scope of the Assignment

It is assumed that the appraiser shall rely upon the facts and financial information provided by the buyer, seller, and lender to prepare the appraisal. Therefore, neither the engagement nor the report can be relied on to disclose any misrepresentation, fraud, deviations from GAAP or other errors or irregularities. The appraiser was retained subject to time and budget limitations. While the appraiser's research, process, and analysis were both adequate and reasonable for the scope of the project, they were not unlimited in scope.

[4] Internal Revenue Service, *Revenue Ruling 59-60*, Section 2. Background & Definitions

The appraiser's research and analysis included, along with other issues, consideration of the eight valuation factors identified in IRS Revenue Ruling 59-60 namely:

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

An appraisal of fixed assets was not performed by GCF Valuation. The appraiser has relied on management estimates and allocations. Due to budget and time restraints, the appraiser did not conduct a site visit. Due to normal confidentially reasons in an acquisition, I have not conducted interviews with the Company's employees.

1.10 Extraordinary Assumptions & Hypothetical Conditions

USPAP discloses in Standard 9f and 9g for the appraiser to disclose any and all extraordinary assumptions or hypothetical conditions necessary in the assignment. These may be used for purposes of reasonable analysis. Other than what has already been disclosed in the report, I have not used any material extraordinary assumptions or hypothetical conditions that would impact the value.

1.11 Assumptions & Limiting Conditions

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

2. We have relied on management's representations without independent investigation as though they fairly and accurately represent the financial condition and activities of the Company.

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

4. This report and appraisal are made for the purpose and function set forth above in the section entitled "Purpose and Use of the Appraisal", and its use for any other purpose invalidates the result of the appraisal.

5. This appraisal relies upon information provided by others and/or obtained from sources that are believed in good faith to be reliable. No opinion, warranty, or guaranty of the reliability of the data relied upon is implied or expressed by the use of that data here.

6. The estimate of Fair Market Value established by this report may rely on estimated values for some assets of the subject firm if independent appraisals for those assets are not available. Where

such values are used in this appraisal, no warranty is made with respect to these values. If these values are incorrect, the resulting estimate of the value of the subject ownership interest may be affected.

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

8. Throughout this analysis, we may have relied upon the forecasts and projections of business activity and financial performance prepared by the client. We've examined these projections only at a gross level to test their fundamental reasonableness, but offer no opinion as to the reliability of these projections and forecasts.

9. We have no knowledge of issues related to litigation, regulatory compliance, environmental hazards, or other agreements about the owners or third parties, which would have a negative material impact on the value or transferability of the interest being valued unless otherwise noted in the report.

10. This report is not to be construed, directly or indirectly, as a recommendation to invest, divest, or to lend; it is strictly our independent opinion for the purpose described herein, based upon the information, explanations and materials provided to us and subject to the assumptions and qualifications noted herein. Potential investors and/or lenders should perform or obtain their own analysis of the Company's financial position for their particular purposes.

11. This report is not intended for general circulation or publication, nor may it be reproduced or used for any purpose other than that specifically noted herein, without our written permission in each specific instance. We do not assume any responsibility or liability for losses incurred by the Company, the directors, shareholders, or owners thereof, or to other parties, as a result of the circulation, publication, production, or use of this report contrary to the provisions of this paragraph.

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

13. In no way is GCF Valuation recommending a loan. Our opinion is strictly limited to the fair market value. It is agreed that the client does not hold the appraiser responsible in case of a loan default as this is an opinion of value and not an opinion to lend funds. It is also recommended that the lender and borrower obtain a second opinion to limit their liability or loss.

14. As indicated earlier, the appraiser was engaged subject to time and budget limitations. While the appraiser's research, process, and analysis were both adequate and reasonable for the scope of the project, they were not unlimited in scope. The appraiser has assumed that all necessary licenses, leases, and other intangibles that are necessary to generate the level of income shown used in the report will transfer to the proposed buyer.

2.0 Summary Description of the Business & Industry

2.1 Calculation of Value Report Contents

As discussed earlier, I have been engaged to provide a Calculation report (vs. a self contained). A Calculation report is appropriate where; the intended readers of the report are already familiar with the pertinent features of the company, its markets, financial performance, and the industry environment in which the Company operates. The contents of this report include only items that we feel are important to express the value of the subject business to the intended readers. Although this report is not intended to meet replicability standards of a comprehensive report, our work file contains the necessary data to replicate our estimated value.

2.2 Form of Organization

The report assumes a Subchapter S Corporation taxation structure. The subject company is a closely held business and follows a tax strategy that shifts the burden of taxation from corporate rates to personal rates. Although, the subject company may have a different IRS filing structure, any normal entrepreneur would be expected to either continue the strategy of shifting taxable income to personal taxation rates or convert the Company into a Subchapter S Corporation.

2.3 Prior Transactions & Financial Interest

As of the report date, no prior transactions are known or were disclosed in my interview with the client or proposed buyer within the last 3 years. We have not appraised the subject company in the last three years. We have no financial interest or contemplated financial interest in the subject of this report.

2.4 History & General Description of the Business

Established in 2005 and opened for business in December 2006 by the current owners, Local Restaurant, Inc. (LRI) operates as a franchised restaurant location. LRI is a limited service restaurant providing lunch and dinner seven days a week. They have over 45 menu items including their well known Better Burger. The menu also includes chicken, sandwiches, pot roast, hot dogs, salads, soups, fries, onion rings, and other sides, malts, shakes, floats, sundaes, and cakes. Approximately 60% of revenue is generated through inside restaurant sales and 40% through drive-thru sales. There is some seasonality depending on the time of year and area events.

2.5 Company Highlights

- No customer concentration issues
- Operates with 5 managers, 6 full time crew members, and 34 part time crew members (numbers are subject to change)
- Only two of the three current owners are active in the business: one oversees the operations and the second is the manager. Both work full time.
- The Company utilizes 4,822 square feet
- Approximately 93% of purchases are made through an approved vendors list
- Very competitive industry and local market

- Typical customers include families, seniors, and local workers throughout Kansas City and area visitors

2.6 Financial Summary

- Revenue has been fairly steady with only slight dips due to the recession. They have also made management changes to get a better idea of their financial performance and to develop more fundraiser nights which benefits all involved.
- COGS include purchases and fuel surcharges
- If the government institutes mandatory nutrition listings for every food item, it will cost restaurant owners thousands of dollars to produce new menu boards.
- Opportunities for growth include continuing to use the restaurant for local fundraiser events, taking advantage of the many local businesses, sporting event venues, and new construction projects for marketing purposes, adding new food items to the menu, and utilizing corporate's new marketing plans and improved operational procedures.

2.7 Major Report Considerations

Risk factors considered in the analysis of the subject company included management and staffing, customer and supplier diversity, facilities and location, barriers to entry and competition, and future prospects. Other items such as what is or is not included in the sale are also a consideration. Numerous other considerations are examined by the appraiser for the assignment of a risk weight in the development of cash flow models. Projected economic conditions and industry projections for the company are also considered as part of the report process. (See Tables 5.2.5a & 5.3.1a for risk ratings).

3.0 Economic and Industry Factors Affecting the Company

3.1 Economy & Overall Impact on Business

<u>Overview:</u> One of the factors to consider specifically mentioned in the Revenue Ruling 59-60 is "the economic outlook in general and the condition and outlook of the specific industry in particular". Although individual economic factors may or may not have a direct impact on a particular industry or business, the overall economy (and the outlook for it) strongly influences the actions of investors and the assessment of investment opportunities. All businesses are impacted in some way by the economy.

I have examined the national, state, and local economic reports available through various sources to create an informed opinion regarding the general direction and scope of the downstream demand determinants that influence the subject company. In general, the economy creates the environment within which the business must operate. It influences the size of the available market and company's growth potential.

The summary below provides an overview of some selected economic factors that prevailed in the 3rd quarter of 2012 as well as a discussion of the factors that are crucial over an extended period of time. The following narrative includes excerpts of the Economic Outlook Update™ 3Q 2012[5]. The full narrative is contained in our work files.

<u>Overview of the Current U.S. Economy:</u> The U.S. economy saw its growth rate accelerate slightly from last quarter. Many questioned whether consumer spending, a crucial factor in GDP growth, could continue to grow at its current rate as spending outpaces income growth. Business spending on equipment and software, which had been a source of strength for 12 consecutive quarters, finally ceased to grow. The consensus seems to be that there is little to indicate economic growth is gaining momentum.

Job growth was fairly weak in the third quarter, though the unemployment rate did drop below 8.0%. Unfortunately, the drop in the unemployment rate puts the rate back on par with its level from January 2009. The White House took the decline in the unemployment rate as evidence that the economy is continuing to heal, though they did admit that more work still needs to be done to create more jobs. At this point, some experts believe that the job market is showing signs of firming up—though they admit it is far from strong.

Consumer confidence reports were mixed this quarter. The Conference Board's Consumer Confidence Index was down from last quarter, while the Thomson Reuters/University of Michigan Index of Consumer Sentiment surged to end the third quarter up 15.6 points. Regardless, both indexes had a strong September, as a booming stock market and rising home prices, coupled with declining personal debt levels, overshadowed the high unemployment rate and consumers' expectations that their incomes will not keep pace with inflation.

Despite slow economic growth, domestically and abroad, stocks rallied this quarter, as the Federal Reserve's announcement of stimulus bolstered investor sentiment. All the major indexes are up between 20.0% and 30.0% from a year ago. With market volatility low, and assurance from the Federal Reserve, many investors moved out of bonds and back into equities. Those that remained gravitated toward inflation-protected Treasuries, as the Fed's announcement appeared to have caused some inflation

[5] "All of the contents of the economic outlook section of this valuation report are quoted from the *Economic Outlook Update™ 3Q 2012* published by Business Valuation Resources, LLC, © 2012, 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."

concerns, leaving nominal Treasuries flat for the quarter.

U.S. Economic Outlook: Consensus Economics Inc., publisher of Consensus Forecasts—USA, reports that the consensus of U.S. forecasters believes real GDP will increase at a seasonally adjusted annual rate of 1.9% in the fourth quarter of 2012 and 1.8% in the first quarter of 2013. Every month, Consensus Economics surveys a panel of 30 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 expect GDP to grow 2.2% in 2012, 2.1% in 2013, and 3.1% in 2014. In the long term, they report that real GDP will grow by an average annual rate of 2.4% between 2018 and 2021.

State Overview: [6]

Jobs: In Florida, private sector employment fell by 10.9 percent from January 2008 to February 2010. Since February 2010, private sector employment has grown by 4.0 percent.

Employment: The unemployment rate in Florida was 8.5 percent in October 2012, up 3.8 percentage points from December 2007, but down from its most recent peak of 11.4 percent in February 2010.

Earnings: Real per capita personal income (in 2005 $) in Florida was $35,009.00 in the 2nd quarter of 2012, up from $34,512.50 in the 2nd quarter of 2010.

Housing: In Florida, home prices have fallen by 43.6 percent over 22 quarters from their peak in the fourth quarter of 2006. As of the 3rd quarter of 2012, 13.0 percent of all mortgages, including 27.4 percent of subprime mortgages, were in foreclosure in Florida.

3.2 Industry & Overall Impact on Business[7]

Chain Restaurants in the US September 2012

Performance Summary:

The Chain Restaurants industry experienced a major slowdown during the recession due to reduced consumer spending. In the battle for consumers' shrinking budgets, restaurants increasingly lost out to home-cooked meals or fast-food restaurants. On average, consumers cut spending on small luxuries like eating out, and when they did eat out, they opted for less-expensive items. Over the past five years, consumers have also become increasingly health conscious. While major restaurants have responded by expanding the number of nutritious options on their menus, the general trend toward better eating has hurt many of the less-healthy chain restaurants. As a result, IBISWorld estimates that industry revenue has fallen at an average annual rate of 0.1% to $54.6 billion over the five years to 2012.

Stronger operating conditions are in sight, though, as consumer expenditure rebounds. After revenue declined 6.8% to $50.0 billion over 2009, it picked back up with growth of 1.6% in 2010, 2.8% in 2011 and an expected 4.5% in 2012. While the industry is currently benefiting from better conditions, firms will still need to contend with customers who remain hesitant to part with their money. Operators that meet these challenges will be in a stronger position for financial improvement, as economic growth approaches prerecession levels.

[6] Most Recent State-By-State Report – Joint Economic Committee to Congress (JEC)
[7] IBISWorld, http://ibisworld.com/, Intellectual property and restrictions on use of content on IBISWorld

Most major chains are also investing in international expansion as part of their long-term strategies. For example, in October 2010, Darden Restaurants signed an area-development agreement with one of the Middle East's largest restaurant franchising companies. This agreement marked Darden's first foray outside of North America. Many of these foreign markets have huge potential for growth and promise long-term profitability. In light of these opportunities, industry revenue is forecast to grow at an average annual rate of 3.6% to $65.3 billion over the five years to 2017.

Key Issues:

Consumers are becoming increasingly aware of issues related to weight and obesity, nutrition and food safety issues. Therefore, as the healthy eating index rises, demand for some restaurants with fewer healthy options will decrease. The healthy eating index is expected to decrease during 2012, but it will nonetheless remain a potential threat to the industry due to rising health education.

Factors that influence the growth of personal consumption expenditure influence the industry. During a recession, any spike in unemployment generally leads to declining consumption. Conversely, when personal consumption expenditure is high, consumers will be more likely to spend money on eating at restaurants. Consumer spending is expected to increase during 2012, providing a potential opportunity for the industry.

Industry Outlook: IBISWorld© predicts a yearly compound growth rate of 3.6% between 2012 and 2017.

4.0 Financial Analysis of the Company

4.1 Unadjusted Balance Sheet Presentation

The analysis of the balance sheet includes: (I) an analysis of the most recent years of historical balance sheets to ascertain trends and any specific assets or liabilities for which comments would be helpful to understanding the valuation impact and (ii) a comparison of the subject's balance sheet with those of other firms in the same or similar industry. Industry averages have been obtained from RMA Annual Statements Studies – Valuation Edition 2009. The RMA data obtained has been used under a license agreement issued by The Risk Management Associates and ValuSource©. (The industry comparison analysis is presented in Section 4.3.3)

Table 4.1a
Historical Balance Sheet

December:	Tax Return 2009	%	Tax Return 2010	%	Tax Return 2011	%	Industry Ave.
Assets							
Cash & Equivalents	$57,364	12.7%	$54,456	13.8%	$62,962	18.1%	16.0%
Accounts Receivable	$0	0.0%	$0	0.0%	$0	0.0%	1.6%
Inventory	$22,932	5.1%	$19,632	5.0%	$15,795	4.5%	4.2%
Other Current Assets	$11,956	2.6%	$11,231	2.8%	$5,831	1.7%	1.8%
Total Current Assets	$92,252	20.4%	$85,319	21.6%	$84,588	24.4%	23.6%
Fixed Assets	$316,073		$317,281		$318,343		
Accum. Depreciation	($192,049)		($223,794)		($251,955)		
Net Fixed Assets	$124,024	27.4%	$93,487	23.7%	$66,388	19.1%	49.5%
Other Assets	$235,622	52.1%	$215,960	54.7%	$196,298	56.5%	26.9%
Total Assets	$451,898	100.0%	$394,766	100.0%	$347,274	100.0%	100.0%
Liabilities and Equity							
Accounts Payable	$31,254	6.9%	$40,641	10.3%	$32,372	9.3%	8.1%
Short-Term Debt	$93,804	20.8%	$15,765	4.0%	$16,175	4.7%	12.3%
Other Current Liab.	$51,716	11.4%	$69,975	17.7%	$60,113	17.3%	15.7%
Total Current Liabilities	$176,774	39.1%	$126,381	32.0%	$108,660	31.3%	36.1%
Total Long-Term Debt	$19,257	4.3%	$82,629	20.9%	$66,638	19.2%	41.6%
Shareholder Loans & Other	$0	0.0%	$0	0.0%	$0	0.0%	9.9%
Total Liabilities	$196,031	43.4%	$209,010	52.9%	$175,298	50.5%	87.6%
Owners' Equity	$255,867	56.6%	$185,756	47.1%	$171,976	49.5%	12.4%
Liabilities & Equity	$451,898	100.0%	$394,766	100.0%	$347,274	100.0%	100.0%

Notes. None.

4.2 Unadjusted Income Statement Presentation

The purpose and use of analyzing the income statements are analogous to the explanation of the analysis of the balance sheets. Using a common size format, we will analyze the income statement for trends and compare it to its industry. This allows year-to-year comparisons and reveals the relationships between certain expenses as a percentage of total sales.

Table 4.2a
Historical Income Statement - Unadjusted

December:	Tax Return 2009	%	Tax Return 2010	%	Tax Return 2011	%	Industry Ave.
Gross Revenue	$2,455,069	100.0%	$2,279,768	100.0%	$2,336,717	100.0%	100.0%
Cost of Sales	$778,432	31.7%	$771,042	33.8%	$808,942	34.6%	37.7%
Gross Profit	$1,676,637	68.3%	$1,508,726	66.2%	$1,527,775	65.4%	62.3%
Operating Expenses							
Officer's salary	$220,681	9.0%	$152,906	6.7%	$153,000	6.5%	
Salaries & wages	$532,920	21.7%	$526,448	23.1%	$512,515	21.9%	
Repairs & maint.	$27,798	1.1%	$19,719	0.9%	$26,004	1.1%	
Bad debts	$0	0.0%	$0	0.0%	$0	0.0%	
Rents	$383,587	15.6%	$367,386	16.1%	$343,105	14.7%	
Taxes & licenses	$62,870	2.6%	$68,075	3.0%	$68,408	2.9%	
Interest	$25,398	1.0%	$12,662	0.6%	$21,750	0.9%	
Dep. & amort.	$62,415	2.5%	$51,407	2.3%	$47,823	2.0%	
Advertising	$13,232	0.5%	$12,457	0.5%	$10,288	0.4%	
Pension	$0	0.0%	$7,587	0.3%	$7,747	0.3%	
Employee benefits	$35,855	1.5%	$30,673	1.3%	$23,569	1.0%	
Other deductions	$251,684	10.3%	$235,706	10.3%	$228,433	9.8%	
Total Operating Exp.	$1,616,440	65.8%	$1,485,026	65.1%	$1,442,642	61.7%	57.2%
Other Income/Expense							
Other Income	$14,407	0.6%	$15,392	0.7%	$14,386	0.6%	
Other Expense(-)	$0	0.0%	$0	0.0%	$0	0.0%	
Total Other Inc/Exp.	$14,407	0.6%	$15,392	0.7%	$14,386	0.6%	1.1%
Pre-Tax Profit	$74,604	3.0%	$39,092	1.7%	$99,519	4.3%	4.0%
Income Taxes	$0	0.0%	$0	0.0%	$0	0.0%	
After-Tax Profit	$74,604	3.0%	$39,092	1.7%	$99,519	4.3%	

Notes. None.

4.3 Unadjusted Interim or Year to Date Income Statement Presentation

Interim statements, also known as year to date statements, can be used to show how the subject Company is performing mid-year. These statements may or may not show a consistent trend because certain revenues and expenses may be classified differently or posted at different times during the year. Although the statement should be considered, they should not be relied on as "final" or "year ended". The interim statements given to the appraiser are shown as follows:

Table 4.3a
Year to Date Income Statement Analysis

	Internal 9/30/2012	%	Internal 9/30/2011	%	% Inc./Dec.
Gross Revenue	$1,840,582	100.0%	$1,771,733	100.0%	3.9%
Cost of Sales	$636,841	34.6%	$606,467	34.2%	5.0%
Gross Profit	$1,203,741	65.4%	$1,165,266	65.8%	3.3%
Operating Expenses					
Officer's salary	$0	0.0%	$0	0.0%	NA
Salaries & wages	$521,531	28.3%	$502,081	28.3%	3.9%
Repairs & maint.	$27,717	1.5%	$24,014	1.4%	15.4%
Bad debts	$0	0.0%	$0	0.0%	NA
Rents	$268,931	14.6%	$265,134	15.0%	1.4%
Taxes & licenses	$42,599	2.3%	$53,568	3.0%	-20.5%
Interest	$49,618	2.7%	$20,715	1.2%	139.5%
Dep. & amort.	$34,653	1.9%	$35,496	2.0%	-2.4%
Advertising	$13,681	0.7%	$13,113	0.7%	4.3%
Pension/profit-sharing	$5,372	0.3%	$5,968	0.3%	-10.0%
Employee benefits	$9,764	0.5%	$20,341	1.1%	-52.0%
Other deductions	$155,370	8.4%	$136,625	7.7%	13.7%
Total Operating Exp.	$1,129,236	61.4%	$1,077,054	60.8%	4.8%
Other Income/Expense					
Other Income	$15,946	0.9%	$14,079	0.8%	13.3%
Other Expense(-)	$0	0.0%	$0	0.0%	NA
Total Other Inc/Exp.	$15,946	0.9%	$14,079	0.8%	13.3%
Pre-Tax Profit	$90,451	4.9%	$102,291	5.8%	-11.6%

Notes. None.

4.4 Adjustments to Financial Statements

As shown below, I have adjusted the balance sheet as of 9/30/2012 and then allocated the amount that is included in the sale. The adjustments are shown below:

Table 4.4a
Adjusted Book Value

	Internal 9/30/2012	Adjusted Book Value	Included in Value	$ Included in Value
Assets				
Cash & Equivalents	$37,420	$37,420	No	$0
Less: Excess Cash	-	$0	No	$0
Accounts Receivable	$0	$0	No	$0
Inventory	$20,652	$20,652	Yes	$20,652
Less: Excess Inventory	-	$0	Yes	$0
Other Current Assets	$4,845	$4,845	No	$0
Total Current Assets	$62,917	$62,917		$20,652
Fixed Assets	$320,803			
Accum. Depreciation	($271,861)			
Net Fixed Assets	$48,942	$215,402	Yes	$215,402
Other Assets	$183,751	$2,200	No	$0
Total Assets	$295,610	$280,519		$236,054
Liabilities and Equity				
Accounts Payable	$54,113	$54,113	No	$0
Short-Term Debt	$0	$0	No	$0
Other Current Liab.	$77,357	$77,357	No	$0
Total Current Liabilities	$131,469	$131,469		$0
Total Long-Term Debt	$71,968	$71,968	No	$0
Shareholder Loans & Other	$0	$0	No	$0
Total Liabilities	$203,437	$203,437		$0
Owners' Equity	$92,173	$77,081		$236,054
Liabilities & Equity	$295,610	$280,519		$236,054

4.5 Adjustments to Profit & Loss Statements

General: Typically when the control portion of a company is being valued, adjustments to the profit & loss statement are made to reflect economic reality rather than simply using statements prepared for income tax or financial reporting requirements.[8] Since I'm valuing a controlling interest, I have made certain adjustments shown on the following page:

[8] Jay E. Fishman, Shannon P. Pratt, J. Clifford Griffith, and D. Keith Wilson. Guide to Business Valuations. (Fort Worth: Practitioners Publishing Company, 1999) Ninth Edition, Volume 1, p. 4-19.

Table 4.5a
Adjusted Cash Flow Analysis

December:	Tax Return 2009	Tax Return 2010	Tax Return 2011	Projected 2012
Revenue				
Gross Sales	$2,455,069	$2,279,768	$2,336,717	$2,427,522
Sales Adjustment	$0	$0	$0	$0
Adjusted Sales	$2,455,069	$2,279,768	$2,336,717	$2,427,522
Cost of Goods Sold				
Historical Cost of Goods Sold	$778,432	$771,042	$808,942	$849,457
COGS Adjustment	$0	$0	$0	$0
Adjusted COGS	$778,432	$771,042	$808,942	$849,457
Cash Flow Adjustments				
Interest expense	$25,398	$12,662	$21,750	$52,097
Depreciation/Amort.	$62,415	$51,407	$47,823	$46,688
Officer's compensation	$220,681	$152,906	$153,000	$151,847
Officers' payroll txaes	$15,607	$13,875	$13,169	$17,925
Officers' benefits	$18,536	$17,656	$8,230	$18,657
Other add-backs	$0	$0	$0	$0
Replace 2nd owner	($52,000)	($52,000)	($52,000)	($52,000)
Other add-backs	$0	$0	$0	$0
Other add-backs	$0	$0	$0	$0
Historical rent	$0	$0	$0	$0
Fair market rent	$0	$0	$0	$0
Total Add Backs	$290,637	$196,506	$191,972	$235,214
Cash Flow Calc.				
Pre-Tax Profit +	$74,604	$39,092	$99,519	$88,000
Total Adjustments =	$290,637	$196,506	$191,972	$235,214
Seller's Discretionary Earnings	$365,241	$235,598	$291,491	$323,214
Less Replacement Salary	($75,000)	($75,000)	($75,000)	($75,000)
EBITDA	$290,241	$160,598	$216,491	$248,214
as % of Sales	11.82%	7.04%	9.26%	10.22%

Note 1: Add-backs listed above were provided by the client and have not been verified for accuracy.

Note 2: We are assuming the Company is paying fair market rent and similar terms would continue under new ownership.

Note 3: The replacement salaries were provided by the client.

Notes to Adjustments

The above adjustments were provided by outside parties and assumed to be correct. We assume that the adjustments are either at the owner's discretion or non-recurring. We also assume that each adjustment has actually been expensed from the financial statement being used in this analysis. We reserve the right to make adjustments to the report based upon consideration of additional or more reliable data that may become available subsequent to the issuance of this report.

Since the appraiser has not verified the above adjustments, it's important to note that in the event financing becomes a consideration and this report is to be updated for lending purposes (currently this report is not intended for lending – see Limiting Conditions), these adjustments must first be accepted by the lending institution, and then verified by the appraiser. If any of these items are either not accepted by the lending institution or cannot be supported through proper documentation, cash flow will decrease and will result in a decrease in value, which may jeopardize the financing. Further, support through proper documentation can be time consuming, so if the requested documentation is not readily available, be prepared for a delay in closing.

Table 4.5b
Projected Cash Flow Analysis

December:	Projected 2012	Tax Return 2011	Tax Return 2010	Tax Return 2009
Adjusted Sales	$2,427,522	$2,336,717	$2,279,768	$2,455,069
Adjusted SDE	$323,214	$291,491	$235,598	$365,241
Adjusted EBITDA	$248,214	$216,491	$160,598	$290,241
Adjusted EBIT	$201,526	$168,668	$109,191	$227,826
Weight	40%	30%	20%	10%

Weighted Sales	$2,373,484
Sustainable Growth	3.0%
Projected Sales	$2,444,689
Weighted SDE	$300,377
Sustainable Growth	3.0%
Projected SDE	$309,388
Weighted EBITDA	$225,377
Sustainable Growth	3.0%
Projected EBITDA	$232,138
Weighted EBIT	$175,832
Sustainable Growth	3.0%
Projected EBIT	$181,106

Notes on Weighting: Weighting is reasonable when the appraiser concludes the return of any one or more years is a more reliable indicator of future returns than are the returns of the other years. Usually, a buyer of a small business will rely on the latest year or years or even the trailing 12 months.

Notes on Growth Rate: To the weighted average I have added a growth rate to arrive at next year's projection. Since I believe that growth will be relatively stable, this would be considered a sustainable growth rate. Based on my discussions with the client and parties involved, my analysis on historical performance, and the industry growth and outlook, it's my opinion that the sustainable growth going forward will be approximately 3.0%.

5.0 Valuation of the Subject Interest

5.1 Application of the Market Approach – Direct Market Data Method

The Direct Market Data Method, DMDM, develops a value based on the transaction values for which similar privately held businesses have been sold.[9] The method assumes that if you take a large group of transactions of similarly structured businesses, the central tendency of the value ratios in such groups represents the value determined in a free and open market or Fair Market Value. The size of the group has been demonstrated to require more than five transactions.[10]

I have used the following databases for the DMDM approach: (1) **Bizcomps** – with data also collected by business brokers, this database is published by John Wiley & Sons and contains over 7,000 transactions with the average sales price of $270,000. (2) **PeerComps** – the PeerComps database was published in 2009 (by GCF Valuation) and contains over 5,000 transactions. The information was gathered from SBA lenders and involves transactions specifically financed by the SBA. The summary of the databases are finding on the next 3 consecutive pages:

[9] Using Transaction Data to Value Closely Held Businesses, Institute of Business Appraisers, 1995.
[10] Ray Miles, How to Use the IBA Market Data Base, Part VII, How Many Guideline Transactions are Needed? (Plantation, FL: Institute of Business Appraisers, 1995)

5.1.1 Bizcomps Data

An initial search of the Bizcomps database produced 60 transactions for NAICS or SIC Code 5812 with median revenues of $454,500.[11] The comparable transactions in detail have been kept in our work file. A summary of the data is presented below:

Table 5.1.1a
Market Approach - DMDM
Bizcomps Data - Summary

	Annual Sales	Discretionary Earnings	Sale Price	SP / Sales	SP / SDE	SDE %
High	$2,520,000	$300,000	$950,000	0.79	6.98	37%
Top 10%	$815,200	$176,500	$395,500	0.72	4.19	27%
Top 25%	$599,000	$112,000	$300,000	0.54	3.05	21%
Mean	$555,017	$95,683	$228,067	0.42	2.55	18%
Median	$454,500	$82,000	$196,000	0.38	2.36	18%
Low 25%	$362,250	$51,000	$115,000	0.28	1.72	14%
Low 10%	$257,400	$33,400	$64,300	0.22	1.13	10%
Low	$160,000	$18,000	$35,000	0.10	0.78	6%
Coefficient of Variance				0.43	0.50	
Subject Company	$2,373,484	$300,377				13%
Mean, Median or Other Selected Selected				Mean 0.42	Median 2.36	

Industry: Franchised Limited Service Restaurant

NAICS / SIC Code	5812
Number of Transactions	60

I broke the set of comparable sales down even further into high, low, mean and median. I also broke down the top and bottom percentiles and quartiles (10% and 25%). It appears that the subject Company is closest to the "High" in revenue, "High" in discretionary earnings and "Low 25%" in discretionary earnings as a percentage of sales. Based on this analysis, I believe that the subject Company should be classified by the "Mean" for the price to revenue multiplier and "Median" for the price to discretionary earnings multiplier.

[11] Business Valuation Resources

5.1.2 PeerComps Data

An initial search of the PeerComps database produced 306 transactions for NAICS code(s) 722211 with median revenues of $781,023.[12] The comparable transactions in detail have been kept in our workfile. A summary of the data is presented below:

Table 5.1.2a
Market Approach - DMDM
PeerComps Data - Summary

	Annual Sales	Annual SDE	SP / Sales	SP / SDE	SP / EBITDA	SDE %
High	$17,500,000	$1,500,000	0.95	4.76	7.61	44%
Top 10%	$2,038,000	$369,050	0.82	3.84	4.99	29%
Top 25%	$1,307,500	$230,701	0.73	3.43	4.56	24%
Mean	$1,177,321	$197,525	0.59	3.01	4.03	20%
Median	$781,023	$149,500	0.58	3.01	4.05	20%
Low 25%	$496,250	$106,124	0.46	2.60	3.52	16%
Low 10%	$357,000	$77,638	0.36	2.20	3.11	13%
Low	$213,000	$43,000	0.15	1.04	1.41	6%
Coefficient of Variance			0.30	0.21	0.20	
Subject Company	$2,373,484	$300,377				13%
Mean, Median or Other Selected Selected			Mean 0.59	Mean 3.01	Mean 4.03	

Industry: Franchised Limited Service Restaurant

NAICS Code Searched	722211
Number of Transactions	306

Similar to the previous Database, I broke the set of comparable sales down even further into high, low, mean and median. I also broke down the top and bottom percentiles and quartiles (10% and 25%). It appears that the subject Company is closest to the "Top 10%" in revenue, "Top 10%" in SDE and "Low 10%" SDE as a percentage of sales. Based on this analysis, I believe that the subject Company should be classified by the "Mean" for the price to revenue multiplier, "Mean" for the price to seller's discretionary earnings multiplier and "Mean" for the price to EBITDA multiplier.

[12] PeerComps.com

5.1.3 Summary of DMDM and Indication of Value

The table below shows the calculation of the DMDM (Market Approach) value reflected by each of the applications shown above:

Table 5.1.3a
Market Approach - DMDM
DMDM Conclusion

Application	Value Selected	Selected Value	Coefficient of Variance	Confidence Level	Extension
Bizcomps - Price / Sales	Mean	$1,050,640	0.43	0%	$0
Bizcomps - Price / SDE	Median	$750,188	0.50	0%	$0
PeerComps - MVIC / Sales	Mean	$1,436,774	0.30	0%	$0
PeerComps - MVIC / SDE	Mean	$932,137	0.21	50%	$466,068
PeerComps - MVIC / EBITDA	Mean	$935,824	0.20	50%	$467,912
Indicated Value - Private / Illiquid, Controlling Basis				100%	$933,980

Analysis of Range of Values: As shown above, the values ranged between $750,188 and $1,436,774. As indicated earlier, I classified the subject Company by sales and profitability into percentiles, quartiles, and averages. Based on the analysis, I'm confident in the level selected for each fundamental. The IBA, Bizcomps, & PeerComps databases apply more to "Main Street" or smaller businesses. Pratt's Stats is more geared towards larger "M&A" type transactions.

Conclusion of DMDM: As shown above, I have estimated a value of the subject entity using the Direct Market Data Method (DMDM) to be $933,980, which is the estimated illiquid, controlling value of all operating assets and liabilities included in the sale.

5.2 Application of the Income Approach – Capitalization of Earnings (net cash flow)

The discounting of future benefits to a present value is a theoretically correct method of value when investors are seeing a return on their investment. This method is dependent upon two inputs, the projection of the future benefits and the determination of a suitable discount rate. The Single Period Capitalization Method (or Capitalization of Earnings Method) is used when the future benefit stream is expected to change in a constant and predictable way from year to date (i.e. grow at a constant rate).

5.2.1 Conceptual Basis

The Capitalization of Earnings Method looks not to the assets of the company, but instead to the income stream which could be paid to the owner. The value of the ownership interest is the amount an investor would be willing to pay today for the right to receive a certain amount of money in the future in the form of periodic cash payments. Where the annual payments are expected to be even, a projection of annual cash flows is made and reduced to present value using a discount rate reflecting the riskiness of the company as an investment.

The development of the method requires the following decisions:

1. The selection of a type of financial return to be capitalized.
2. A decision as to whether to use that return applicable to equity or invested capital.
3. The selection of a capitalization rate to be applied to the return selected.

5.2.2 Return to be Capitalized

Discount and capitalization rates that are developed using publicly-held data, such as Ibbotson and Duff & Phelps should be applied to the net cash flow, sometimes called net free cash flow (dividend paying capacity) of a company.[13] In this case, I will be capitalizing both free cash flow, but also seller's discretionary earnings, also known as owner benefit.

5.2.3 Equity or Invested Capital

In this case, I will use net cash flow to invested capital – debt and equity. Net cash flow applicable to invested capital neither recognizes interest expense in the calculation of adjusted net income nor recognizes principal repayments and new borrowing when converting net income to net cash flow. Later, when the value of invested capital is determined, the amount of the debt to be assumed will be subtracted to arrive at the value of equity.

5.2.4 Net Cash Flow to Invested Capital

The calculation of next year's net cash flow to invested capital is shown below.

Table 5.3.2.4a
Projected Net Cash Flow to Invested Capital

December:	Projected 2012	Tax Return 2011	Tax Return 2010	Tax Return 2009
Adjusted EBITDA	$248,214	$216,491	$160,598	$290,241
Weight	40%	30%	20%	10%
Weighted EBITDA	$225,377			
Less: Ongoing Depreciation	($46,688)			
Weighted EBIT	$178,689			
Growth Rate for Next Year	3.0%			
Next Year's EBIT	$184,049			
Corporate or Personal Taxes	($48,313)			
Debt Free Net Cash Flow	$135,736			
Add: Depreciation	$46,688			
Deduct: Cap Ex Reserve	($28,002)			
Deduct: Working Cap. Req.	$1,293			
Next Year's Free Cash Flow	$155,715			

[13] Shannon P. Pratt, Robert F. Reilly, and Robert P. Schweihs. Valuing a Business: The Analysis and Appraisal of Closely Held Companies. Fourth Edition. New York: McGraw-Hill, 2000, page 193.

Forecasted EBIT: Weighting is reasonable when the appraiser concludes the return of any one or more years is a more reliable indicator of future returns than are the returns of the other years. As shown in Section 3.7, I analyzed the historical revenue and expenses, borrower projections and industry forecasts to arrive at a reasonable EBIT projection based on weighting historical years. I have projected EBIT to be $181,106 for the first year of the projection.

5.2.5 Development of a Suitable Discount Rate and Capitalization Rate

Table 5.2.5a
After-Tax Equity Cost of Capital

Risk-free Rate of Return (20-year treasury)	4.5%
Equity Risk Premium for Smaller Stocks	12.5%
Company Specific Risk Premium	5.0%
Total Cost of Equity	22.0%
Prime Rate	3.3%

Risk Free Rate: Although there probably is no such thing as a risk free investment, the financial community for many years has adopted by convection the use of rates of return demanded by investors in government securities as a surrogate for a risk free investment. The risk free rate of return most commonly used by business valuators in the United States is the US Treasury 20-year Bond Rate. The 20-year bond rate is used because it is thought to represent the best investment horizon for a privately-held business. At the date of report the 2010 five year average rate of return required by investors in government securities was approximately 4.5%.[14]

Equity Risk Premium for Smaller Stocks: The equity risk premium is the extra return demanded by investors in stocks over that demanded by lenders. A commonly used source for estimating the equity risk premium for smaller stocks is the Duff & Phelps Risk Premium Report, a company that publishes an annual study based on publicly held stock returns over the yields on U.S. Treasury rates.[15] At the date of valuation the most recent such data indicated that on average investors in the smallest publicly traded stocks demanded (and got) a rate of return about greater than the yield on 20-year U.S. Treasury obligations.[16] In selecting this measure of the equity risk premium, I'm persuaded by fact that this is a demonstrated return to shareholders of the smallest publicly held companies, over a long period of observation and takes into consideration both the equity risk and size risk. The risk premium for the smallest publicly held stocks is 12.5%.

Company-Specific Risk Premiums: The company-specific risk premium is a component of the total rate of return that an investor would demand because of the generally greater risk of investing in the subject Company over and above the risk of investing in the stock of small publicly-traded companies. Accordingly, this component of the rate of return is unique to the subject Company and takes into consideration the additional size risk smaller companies have compared to publicly held companies. There is no readily available source of information that can effectively be used to determine the unsystematic risk, identified as the company-specific risk premium. This risk premium is ultimately based on the analytical skill, judgment, and experience of the appraiser and is subjective. In estimating what I believe is an appropriate company-specific increment to the rate of return earned by investors in

[14] 5 Year Average US Treasury Yield as of 12/31/10. http://www.federalreserve.gov/releases/h15/data.htm
[15] Duff & Phelps, LLC, Risk Premium Report 2009. Copyright © 2010 Duff & Phelps, LLC. All Rights Reserved. No part of this publication may be reproduced or used in any form or by any means-graphic, electronic, or mechanical, including photocopying, recording, taping, or information storage and retrieval systems-without written permission of the publisher.
[16] Duff & Phelps, LLC, Risk Premium Report 2009. Exhibit A-1 to A-8.

small publicly-traded stocks, I considered several aspects of the subject Company, which were discussed earlier and throughout the report are presented below:

Table 5.2.5b
Discount Rate & Capitalization Rate
Specific Risk Premium

Company Specific Risk Premium: Compared to Small Publicly Held Companies

1. Industry Risk	0.0%
2. Financial Risk	0.0%
3. Depth of Management	1.0%
4. Level of Diversification	0.0%
5. Competition Risk	2.0%
6. Access to Capital	1.0%
7. Risk in Achieving Projections	1.0%
Company Specific Risk Premium	5.0%

* comparison to a small public company

Rand Curtiss[17] indicates that for practical reasons the company specific premium ranges from -5% for a very low risk business to 20% for a very high risk business. The sum of the risk free rate, the equity risk premium, and the size premium is typically around 16%. Therefore a range of -5% to 20% for the company specific premium corresponds to discount rates from 11% to 35%. The value of 35% corresponds to the low end of venture capital rates of return for later-stage investments. For most well established privately-held companies, the company specific risk premium will usually range from 3% to 10%.

After adding up the risk free rate, equity risk premium for small publicly-held stocks and company-specific risk premium, the build-up approach indicates an equity discount rate of 22.0%.

5.2.6 Weighted Average Cost of Capital (WACC)

The weighted average cost of capital is derived through application of an industry average debt to equity capital structure to the equity discount rate and debt cost of capital. I've utilized the Duff & Phelps debt to MVIC median average for the smallest public companies, which was 24.5%. The computation of the weighted average cost of capital is illustrated below:

Table 5.2.6a
Weighted Average Cost of Capital (WACC)

	Cost of Capital	Industry Ave. Capital Structure	WACC
After-Tax Equity Cost of Capital	22.0%	75.5%	16.6%
After-Tax Debt Cost of Capital	4.6%	24.5%	1.1%
Weighted Average Cost of Capital			17.7%
Less: Long-Term Growth Rate			-3.0%
Cap Rate on Invested Capital			14.7%

[17] Rand M. Curtiss, MCBA, FIBA, ASA "Quantifying the Specific Company Equity Risk Premium" Business Appraisal Practice, Fall 2003, published by The Institute of Business Appraisers.

5.2.7 Summary and Indication of Value

Table 5.2.7a
Income Approach
Capitalization of Free Cash Flow

Next Year's Forecasted Net Cash Flow to Invested Capital		$155,715
Capitalization Rate		14.7%
Value of Invested Capital (marketable, controlling basis)		$1,058,046
Less: Interest Bearing Debt		($71,968)
Equity Value (marketable, controlling basis)		$986,078
Adjustments for Assets / Liabilities Not Included in Sale: The equity value generated from this method includes all operating assets and liabilities. The value must be adjusted for any operating assets or liabilities not included in the sale.		
Add: Total Liabilities Not Included in the Sale	$203,437	
Deduct: Normal Cash Not Included in the Sale	($37,420)	
Deduct: A/R Not Included in the Sale	$0	
Deduct: Other Assets Not Included in the Sale	($7,045)	
Total Assets / Liabilities Not Included in the Sale		$158,972
Indicated Value - Public / As If Freely Traded, Controlling Basis		$1,145,050

Adjustments for Assets & Liabilities, Not Included in Sale: The typical buyer of a small business will most likely acquire the "assets" of a business rather than the "stock" or "equity of the business. Most assets sales include only fixed assets, goodwill, and inventory. The equity value generated from this method includes all operating assets and liabilities. The value must be adjusted for any operating assets and liabilities not included in the sale.

Single-Period Capitalization Method Conclusion: After making certain adjustments shown above, I have calculated a value of the subject entity using the Single-Period Capitalization Method of $1,145,050, which is the estimated marketable (as if freely traded), controlling value of all operating assets and liabilities included in the sale. This value is prior to application of any discounts or premiums.

5.3 Application of the Income Approach – Capitalization of Seller's Discretionary Earnings

Although unconventional, I have also decided to capitalize the Company's seller's discretionary earnings (SDE), also known as "owner benefit". Since most buyers of smaller businesses are more focused on a "return on owner's labor" (as compared to the traditional net cash flow to equity methods which are based on return on equity or capital), I believe the capitalization of owner's benefit should be considered.

5.3.1 Development on a Suitable Capitalization Rate (or multiple)

To capitalize seller's discretionary earnings, I have also chosen to calculate the factor rating method for valuing the subject interest. As mentioned above, the "factor rating" method is primarily used for valuing small businesses (also known as the Business Brokerage Segment[18]) with the following common attributes:

Table 5.3.3.1a
Discount Rate & Capitalization Rate
Calculated for Seller's Discretionary Earnings

IBA Database - Price to SDE Average	3.1
Bizcomps Database - Price to SDE Average	2.4
Pratt Stats Database - Price to SDE Average	2.5
Average of 3 Databases	2.7
Related Cap Rate (1/multiple)	37.6%
Add/(Deduct): Specific Company Risk	-2.0%
Adjusted Cap Rate on Seller's Discretionary Earnings	35.6%
Calculated Multiple (inverse of cap rate)	**2.8** x

<u>Average Price to SDE Multipliers:</u> My first step was to research the total number of transactions from the 3 databases discussed in Section 5.3.1.1. Based on my analysis, the average price to Seller's Discretionary Earnings multiplier for the entire IBA Database was approximately 3.1. The average price to SDE multiplier for the entire Bizcomps Database was approximately 2.4. The average price to SDE multiplier for the entire Pratt's Stats database was approximately 2.5. It should be noted that the IBA database shows a slightly higher multiple most likely because they do not include depreciation as an adjustment to cash flow. It should also be noted that although multiples in Bizcomps are presented "exclusive of inventory" (inventory value must be added to the value generate via the multiple and discretionary earnings), the impact of inventory on most businesses will be relatively small (in comparison to the overall business value). It could be assumed that a sample size of nearly 40,000 comparable sales should be a reasonable for a "basis" for the "average" multiple of SDE. The average price to SDE for the 3 databases is approximately 2.7.

<u>Company-Specific Risk Premiums:</u> The 3rd and final step is to adjust the capitalization rate for risk factors specific to the subject Company. I've taken the same approach as I would with a traditional "Ibbotson's Build Up Approach". The company-specific risk premium is a component of the total rate of return that an investor would demand because of the generally greater (or lesser) risk of investing in the subject Company over and above the risk of investing in similar privately-held companies.

[18] <u>The Business Valuation Book</u>: Published by the American Management Association and Amacom Publishing.

Table 5.3.3.1b
Discount Rate & Capitalization Rate
Specific Risk Premium

Company Specific Risk Premium: Privately Held Companies

1. Financial Performance/Stability/Projection Risk	0.0%
2. Size & Years of Operation	-2.0%
3. Location & Market	-1.0%
4. Dependence on Owner or Key Employees	1.0%
5. Customer & Supplier Diversification	0.0%
6. Competition / Barriers to Entry	1.0%
7. Overall Marketability / Pool of Buyers	-2.0%
8. Industry & Impact on Business	0.0%
9. National / Regional Economy & Impact on Bus.	0.0%
10. Market Diversity (Prod./Service & Geography)	1.0%
Company Specific Risk Premium	-2.0%

As shown above, I've classified the Company Specific Risk into 7 categories: 2% = High Risk; 1.5% = Moderately High Risk; 1% = Above Average Risk; 0% = Average Risk; -1% = Below Average Risk; -1.5% = Moderately Low Risk; -2% = Low Risk. These percentage factors were chosen due to the range of SDE multipliers for the 3 databases. For instance, if we used all "low risk" factors of -2%, the SDE multiplier would be approximately 6x. This multiplier would be close to the top 10 percentile (highest 10%) for all SDE multipliers for the 3 databases. Similarly, if we used all "high risk" factors of 2%, the SDE multiplier would be approximately 1.7x or close to the bottom 10 percentile (lowest 10%). Therefore, the model appears consistent and reliable.

After adding the Company Specific Risk Premium to the unadjusted capitalization rate, I have calculated an adjusted capitalization rate on Seller's Discretionary Earnings (SDE) to be approximately 35.6%. This would result in a multiplier of SDE or owner's benefit of 2.8x.

5.3.2 Summary and Indication of Value

Calculation of Initial Value: As shown below, I have calculated an initial value by capitalizing next year's forecasted seller's discretionary earnings. Because the underlying basis for the discount rate from which I derived the capitalization rate are rates of return paid for other privately held businesses, the value indication from this method is considered to be "privately held" or illiquid. The calculation of the Capitalization of Seller's Discretionary Earnings method is shown below:

Table 5.3.2a
Income Approach
Capitalization of Seller's Discretionary Earnings

Next Year's Forecasted Seller's Discretionary Earnings		$309,388
Capitalization Rate		35.6%
Gross Value - Before Adjustments		$869,214
Adjustments:		
The typical buyer of a small business will most likely acquire the "assets" of a business rather than the "stock" or equity of the business. The majority of assets sales include only fixed assets, inventory and goodwill. Therefore, the value should be adjusted for the assets and liabilities that would or would not transfer in a normal sale as shown below:		
Add: Assets Typically Not Included in a Sale:		
Cash & Equivalent	$0	
Accounts Receivable	$0	
Other Current Assets	$0	
Total Assets Typically Not Included in a Sale		$0
Less: Liabilities Typically Not Included in a Sale:		
All Liabilities	$0	
Total Liabilities Typically Not Included in a Sale		$0
Indicated Value - Private / Illiquid, Controlling Basis		$869,214

Adjustments for Assets & Liabilities, Not Included in Sale: The typical buyer of a small business will most likely acquire the "assets" of a business rather than the "stock" or equity of the business. Most assets sales include only fixed assets, goodwill, and inventory. The initial value generated from this method includes only fixed assets, inventory, and goodwill. The value must be adjusted for any operating assets and liabilities included or not included in the sale.

Capitalization of Seller's Discretionary Earnings – Conclusion: After making certain adjustments shown above, I have calculated a value of the subject entity using the Capitalization of Discretionary Earnings Method of $869,214, which is the estimated privately-held (illiquid), controlling value of all operating assets and liabilities included in the sale. This value is prior to application of any discounts or premiums.

5.3.3 Summary and Indication of Value

As of the report date, there were no non-operating assets included in the sale.

6.0 Adjustments to Indicated Values

Before applying the final weighting and reconciliation of the indicated values to determine the final estimate of value, the need for any adjustments for non-operating assets, discounts, and premiums must be reviewed.

6.12 Discounts and Premiums

Shannon Pratt states, discounts, and premiums are the result of using less-than-perfect data to measure value.[19] A discount, or premium, is applied to a base value to bring the subject interest to a common level. The two general levels of difference that are commonly observed include control (or lack thereof) and marketability (or liquidity).

6.13 Discounts & Premiums Related to Control

Identification of a control interest or a minority (non-controlling) interest in a business is very important. Control refers to the ability to manage or control the business. A minority interest, by definition, does not have control. Minority interests in a business are typically worth less, often a lot less, than the proportionate share of the business.[20]

Control Premium: If the initial value calculated is on a non-controlling basis (such as when using data from public companies) and the appraiser is trying to value a controlling interest, sometimes a control premium is required. A variety of studies has been conducted to examine control premiums paid. *Mergerstat Review*, a common source of control premium data, calculates the premium based on the buyout prices over the market price of the seller's stock five business days prior to the announcement date. However, it is difficult to know exactly how much of the premium was related to gaining control or synergistic value – many analysts argue that a large portion of the control premiums include synergy. As shown in previous sections, my initial indications of value were on a controlling basis either because the values were based on sales of 100% interests or because adjustments were made to the income statement that only a controlling shareholder could make. Therefore, a control premium is not required.

Discount for Lack of Control: If the initial value calculated is on a controlling basis (such as when using data from comparable sales of private companies) and the appraiser is trying to value a non-controlling interest, sometimes a discount for lack of control (also known as minority interest discount) is required. Unfortunately, there is not a method currently available for directly observing discounts for lack of control in the marketplace. Instead, discounts for lack of control are calculated using control premiums. As shown in previous sections, my initial indications of value were on a controlling basis. Since I'm valuing a controlling interest, a discount for lack of control is not required.

6.14 Discounts Related to Marketability

The lack of marketability is not related to the desirability of the subject Company, but to the lack of liquidity in the marketplace. The discount for lack of marketability (hereafter referred to as "DLOM") recognizes the fact that the shares of closely held businesses are not as liquid as the shares of publicly traded companies due to the lack of a ready market. Unlike a stockholder of a publicly traded company, a

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[19] Shannon P. Pratt. Business Valuation Discounts and Premiums. New York: John Wiley & Sons, Inc. 2001, page xxi
[20] Jay E. Fishman, Shannon P. Pratt, J. Clifford Griffith, and D. Keith Wilson. Guide to Business Valuations. Fort Worth: Practitioners Publishing Business, 1999. Ninth Edition, Volume 2, p. 8-15

stockholder of a closely held business cannot immediately sell or liquidate the ownership interest in the closely held business. It is generally accepted within the appraisal profession that the standard for marketability (or liquidity) is "cash in three days". It usually takes time (usually much longer than 3 days), money, and a considerable amount of effort to sell an ownership interest in a closely held business.

6.15 Marketability Discounts – Controlling vs. Non-Controlling Values

Marketability discounts are usually and regularly applied to non-controlling, marketable values when trying to calculate a non-controlling, non-marketable value. However, according to David Bishop in his article "Lack of Marketability Discounts for Controlling Interest", a DLOM "is appropriate for controlling interests when the fair market value of an operating company is indicated by a valuation method under the income approach developed on an "as if freely traded" basis."[21] Bishop also discusses Chris Mercer's position on marketability discounts for controlling interests covered in chapter eleven of his book, *Quantifying Marketability Discounts*. Bishop summarizes Mercer's position stating that the discount for a controlling interest would clearly be different than for a minority interest. The two discounts, a minority marketability discount, and a control marketability discount (usually called an illiquidity discount) would be taken from different valuation basis. He further states that the various studies relevant to minority marketability discounts do not apply to the issue of a control marketability discount.

6.16 Selection of the DLOM (or Lack of Liquidity)

<u>Capitalization of Free Cash Flow:</u> For valuing the 100% controlling interest in the subject Company, a marketability discount must be identified that will be sufficient to convert the controlling marketable value to a controlling non-marketable value. As discussed earlier, DLOMs for controlling interest are calculated different compared to DLOMs for non-controlling interest. It has already been established that the initial indicated values are on a controlling basis. It has also been established that the value calculated by the DMDM method was based on prices at which other closely held (non-marketable) interests were sold, so the value indicated was on a private-illiquid, control basis. Therefore, the discount in question is a DLOM for a controlling interest (known as an illiquidity discount) to be applied to the Income Approach. Unfortunately, there is little direct evidence available to determine the size of this discount. The marketplace, however, does tell us that most frequently controlling interests in closely held companies sell for less than do controlling interests in publicly traded companies. Market studies performed by FactSet Mergerstat[22] and published in the Mergerstat Review indicate the prices paid to acquire controlling interests in privately owned companies imply discounts which over the last 10 years average a 16% discount from the prices paid to acquire controlling interests in publicly traded companies.

It could be assumed that one of the primary reasons for the difference in prices paid would be that the private companies lacked marketability. If other variables are ignored, the difference could be seen as a basis for concluding the marketability difference applicable to controlling interests in closely held companies is 16%. However, as indicated above, there are other variables which influence the average price to earnings differences such as size, management depth, diversification, quality of financial information, etc. These considerations force us to conclude that while lower prices paid for closely held companies were undoubtedly influenced by their lack of marketability, they were also influenced by other factors.

[21] Bishop, David M. "Lack of Marketability Discounts for Controlling Interests," *Business Appraisal Practice*, published by the Institute of Business Appraisers, Inc., Spring 2000, p. 39.
[22] Mergerstat Review, FactSet Mergerstat. Table I-12 Page 20.

7.0 Weighting and Reconciliation of Indicated Values

I have outlined each of the methods discussed in Section 4 and discounts applicable to these methods as discussed in Section 5. Uniform Standards of Professional Appraisal Practice (USPAP) clearly indicates that an appraiser cannot simply take a mathematical average or make some other set calculation to arrive at a final value. Instead, "The appraiser must evaluate the relative reliability of the various indications of value. The value conclusion is the result of the appraiser's judgment."[23]

The various indications of value are shown below:

Table 7.0a
Summary of Valuation Methods

Valuation Method	Value and Basis Indicated By Method	Adjustments for Differences in Degree of: Marketability	Control	Adjusted Value and Basis	Confidence Level	Incremental Value
Cost Approach						
Adjusted Book Value	$236,054 Illiquid, Control	0%	0%	$236,054 Illiquid, Control	0%	$0
Market Approach						
Direct Market Data Method (DMDM)	$933,980 Illiquid, Control	0%	0%	$933,980 Illiquid, Control	33%	$311,296
Income Approach						
Capitalization of Net Cash Flow	$1,145,050 Liquid, Control	10%	0%	$1,030,545 Illiquid, Control	33%	$343,481
Capitalization of Discretionary Earnings	$869,214 Illiquid, Control	0%	0%	$869,214 Illiquid, Control	33%	$289,709

Value Conclusion

Fair Market Value: 100% Interest - Private / Illiquid, Control Basis - Excluding Nonoperating As	100%	$944,485
Fair Market Value: Excess Working Capital		$0
Fair Market Value: Other Nonoperating Assets		$0
Fair Market Value: 100% Interest - Private / Illiquid, Control Basis - Including Nonoperating Assets		$944,485
Interest Appraised		100%
Value Conclusion		$944,485
Value Conclusion (rounded)		$940,000

Reconciliation is shown on the following page:

[23] Uniform Standards of Professional Appraisal Practice, the Appraisal Foundation, Washington DC, 2000 Edition, Standards Rules 9-5, p. 65.

Reconciliation – Asset Approach: Although I have calculated the adjusted book value method, I have decided not to weight this method. In spite of the fact that the Company has some investment in tangible assets, I believe that an investor would evaluate Local Restaurant based primarily upon the aggregate earnings and cash flow generating capability of the Company's combined assets, rather than on the basis of individual asset values.

Reconciliation – Market Approach: The Direct Market Data Method (DMDM) utilized in this report uses actual sales of privately-held companies to determine value. The direct applicability of the data to the subject company is never known; however, by using a larger number of transactions, a reasonable indication of value can be inferred. In this case, we were able to find a sufficient amount of comparable transactions that were similar in size and within the same industry. I have a relatively high confidence in the comparable transactions and therefore have given the overall market approach 33% weight.

Reconciliation – Income Approach: I have utilized two Single Period Capitalization Methods, including the capitalization of free cash flow and capitalization of seller's discretionary earnings. Since projected earnings are expected to be relatively stable, I have elected to capitalize a sustainable earnings base. The majority of potential business buyers give significant credence to the actual and expected return on free cash flow. However, a "multiplier of owner cash flow" approach was also derived in reflection of "real world" valuation and negotiation tactics used by typical buyers and sellers of small businesses. The majority of potential business buyers of this nature give significant credence to the actual and expected owner cash flow. Therefore, I believe that both income approaches should also be weighted equally or 67% of the total.

7.1 Value Conclusion

Based upon the facts presented in the accompanying report, it is my conclusion that the fair market value of the 100% controlling, illiquid interest in Local Restaurant, as of September 30, 2012, is best expressed as:

$940,000

8.0 Review of Final Estimate of Value for Reasonableness

The following section is supplied to give additional support to the value conclusion stated for the 100% interest in the common stock of Local Restaurant. Although not considered an "appraisal method", there are various rules of thumb that exist that are common applied to the subject industry. I will also discuss the reasonableness of the value by using a Purchase Justification Test, which outlines a typical transaction and ability to service debt.

8.1 Rules of Thumb

According to Tom West, editor of the Business Reference Guide, the following rules of thumb exist for "Franchised Food Businesses beginning on Page 293":[24]

Rules of Thumb

	Rule of Thumb - Low	Rule of Thumb - High	Plus Equipment	Plus Inventory	ROT Value - Low	ROT Value - High
Price to Revenue	52%	60%	$0	$20,652	$1,291,890	$1,487,465
Price to SDE	2.50	3.50	$0	$20,652	$794,121	$1,103,509
Price to EBITDA	3.50	3.50	$0	$0	$812,482	$812,482
Price to EB IT	4.00	4.00	$0	$0	$703,326	$703,326

If applied to the forecasted revenue and earnings of the subject Company, the rules of thumb shown above calculate enterprise values between $703,326 and $1,487,465. The enterprise values normally calculated based on the Business Reference Guide include fixed assets, inventory, and goodwill. The final value I have calculated including only fixed assets, inventory and goodwill is $944,485, which falls in between the rule of thumb values.

8.2 Purchase Justification Test

To test the reasonableness of my opinion of the Company's fair market value, I've performed a purchase justification test based on a hypothetical sale. This analysis includes assumptions regarding the cash down payment the terms of the purchase notes, and the business's projected cash flows. These assumptions are presented below:

Source of Purchase Funds	Percentage	Amount	Terms In Months	Interest	Monthly Payment
Required Cash From Buyer	20%	$188,897			
3rd Party Financing	80%	$755,588	120	6.25%	$8,484
Seller Take Back Note	0%	$0	0	0.00%	NA
Total	100%	$944,485			$8,484

Value is based on "Enterprise" or Asset Value, which is the standard for a small business.

[24] Business Reference Guide, 2012, Written & Edited by Tom West

Based on the above assumptions, I have created a projected cash flow taking into consideration a hypothetical sale. Under a typical business acquisition loan from the Small Business Administration (typical for this size business), the business is financed for 10 years at prime plus 2%. The forecast, return on down payment is shown below:

Table 8.2a
Post Sale Cash Flow

		Projected Year 1
Projected EBIT		$184,049
3rd Party Note Interest		($45,633)
Seller Note Interest		NA
Projected Post Sale EBT		$138,416
Income Taxes @	26%	($36,334)
Projected Net Income		$102,082
Depreciation/Amortization		$46,688
Less: Capital Expenditures		($28,002)
Less: Working Cap Inc.		$1,293
3rd Party Principle Pmt.		($56,172)
Seller Note Principle Pmt.		NA
Cashflow to Shareholder		$65,889
Return on Down Payment		35%

As shown above, based on a hypothetical sale, the hypothetical buyer is able to service the associate debt and still receive a fair rate of return on the cash down payment of 35% in the first year. Based on the rule of thumb and above analysis, it appears the final value is reasonable.

9.0 Professional Qualifications of Appraiser

Appraiser Background

Darren S. Mize, ASA - Mr. Mize holds a BA degree in Performance Management from The Florida State University. Darren also holds the ASA (Accredited Senior Appraiser) Designation in Business Valuation from the American Society of Appraisers. Mr. Mize has more than 10 years of business valuation experience, specializing in valuations for small to mid-market merger & acquisition candidates. GCF Valuation is a full service business valuation firm located in Tampa, Florida and Darren's role as Partner and Manager of the Firm's M&A Division is to provide valuation consulting services to the Firm's merger & acquisition and business intermediary clients involved with buy/sell transactions of privately-held businesses.

GCF Valuation is a nationally respected firm specializing in providing valuation and consulting services for intermediaries and their respective clients as well as selected IPO candidates.

Education

The Florida State University, Bachelor of Science, Psychology / Performance Management.

Professional Affiliations and Designations

- American Society of Appraisers – successfully has passed all 4 business valuation classes (BV201, BV202, BV203, and BV204) as well as the ethics and USPAP exam. Other classes include various courses offered at the annual conferences.

- Accredited Senior Appraiser with the American Society of Appraisers (in Business Valuation). Final accreditation on June 10, 2005.

- Member of the Institute of Business Appraisers (IBA) – successfully completed Course 1010 – Report Writing, Review and Analysis and Course 1046 – Weighted Average Cost of Capital, Course 1013 – Advanced Case Studies

- International Business Brokers Associations – provides training to business intermediaries on business valuation and financial analysis.