New York

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Business Valuation Group, Inc.

Accuracy Is Our Agenda

ABC CHILD DAY CARE, INC.

3-STAR REPORT

VALUATION OF A 100% INTEREST IN THE COMPANY

AS OF DECEMBER 31, 20XX

REPORT DATE: FEBRUARY 15, 20XX

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NEW YORK BUSINESS VALUATION GROUP, INC.

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Valuation Calculations

Restricted Summary Report

February 15, 20XX

Susan Miller
567 15th Ave
Anytown, CA 43578

Dear Mrs. Miller:

This summary report is a very brief explanation of our Valuation Calculations of the fair market value of a 100% stock interest in ABC Child Day Care, Inc. as of December 31, 20XX.

Background

Susan Miller is the sole shareholder of ABC Child Day Care, Inc. ("the Company"), a California C corporation, incorporated on January 2, 1996. The Company is a childcare learning center located in Anytown. Mrs. Miller is planning to sell her 100% stock interest.

Purpose of Report

We performed Valuation Calculations, documented in a Restricted Summary Report, to calculate the fair market value of a 100% stock interest in the Company as of December 31, 20XX. The Valuation Calculations are for internal planning purposes to assist you in preparing to negotiate in case someone wants to buy your company. However, you may not show our Valuation Calculations to a prospective buyer without our written permission, as our work is less than an appraisal, and it may mislead prospective buyers to show them our work without full disclosure of its limitations. This valuation assumes a stock sale, i.e., all assets and liabilities transfer to the buyer.

Intended Users and Restrictions on Use of our Report

The Valuation Calculations are for internal use by the management of ABC Child Day Care, Inc. Any other users are considered unintended users, and you may not distribute our report to unintended users or use this report for other purposes, valuation dates, or size interests without our written permission.

You may use the Valuation Calculations in preparing to negotiate a sales price with a potential buyer (third party). However, if you show them to a potential buyer, you may not disclose

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that New York Business Valuation Group, Inc. performed the Valuation Calculations, as our tables and commentary are prepared for your use, not someone else's. If you do want another party to know of our authorship of the analysis, that will require a separate engagement letter for us to prepare the report and the tables with proper disclosure for a third party to be able to rely on our work, as we would then become responsible to that party—which is not true in the current assignment. It should be a reasonably affordable upgrade of our work.

While it might seem logical that there is only one fair market value of an asset, that is not true. Value only has meaning in the context of a scenario, with its facts, assumptions, and the purpose of the valuation. Thus, any Valuation Calculations that we perform for you may not be used for any other purposes or valuation dates without our written permission. This is especially true for any circumstances that require a business appraisal or any other type of official opinion of value. If, at any time, you decide that you need an appraisal, we will draft a new and separate engagement letter to cover the appraisal.

Using our report in an unauthorized manner could be misleading and dangerous. You agree to indemnify New York Business Valuation Group, Inc. against any losses arising from unauthorized use of our report.

Fair Market Value

Definition

The term 'fair market value' is defined as the price, expressed in terms of cash equivalents, at which property [in this case, a 100% interest in the Company] would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arms length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.[1]

Fair Market Value vs. Investment Value

The fair market value of an asset is its value to a hypothetical buyer and seller. It is not the value of that asset to any particular buyer, which is investment value and is frequently different than fair market value. Investment value to a strategic buyer is almost always higher than fair market value. Although our valuation is intended to estimate fair market value, we assume no responsibility for a seller's or buyer's inability to obtain a purchase contract at that price.

Limitations of Valuation Calculations

Valuation Calculations represent less work done than a Limited Appraisal, which itself represents less work done than a Complete Appraisal. Performing Valuation Calculations

[1] International Glossary of Business Valuation Terms

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allows us to take certain shortcuts that we could not take in a Complete Appraisal. Examples of shortcuts are:

(1) We reduced the amount of our independent market research compared to the amount we normally would perform in a Complete Appraisal. Instead, we relied primarily on the client's knowledge of the market and the Company's internally prepared financial statements.[2] This is a significant reduction of our normal work, and it is imperative that you understand that our forecast of future cash flows may be materially different if we were to do such market research, and that would correspondingly affect the valuation.

(2) We used only two valuation methods, whereas in a Complete Appraisal we must use every valuation method that is relevant.

Valuation Calculations are not officially considered an appraisal by the Uniform Standards of Professional Appraisal Practice (USPAP). It is necessary to understand that the conclusions in Valuation Calculations must be considered as tentative and subject to change in the event you ever would decide to upgrade to a Limited or Complete Appraisal.

Valuation Approaches[3]

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

There are three valuation approaches in business valuation, which we list below. The approaches are:

(1) The Asset Approach. In this approach, we seek to measure value through the calculation of assets net of liabilities. We do this in Table IV-1.

(2) The Income Approach. In this approach, we seek to measure value by converting anticipated economic benefits into a present single amount. In Table V-1, we use the Discounted Cash Flow Method.

(3) The Market Approach. In this approach, we seek to measure value by comparing the Company to sales of similar businesses or valuations of publicly traded firms. This is a limited scope analysis and we were instructed by the client not to apply the Market Approach.

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[2] The client indicated that the tax returns do not reflect the financial condition of the Company. Instead, we relied on the accuracy of the internally prepared income statement for 2006 that are the responsibility of the client.
[3] Definitions in this section come from the International Glossary of Business Valuation Terms.

Financial Review

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

Balance Sheets

Tables IV-1 and IV-1A are the Company's balance sheets and common size balance sheets for 20XX through 20XX.[4] The common size balance sheets show the various assets, liabilities, and equity as a percentage of total assets.

Total equity totals $2,482 (B32) in book value as of December 31, 20XX.

Income Statements and Adjustments

Table IV-2 is the Company's historical income statements for 20XX through 20XX (col. B-E) and the internally prepared income statement for 20XX in col. G.[5]

In rows 50-55, we adjust the net income to economic net income before taxes. Economic net income is an arm's length income representative of the Company's earning power after eliminating non-recurring items[6] and adjusting all compensation to arm's length. This is the measure of income that an arm's length buyer would expect to make, based on the information available at the time.

Susan Miller works about 40 hours per week. Gene Levin, CPA, estimates her arm's length salary to be approximately $30,000 (E52). We deflate this at 4% per year going backwards.

Per Gene Levin, CPA, the rent of $74,440 (E14) is not an arm's length rent arrangement. The property is owned by Jim and Susan Miller. Per Gene Levin, CPA, an arm's length rent for similar facilities in the area would average about $13-$18 per square foot (psf), an average of $15.5 psf. We compute an arm's length rent of $55,568 (E54), or $15.5 psf x 3,585 sq. ft., which includes the insurance and real estate taxes. As the $55,568 indicates the 2006 market rent, we deflate this by 3% per year going backwards.

Row 55 is total adjustments. Adding rows 48 and 55, we arrive at the economic net income before taxes in row 56. In row 63, we apply corporate income taxes of 40%. Subtracting row 57 from row 56 yields the economic net income after taxes (ENIAT) in row 58.

[4] Company's Tax Returns 20XX-20XX prepared by Levin Accounting, Inc., provided by Susan Miller.
[5] Company's Tax Returns 20XX-20XX prepared by Levin Accounting, Inc., provided by Susan Miller.
[6] However, in this case we are not aware of any non-recurring items.

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Rows 63-66 display the financial ratios. Row 63 shows the annual sales growth rate, and row 64 displays the compound annual sales growth. Row 65 contains the annual growth of Economic NIAT, and row 66 shows its compound annual growth rates.

Table IV-2A is the Company's common size historical income statements, where all line items are shown as a percentage of total sales.

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Valuation

Income Approach

Table V-1 is our valuation of the Company as of December 31, 20XX using the Discounted Cash Flow (DCF) Method.

The DCF valuation is based on the economic net income after taxes from Table IV-2, G58, i.e., the internally prepared income statement for 20XX (Table IV-2, col. G).

It is reasonable to assume a 10% retention rate (D7), since this is a small firm with low growth. The Moskowitz-Vissing-Jorgannsen estimate for S corporations, i.e., non-tax entity, is 20%.[7]

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

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

We calculate a discount rate of 25% (D28) in Table V-1A using an original equation developed by Jay Abrams. Substituting r = 25% and g = 2.0%,[8] our GMM is 4.8610 (B10). This means that at our 25% discount rate and forecast 2.0% constant growth rate of cash flows (which means we forecast \$1.00 of cash flows in year 1, \$1.02 in year 2, etc.), a rational investor would be willing to pay approximately \$4.86 at year 0 (i.e., the Valuation Date) for each \$1.00 of forecast cash flow in year 1.

The product of the Gordon Model Multiple (D10) and Forecast Cash Flow (D9) is the present value of all cash flows from years 12/31/07 to infinity as of 12/31/06, our valuation date.

We multiply the Forecast Cash Flow (D9) by the Gordon Multiple (D10) to calculate the present value of all the cash flows for years 12/31/XX to infinity as of 12/31/XX, our valuation date. The product equals to \$261,923 (D11), which is the FMV of the Company on a Marketable Minority interest basis.

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[7] See Moskowitz, Tobias J. and Annette Vissing-Jorgensen. 2002, "*The Private Equity Premium Puzzle*", American Economic Review, September 2002, Volume 92, No. 4. See especially page 755, second column.

[8] The average sales growth for the period analyzed is 1.5% (Table IV-2, F63). Sales are expected to only grow with inflation but no real growth. Thus, the 2% growth rate appears reasonable.

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The term "Marketable Minority Interest" requires explanation. Our calculation of discount rates, discussed below, uses as its source of data stock returns of publicly-traded companies. The shareholders of these firms have two primary characteristics: their investments are liquid, i.e., they can sell immediately and receive cash at the going market rate within three days of their sell order, and they are minority interests, i.e., they have no control over the firm. Since we are valuing a control interest in a privately-held company, we must make adjustments for differences in control and liquidity.

In cell D12, we apply a 25% control premium.[9] Adding D11 and D12 yields the FMV-100% marketable control basis.

Discount For Lack of Marketability (DLOM)

According to Jay B. Abrams,[10] there are two methods of calculating a size-based DLOM. The first method involves using Abrams' regression of the MPI database[11] to calculate the Delay to Sale component of Abrams' Economic Components Model, while the second method is using a Black-Scholes Option to do the same. The chart in Table V-1B uses the former method. For a $260,000 firm, the estimated DLOM is 12.6% (average between $225,000 and $375,000 firm). Using the Black-Scholes put option usually leads to larger DLOMs for small businesses. We use 20% (D14) as a reasonable estimate as a probable average between the two methods.

Subtracting D15 from D13 equals $261,923 (D16), or $262,000 (D17) (rounded), which is the Fair Market Value of the firm on a 100% Private Control Basis.

Comparison to Asset Approach

We must compare this to the Asset Approach. While the premise of value for the income is going concern, the asset approach is used more to determine the value of the company in liquidation. In other words, the Asset Approach is used to ascertain whether the Company is worth more "dead or alive." If the Company is more valuable in liquidation than in operation, the Asset Approach would dominate the Income Approach.[12] As we discussed in the commentary to Table IV-1, the book value is $2,482 (Table IV-1, E30) as of December 31, 2005. The liquidation value would be even lower yet. The Income Approach yields a FMV of $262,000 (Table V-1, D17). Thus, the Company is more valuable in operation than in liquidation, and the DCF Approach indication of FMV is our opinion of fair market value.

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[9] See *Quantitative Business Valuation: a Mathematical Approach for Today's Professionals*, by Jay B. Abrams, McGraw-Hill, 2001, Chapter 7, Page 230. The range for the control premium is between 21-28%. We use the average of 25% as the control premium.

[10] How to Value Your Business and Increase its Worth, Jay B. Abrams, McGraw-Hill, 2005, p. 136.

[11] Quantitative Business Valuation: A Mathematical Approach for Today's Professionals, Jay B. Abrams, Chapter 7.

[12] Note: A minority interest cannot force liquidation. Thus, the asset approach is only relevant when we value a control interest, since only a control interest has access to the value locked in the assets.

Conclusion

In my opinion, subject to the Statement of Limiting Conditions, the fair market value of a 100% common stock interest in the Company as of December 31, 20XX is **$262,000.**

Sincerely yours,

New York Business Valuation Group, Inc.

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

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Statement of Limiting Conditions

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

(1) We have relied upon financial information provided by Susan Miller, specifically the internally prepared financial statements for 2006, and we have accepted it as correct without further verification as though they fairly and accurately represent the financial condition and activities of the Business. All other information used in this report is from sources we deem reliable. We have accurately reflected such information in this report; however, we make no representation as to our sources' accuracy or completeness and have accepted their information without further verification.

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

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

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

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

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

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

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

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

(9) This is a preliminary appraisal and is not a certified appraisal. A preliminary report is not nearly as rigorous as a formal appraisal and is designed to give a guideline or benchmark value rather than a formal determination of value.

(10) We performed less independent market research than we normally perform in a Complete Appraisal. Instead, we relied primarily on the client's knowledge of the market and his/her forecasts. This is a significant reduction of our normal work, and it is imperative to understand that our forecast of future cash flows may be substantially different if we were to do such market research, and that would correspondingly affect the valuation.

(11) This report, being preliminary in nature and limited in scope, does not conform to all IRS and USPAP standards.

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

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

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

(15) Future services regarding the subject matter of this report, including, but not limited to, testimony or attendance in court shall not be required of New York Business Valuation Group, Inc. unless previous arrangements have been made in writing.

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(16) Neither all nor any part of the contents of this report shall be conveyed to the public through advertising, public relations, news, sales, mail, direct transmittal, or other media without the prior written consent and approval of New York Business Valuation Group, Inc.

(17) This report may only be distributed in its entirety to those directly involved with the purpose of this study. All other users are to be considered unintended users and should not rely on the information contained in this report without the advice of their attorney or accountant. This report may not be distributed in part, as only a thorough reading of this report can accurately convey the logic contained within. Excerpts taken out of context can be dangerously misleading and are therefore forbidden without the written consent of New York Business Valuation Group, Inc.

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Appraiser's Qualifications

Daniel T. Jordan, ASA, CBA, CPA, MBA, is the Managing Principal of New York Business Valuation Group, Inc., specializing in the valuation of closely held businesses and intangible assets. Mr. Jordan provides business valuation services full time since 2000. He has been working for leading valuation firms whose principals are nationally known authorities in business valuation.

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

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

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

Industries that he has worked on include private equity, casinos, insurance, computer software, textile, auto repair, line tester technology, food manufacturer and broker, asset management, electronics manufacturers, furniture manufacturing, embroidery & printing, retail pharmacy, internet start-up, restaurants, art collection, internet mortgage leads, internet automobile and home improvement leads, manufacture of custom scientific equipment, swim wear, accounting practice, commodities, construction, various distributors of different lines of business, jewelry, etc.

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Books/Articles

- Assisted with the writing of *How to Value Your Business and Increase Its Potential*, Jay Abrams, McGraw-Hill, 2005.
- "Superiority of Regression Analysis over Ratio Analysis", *Business Appraisal Practice*, Fall 2007, p. 27-31.

Lecture Summary

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

Books/Articles Quoting Daniel Jordan

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

Business Valuation Education

- *International Appraisal Conference* of The American Society of Appraisers, San Diego, August 2002 (27 CPE Hours)
- *Mastering Appraisal Skills for Valuing the Closely Held Business – Part A.* Instructor: Paul Hyde, The IBA, San Diego, March 2005 (32 CPE Hours)
- *Mastering Appraisal Skills for Valuing the Closely Held Business – Part B.* Instructor: Rand M. Curtiss, The IBA, Cleveland, July 2005 (32 CPE Hours)
- *Report Writing*. Instructor: Steven Schroeder, The IBA, St. Louis, August 2005 (16 CPE Hours)
- *Preparation For the CBA Exam*. The IBA, Phoenix, November, 2005 (16 CPE Hours)
- *Uniform Standards of Professional Appraisal Practice (USPAP)*: Instructor: Andrew Mantowani. Ivy Real Estate Education, New York, February 2006 (15 CPE Hours)
- *International Appraisal Conference* of The American Society of Appraisers, New York, August 2006 (6.5 CPE Hours)
- *Valuation for Financial Accounting (FASB 141/142/144)*. Instructor: William Johnston, ASA. Center for Advanced Valuation Studies (CAVS), New York, August 2006 (7 CPE Hours)
- *Advanced Financial Statement Analysis for Appraisers - Making the Calls*, Instructor: Mike Adhikari, The IBA, Las Vegas, January 2008 (8 CPE Hours)
- *Advanced Case Studies: Practical Applications*, Instructor: Dennis Bingham, The IBA, January 2008 (16 CPE Hours)

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- *Valuing Intangibles*, Instructor: Rob Schlegel, The IBA, January 2008 (8 CPE Hours)
- *Forensic Accounting for Business Appraisers*. Instructor: Dr. Laura Tindall, The IBA, Louisville, KY, July 2008 (16 CPE Hours)
- *Business Appraisal for Divorce,* Instructor: Rob Schlegel, The IBA, July 2008 (8 CPE Hours)
- *Marketing Your Practice-Making the Phone Ring,* Instructor: KC Conrad, The IBA, August, 2008 (8 CPE Hours)
- Advanced Planning Seminar -Estate & Business Planning, New York, April 20, 2009 (7 CPE Hours)
- Estate Planners Day 2009, Estate Planning Council of NYC, New York, May 6, 2009 (7 CPE Hours)
- *14th Annual Multi-State ESOP Conference* of The ESOP Association, Scranton, Pennsylvania, September 2009
- *ESOP Appraisals,* Instructor: Chris Best, The IBA, November 9, 2009 (8 CPE Hours)
- *ESOP Conference* of The ESOP Association, Las Vegas, Nevada, November 2009 (12 CPE Hours)
- *44th Annual Heckerling Institute on Estate Planning*, Orlando, January 25-29, 2010 (33.5 CPE Hours)
- *45th Annual Heckerling Institute on Estate Planning*, Orlando, January 10-14, 2011 (33 CPE Hours)
- *46th Annual Heckerling Institute on Estate Planning*, Orlando, January 9-13, 2012 (33 CPE Hours)

Member - Professional Organizations

- The Institute of Business Appraisers, Inc. (IBA)
- The American Society of Appraisers (ASA)
- National Business Valuation Group, LLC
- Estate Planning Council of Rockland County
- Estate Planning Council of NYC
- Fellow Member of Yeshiva University Planned Giving Committee

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Tables

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	A	B	C	D	E
1	**Table IV-1**				
2	**ABC Child Day Care, Inc.**				
3	**Balance Sheets [1]**				
4					
5	**Fiscal Year Ending 12/31**	**2003**	**2004**	**2005**	**2006**
6	Cash	7,870	9,986	1,508	1,350
7	A/R				
8	Inventories				
9	Loans to Shareholders				12,953
10	Other Current Assets				
11	**Total Current Assets**	**7,870**	**9,986**	**1,508**	**14,303**
12	Property & Equipment	139,688	139,688	139,688	139,688
13	Less Depreciation	(52,912)	(60,247)	(65,398)	(71,852)
14	**Property & Equipment-Net**	**86,776**	**79,441**	**74,290**	**67,836**
15	Other Assets				
16	**Total Assets**	**94,646**	**89,427**	**75,798**	**82,139**
17	A/P				4,657
18	Disability Ins Payable				
19	Other Current Liab				
20	Current Portion of LTD				
21	Loans from shareholders				
22	**Total Current Liabilities**	**-**	**-**	**-**	**4,657**
23	Deferred Taxes				-
24	Long-Term Debt	**80,000**	**80,000**	**75,000**	**75,000**
25	**Total Long Term Liabilities**	**80,000**	**80,000**	**75,000**	**75,000**
26	**Total Liabilities**	**80,000**	**80,000**	**75,000**	**79,657**
27	Capital Stock	25,800	25,800	25,800	25,800
28	Retained Earnings	(11,154)	(16,373)	(25,002)	(23,318)
29	Net Income				
30	**Total Equity**	**14,646**	**9,427**	**798**	**2,482**
31	**Total Liabilities & Equity**	**94,646**	**89,427**	**75,798**	**82,139**
32					
33	[1] Source: Company's Tax Returns 2003-2006 prepared by Levin Accounting, Inc.,				
34	provided by Susan Miller.				

	A	B	C	D	E
1	**Table IV-1A**				
2	**ABC Child Day Care, Inc.**				
3	**Common Size Balance Sheets [1]**				
4					
5	**Fiscal Year Ending 12/31**	**2003**	**2004**	**2005**	**2006**
6	Cash	8.3%	11.2%	2.0%	1.6%
7	A/R	0.0%	0.0%	0.0%	0.0%
8	Inventories	0.0%	0.0%	0.0%	0.0%
9	Loans to Shareholders	0.0%	0.0%	0.0%	15.8%
10	Other Current Assets	0.0%	0.0%	0.0%	0.0%
11	**Total Current Assets**	**8.3%**	**11.2%**	**2.0%**	**17.4%**
12	Property & Equipment	147.6%	156.2%	184.3%	170.1%
13	Less Depreciation	-55.9%	-67.4%	-86.3%	-87.5%
14	**Property & Equipment-Net**	**91.7%**	**88.8%**	**98.0%**	**82.6%**
15	Other Assets	0.0%	0.0%	0.0%	0.0%
16	**Total Assets**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
17	A/P	0.0%	0.0%	0.0%	5.7%
18	Disability Ins Payable	0.0%	0.0%	0.0%	0.0%
19	Other Current Liab	0.0%	0.0%	0.0%	0.0%
20	Current Portion of LTD	0.0%	0.0%	0.0%	0.0%
21	Loans from shareholders	0.0%	0.0%	0.0%	0.0%
22	**Total Current Liabilities**	0.0%	0.0%	0.0%	5.7%
23	Deferred Taxes	0.0%	0.0%	0.0%	0.0%
24	Long-Term Debt	84.5%	89.5%	98.9%	91.3%
25	**Total Long Term Liabilities**	**84.5%**	**89.5%**	**98.9%**	**91.3%**
26	**Total Liabilities**	**84.5%**	**89.5%**	**98.9%**	**97.0%**
27	Capital Stock	27.3%	28.9%	34.0%	31.4%
28	Retained Earnings	-11.8%	-18.3%	-33.0%	-28.4%
29	Net Income	0.0%	0.0%	0.0%	0.0%
30	**Total Equity**	**15.5%**	**10.5%**	**1.1%**	**3.0%**
31	**Total Liabilities & Equity**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

	A	B	C	D	E	F	G
1	**Table IV-2**						
2	**ABC Child Day Care, Inc.**						
3	**Income Statements [1]**						
4							**Internally prepared [5]**
5	**Fiscal Year Ending 12/31**	**2003**	**2004**	**2005**	**2006**	**AVG**	**2006**
6	Sales	342,614	276,633	341,020	343,045	**$ 325,828**	360,000
7	Cost of Sales	-	-	-	-		
8	**Gross Profit**	**342,614**	**276,633**	**341,020**	**343,045**		**360,000**
9	**SG&A Expenses**						
10	Compensation of Officers	19,600	10,800	13,600	12,750		
11	Salaries & Wages	170,083	152,642	168,506	144,829		102,070
12	Repairs			4,643	2,746		
13	Taxes & Licenses	17,478	13,936	16,202	14,297		14,463
14	Rent	58,000	21,400	43,140	74,440		
15	Advertising	2,779	2,238	2,653	1,299		2,653
16	Employee Benefit Program (Health Ins)	9,341	6,807	5,647			
17	**Other Deductions**						
18	Insurance	4,050	8,118	6,744	11,629		7,000
19	Utilities	8,845	5,355	5,162	5,599		4,020
20	School Supplies	7,417	9,384	5,540	9,128		
21	Food Supplies	13,777	10,642	11,248	2,078		2,160
22	Accounting	520	200	1,063	200		
23	Childrens Gifts & Supplies	1,143	450	516			
24	Transportation		2,015	2,305	4,646		720
25	Gas & Oil	1,185					
26	Vehicle Insurance	406	429	591			
27	Staff Medical			558	8,204		
28	Fees & Permits	12,300	297				
29	Telephone		2,688	1,448	3,899		936
30	Training				546		
31	25% Grant to County				1,250		
32	County Reimbursements				650		
33	Bank Charges				114		
34	Office Supplies				784		
35	Field Trips				855		
36	Trash Removal				1,149		924
37	50% of Meals & Entertainment				54		
38	Miscellaneous		760				1,500
39	**Total Other Deductions**	**49,643**	**40,338**	**35,175**	**50,785**		**17,260**
40	**Total SG&A Exp**	**326,924**	**248,161**	**289,566**	**301,146**		**136,446**
41	Depreciation	8,124	6,095	6,143	5,462		5,462
42	**Total Expenses**	**335,048**	**254,256**	**295,709**	**306,608**		**141,908**
43	**Operating Income**	**7,566**	**22,377**	**45,311**	**36,437**		**218,092**
44	Interest Income						
45	(Interest Expense)	-3640	(27,596)	(32,586)	(34,699)		(34,699)
46	Gain (Loss) on Sale of Fixed Assets						
47	**Net Income Before Taxes**	**$ 3,926**	**$ (5,219)**	**$ 12,725**	**$ 1,738**		**$ 183,393**
48	Income Taxes						
49	**Net Income After Taxes**	**$ 3,926**	**$ (5,219)**	**$ 12,725**	**$ 1,738**		**$ 183,393**
50	**Adjustments (by Appraisal Firm)**						
51	+ Owners' Comp (Swarana) (row 10)	19,600	10,800	13,600	12,750		

Table IV-2
ABC Child Day Care, Inc.
Income Statements [1]

	A	B	C	D	E	F	G
4							**Internally prepared [5]**
5	**Fiscal Year Ending 12/31**	**2003**	**2004**	**2005**	**2006**	**AVG**	**2006**
52	- Arm's-Length Comp [2]	(25,915)	(27,211)	(28,571)	(30,000)		(30,000)
53	+ Rent (row 14)	58,000	21,400	43,140	74,440		-
54	- Arm's-Length Rent on the Real Estate [3]	(50,852)	(52,378)	(53,949)	(55,568)		(55,568)
55	**= Total Adjustments**	**833**	**(47,389)**	**(25,780)**	**1,623**		**(85,568)**
56	**Economic Net Inc Before Taxes**	**$ 4,759**	**$ (52,608)**	**$ (13,055)**	**$ 3,361**	**$ (14,386)**	**$ 97,826**
57	Corporate Income Taxes @ 40%	(1,903)	21,043	5,222	(1,344)		(39,130)
58	**Economic Net Income After Taxes**	**$ 2,855**	**$ (31,565)**	**$ (7,833)**	**$ 2,016**	**$ (8,632)**	**$ 58,695**
59							
60	**Discretionary Income [4]**	$ 34,314	$ 2,199	$ 48,102	$ 68,060	**$ 38,169**	**$ 162,525**
61							
62							
63	Annual Sales Growth	N/A	-19.3%	23.3%	0.6%	1.5%	
64	CAGR Sales to 2003	0.0%	11.4%	0.6%	N/A		
65	Annual Adj NIAT Growth	N/A	-1205.5%	-75.2%	-125.7%	-468.8%	
66	CAGR Adj NIAT	-10.9%	N/A	-125.7%	N/A		

[1] Source: Susan Miller provided us with the Company's Tax Returns 2003-2006 (col. B-E) prepared by Levin Accounting, Inc., and the 2006 internally prepared income statement (col. G).

[2] Susan Miller works about 40 hours per week. Gene Levin, CPA, estimates her arm' s length salary to be approximately $30,000 (E52). We deflate this at 4% per year going backwards.

[3] Per Gene Levin, CPA, the rent of $74,440 (E14) is not an arm's length rent arrangement. The property is owned by Jim and Susan Miller. Per Gene Levin, CPA, an arm's length rent for similar facilities in the area would average about $13-$18 per sqaure foot, an average of $15.5 psf. We compute an arm's length rent of $55,568 (E54), or ($15.5 psf x 3,585 sq. ft.), which includes the insurance and real estate taxes. As the $56K indicates the 2006 market rent, we deflate this by 3% per year going backwards.

[4] The IBA's definition of Discretionary Earnings is earnings before interest and taxes (EBIT) plus one owner's compensation. We compute row 56 - row 45 - row 52 to arrive at DE. The discretionary earnings (E60) are transferred to Table V-2, the application of the Market Approach based on the IBA data.

[5] The income statement for 2006 (col. G) was prepared by the Jim Miller, provided by Susan Miller.

Table IV-2A

ABC Child Day Care, Inc.

Common Size Income Statements

	A	B	C	D	E
5	**Fiscal Year Ending 12/31**	**2003**	**2004**	**2005**	**2006**
6	Sales	100.0%	100.0%	100.0%	100.0%
7	Cost of Sales	0.0%	0.0%	0.0%	0.0%
8	**Gross Profit**	100.0%	100.0%	100.0%	100.0%
9	**SG&A Expenses**	0.0%	0.0%	0.0%	0.0%
10	Compensation of Officers	5.7%	3.9%	4.0%	3.7%
11	Salaries & Wages	49.6%	55.2%	49.4%	42.2%
12	Repairs	0.0%	0.0%	1.4%	0.8%
13	Taxes & Licenses	5.1%	5.0%	4.8%	4.2%
14	Rent	16.9%	7.7%	12.7%	21.7%
15	Advertising	0.8%	0.8%	0.8%	0.4%
16	Employee Benefit Program	2.7%	2.5%	1.7%	0.0%
17	**Other Deductions**	0.0%	0.0%	0.0%	0.0%
18	Insurance	1.2%	2.9%	2.0%	3.4%
19	Utilities	2.6%	1.9%	1.5%	1.6%
20	School Supplies	2.2%	3.4%	1.6%	2.7%
21	Food Supplies	4.0%	3.8%	3.3%	0.6%
22	Accounting	0.2%	0.1%	0.3%	0.1%
23	Childrens Gifts & Supplies	0.3%	0.2%	0.2%	0.0%
24	Transportation	0.0%	0.7%	0.7%	1.4%
25	Gas & Oil	0.3%	0.0%	0.0%	0.0%
26	Vehicle Insurance	0.1%	0.2%	0.2%	0.0%
27	Staff Medical	0.0%	0.0%	0.2%	2.4%
28	Fees & Permits	3.6%	0.1%	0.0%	0.0%
29	Telephone	0.0%	1.0%	0.4%	1.1%
30	Training	0.0%	0.0%	0.0%	0.2%
31	25% Grant to County	0.0%	0.0%	0.0%	0.4%
32	County Reimbursements	0.0%	0.0%	0.0%	0.2%
33	Bank Charges	0.0%	0.0%	0.0%	0.0%
34	Office Supplies	0.0%	0.0%	0.0%	0.2%
35	Field Trips	0.0%	0.0%	0.0%	0.2%
36	Trash Removal	0.0%	0.0%	0.0%	0.3%
37	50% of Meals & Entertainment	0.0%	0.0%	0.0%	0.0%
38	Miscellaneous	0.0%	0.3%	0.0%	0.0%
39	**Total Other Deductions**	14.5%	14.6%	10.3%	14.8%
40	**Total SG&A Exp**	95.4%	89.7%	84.9%	87.8%
41	Depreciation	2.4%	2.2%	1.8%	1.6%
42	**Total Expenses**	97.8%	91.9%	86.7%	89.4%
43	**Operating Income**	2.2%	8.1%	13.3%	10.6%
44	Interest Income	0.0%	0.0%	0.0%	0.0%
45	(Interest Expense)	-1.1%	-10.0%	-9.6%	-10.1%
46	Gain (Loss) on Sale of Fixed Assets	0.0%	0.0%	0.0%	0.0%
47	**Net Income Before Taxes**	1.1%	-1.9%	3.7%	0.5%
48	Income Taxes	0.0%	0.0%	0.0%	0.0%
49	**Net Income After Taxes**	1.1%	-1.9%	3.7%	0.5%
50	**Adjustments**	0.0%	0.0%	0.0%	0.0%
51	+ Owners' Comp (row 10)	5.7%	3.9%	4.0%	3.7%
52	- Arm's-Length Comp [2]	-7.6%	-9.8%	-8.4%	-8.7%
53	+ Rent (row 14)	16.9%	7.7%	12.7%	21.7%
54	- Arm's-Length Rent on the Real Estate	-14.8%	-18.9%	-15.8%	-16.2%
55	**= Total Adjustments**	0.2%	-17.1%	-7.6%	0.5%
56	**Economic Net Inc Before Taxes**	1.4%	-19.0%	-3.8%	1.0%
57	Corporate Income Taxes @ 40%	-0.6%	7.6%	1.5%	-0.4%
58	**Economic Net Income After Taxes**	0.8%	-11.4%	-2.3%	0.6%

Table V-1
ABC Child Day Care, Inc.
Discounted Cash Flow 12/31/06

	A	B	C	D
4				
5	**Economic Net Income After Tax (ENIAT)--12/31/06 (Table IV-2, G58) [1]**			**58,695**
6	**Forecast Economic Net Income After Tax (ENIAT)--12/31/07 @ 2% growth**			**59,869**
7	Retention Ratio (B22) [2]			10%
8	Income Retained			**(5,987)**
9	**Forecast Cash Flow**			**53,882**
10	Gordon Model Multiple-Midyear = SQRT (1+*r*)/(*r*-*g*)			4.8610
11	**PV Cash Flows-Yrs 1 to Infinity = FMV-100% Marketable Min Basis**			**$261,923**
12	+ Control Premium @ 25% [3]			65,481
13	**= FMV - Marketable Control Level**			**327,403**
14	- Discount-Lack of Marketability-% [4]			20.0%
15	- Discount-Lack of Marketability-$			(65,481)
16	**FMV-100% Illiq Control Basis**			**$261,923**
17	**FMV-Rounded**			**$262,000**
18				
19	**Sensitivity Analysis**			
20	**Disc Rate (D28)**			
21	23%	$ 285,000		
22	24%	$ 273,000		
23	**25%**	**$ 262,000**		
24	26%	$ 252,000		
25	27%	$ 243,000		
26				
27	**Assumptions:**			
28	Discount Rate (Table V-1A, B13) = *r*			25%
29	Long-Term Growth Rate of Cash Flows = *g* [5]			2.0%
30	Retention Ratio [2]			10%
31				

[1] The DCF valuation is based on the economic net income from Table IV-2, G58, i.e., the internally prepared income statement for 2006 (Table IV-2, col. G).

[2] The Moskowitz-Vissing-Jorgannsen estimate for privately-held firms is 20%. See Moskowitz, Tobias J. and Annette Vissing-Jorgensen. 2002, "The Private Equity Premium Puzzle,"*American Economic Review*, September 2002, Volume 92, No. 4. See especially page 755, second column. However, this is a small firm, and we forecast low growth. Therefore, the business should need to retain less than the (MVJ) average.

[3] *Quantitative Business Valuation: A Mathematical Approach For Today's Professionals* ©2001, Jay B. Abrams, McGraw-Hill, Chapter 7, Page 230. The range for the control premium is between 21-28%. We assume the average at 25%.

[4] According to *How to Value Your Business and Increase its Worth*, Jay B. Abrams, McGraw-Hill, 2005, Table 8.1, p. 137, there are two methods of calculating a size-based DLOM. The method in Table 8-1 involves using Abrams' regression of the MPI database (Quantitative Business Valuation: A Mathematical Approach for Today's Professionals, Jay B. Abrams, Chapter 7) to calculate the Delay to Sale component of Abrams' Economic Components Model, while the second method is using a Black-Scholes Option to do the same. Table 8-1 uses the former method. We present the chart in Table V-1B. For a $260K firm, the estimated DLOM is 12.6% (average between $225K and $375K firm). Using the Black-Scholes put option usually leads to larger DLOMs for small businesses. We use 20% as a reasonable estimate as a probable average between the two methods.

[5] Based on professional judgment.

Table V-1A
Calculation of Discount Rate [1]
Using Abrams' Log Size Model

A	B
FMV-Marketable Minority Interest (Table V-1, D11)	$261,923
Constant	43.373%
Natural log (ln) of Marketable Minority	12.48
X Coefficient	-1.280%
B6 x B7	-16.0%
Total Calculated Discount Rate	27.4%
Reduction in Macro Economic Risk [2]	-2.0%
Total Discount	**25.404%**
Total Discount Rate Rounded	**25%**

[1] Calculation is from *Quantitative Business Valuation: A Mathematical Approach For Today's Professionals* , Table 4-1, by Jay B. Abrams, McGraw-Hill, 2001, updated and based on returns from *SBBI-2006 Yearbook* , Ibbotson & Associates, Inc., Chicago, IL, which contains stock market returns through 2005.

[2] Until very recently, the best assumption of future rates of return in the stock market have been historical rates of return. Thus, column B would be the correct rates of return to use as discount rates. However, a recent body of academic research is presenting compelling evidence that future returns should be lower than historical returns. Thus, we need to reduce our historical forecasts by our best estimate of the appropriate downward adjustment.

In "The Equity Premium," by Eugene Fama & Kenneth French, *Journal of Finance* , April 2002, p. 647-659, the authors forecast future returns will be lower than historical returns by approx. 4%. In "The Supply of Stock Market Returns," by Roger G. Ibbotson and Peng Chen, Yale ICF Working Paper No. 00-44, the authors forecast future returns will be lower than historical returns only by 1%. In "The Declining Equity Premium: What Role Does Macroeconomic Risk Play?", by Martin Lettau, Sydney C. Ludvigson, and Jessica A. Wachter, the authors demonstrate that long-term decline in macroeconomic risk (standard deviation in growth of non-durables and services and personal comsumption expenditures) accounts for a significant portion of the decline in rates of return. They forecast a 2% decline (see page 28).

It will take a long time to sort through the arguments and come to some consensus, if there ever will be such a thing. We use our professional judgment to choose the 2% adjustment in the meantime. Obviously, this creates uncertainty about values.

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Discount Rate Used [3]	**20%**

[3] The 29% discount rate is too high. We use our professional judgment to lower it to 20%.

Table V-1B
Discount for Lack of Marketability
By Avg Firm Size

FMV	DLOM [1]
25,000	10.8%
75,000	11.0%
125,000	11.1%
175,000	11.2%
225,000	11.6%
375,000	13.6%
500,000	15.6%
750,000	19.9%
2,000,000	18.0%
5,000,000	15.8%
10,000,000	15.5%

[1] Source: *How to Value Your Business and Increase Its Potential,* ©2005, Jay B. Abrams, McGraw-Hill, ISBN #: 0-07-139520-2, Table 8.1, p. 137.