

BUSINESS ANALYSIS/VALUATION

For

Johnson Mechanical Contractors
2754 Grand Avenue
Madison WI, 53714

Valuation as of: December 31 2004



PREPARED BY

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Report Date: March 27 2005





March 27 2005

Mr. Alexander Johnson, President
Johnson Mechanical Contractors
3569 Pipefitter Drive
Middleton, WI 53562

Dear Mr. Johnson:

Thank you for contacting us. The following is the information that you requested on Johnson Mechanical Contractors located at 2754 Grand Avenue, Madison, WI. Enclosed herein you will find our complete market valuation for this business.

Our evaluation is based on the premise that any going business MUST meet the following three criteria: 1) A business is worth that price at which it will support its structured debt service at current market rates, terms and conditions. 2) It must pay a fair market salary to the owner(s), commensurate with other similar size and type of businesses located in the same market area as the subject business. 3) It must also pay a fair market rate of return, commensurate with risk, on the owner's total investment. As you will see in the following analysis, by using the inputted market variables listed herein, there is only ONE price at which this business can accomplish these three criteria! This evaluation is a study that has determined that price.

Because of this fact, this analysis can be used by you as a powerful business tool and a complete business plan to help guarantee that the calculated profits can be maintained and possibly even enhanced. This can be accomplished by regularly scheduled comparisons (and if necessary, the making of adjustments) of the business' expense to the sales ratios contained herein to those of industry standards. Your guiding point to this comparison will be the percentage columns contained on each expense line-item of the adjusted income statement. Each of these critical percentages should be looked at by management as the specific performance goal objective for each expense item to help assure a minimum performance level that is show here. This is a critical component of one element of your short term financial planning. By properly managing the specific policies, procedures and systems that control each expense line-item to a performance standard better than the standard shown here, you could expect that it would result in an even better financial performance than is represented here.

We have determined the market value of this business on the basis of a personal inspection of the subject business and the use of good, commonly accepted business and accounting practices. We

also used the information contained in the business tax forms and the business financial statements and other readily available company financial information and industry standard information for similar companies of size, type and market location.

Additionally, we analyzed the current financial market variables affecting the business' current market value. We have determined that a 100% ownership interest of Johnson Mechanical Contractors is \$2,640,163.

An anticipated investment of \$660,041 would be required as a down payment to purchase this business. An additional investment will be required to cover the cash cost of deferred maintenance, and working capital, and other cash investments for a total other cash investment of \$36,100. Therefore, the market value of the business plus the additional cash outlays would total \$2,676,263.

This evaluation is an accurate mathematical analysis that has determined the value necessary for this business to be properly structured in order to meet the three criteria previously explained.

This is a sample insert for the evaluator cover letter to show the location of the insert in this sample business analysis/valuation report.

Sincerely,

Robert Smith CVA
President

Enclosures

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BUSINESS VALUATION SUMMARY

Robert Smith, CVA has been asked by Mr. Alexander Johnson, to render the business valuation described below. The following information details our assignment:

Client Name:	Alexander Johnson
Business Name:	Johnson Mechanical Contractors
Business Address:	2754 Grand Avenue Madison, WI 53714
Type of Entity:	S Corporation
State/Province of Incorporation:	WI
In Business Since:	1988
Valuation Prepared by:	Robert Smith
Business Interest Valued:	100
Effective Date of Appraisal:	December 31 2004
Date of Valuation:	March 27 2005
Purpose of Evaluation:	Valuation
Standard of Value:	Fair Market Value
Business Value:	\$2,640,163
Down Payment Required:	\$660,041
Additional Investment Required:	\$36,100
Total Investment Anticipated:	\$696,141

Summary of Value:

We have determined that a 100% ownership interest of Johnson Mechanical Contractors is \$2,640,163.

An anticipated investment of \$660,041 would be required as a down payment to purchase this business. An additional investment will be required to cover the cash cost of deferred maintenance, and working capital, and other cash investments for a total other cash investment of \$36,100. Therefore, the market value of the business plus the additional cash outlays would total \$2,676,263.

The opinion of value is rendered given the variables listed above for the period listed above only. The value is offered on the basis of a 100% marketable interest as noted above.

Scope and Limitations:

In the review of all data, we have relied upon all of the referenced information without independent verification and therefore it is totally dependent upon the information provided by Johnson Mechanical Contractors. Any change in the critical information that was relied upon as part of the process of this valuation would certainly justify a reassessment of the final conclusion of the fair market value.

Standard of Value:

The fair market value is defined as follows: The fair market value of a business is the value at which the business would change hands between a willing seller and a willing buyer when neither is under a compulsion and when both have reasonable knowledge of the relevant facts.

A fair market transaction must be a “win-win” for all parties concerned. The fair market value of a going business is that value at which the normalized spendable income stream of the business can accomplish three critical criteria: 1) It must be able to support the structured market debt service that would be created from a hypothetical business sale in the business’ market area. 2) It must be able to pay the owner a market rate salary as determined by the size, type and location of the business to current industry standards of a similar business within the same market area. 3) It must be able to pay the owner a market rate of return on his/her investment as determined by the current market standards.

Summary Comments:

This is a sample insert for the evaluator summary comments to show the location of the insert in this sample business analysis/valuation sample report.

FINAL DETERMINATION OF VALUE
VS
BOOK VALUE AND ADJUSTED BOOK VALUE METHODS

Business Value:	\$2,640,163
Book Value Method:	\$2,032,669
Less: Adjusted Book Value Method:	\$1,843,317
Intangibles (Good Will) Value:	\$796,846

Book Value Method:

The book value as of December 31 2004 was \$2,032,669. Book value is an accounting value that is calculated by subtracting total liabilities from total assets. Book value was selected because it will give us more of a well rounded look at the state of the company and it will give us one more comparison to determine the reasonableness of the final determination of value. It was rejected because balance sheets are prepared on a historical cost basis, in accordance with Generally Accepted Accounting Principles; the book value of a business does not necessarily consider the fair market value of the underlying assets. We are more concerned with the income producing ability of the assets than their book value.

Adjusted Book Value – Going Concern Method:

The adjusted book value as of December 31 2004 was \$1,843,317. The adjusted book value of this going concern method develops a valuation indicated by adjusting the reported book values of a subject company's assets to its actual or estimated fair market values and subtracting its liabilities (adjusted to fair market value, if appropriate). This method was considered in the valuation of Johnson Mechanical Contractors because it would be necessary to compare the estimated fair market value of the assets to the final determination of value. If the fair market value of the assets is worth more than the determined value of the business, it would be better to sell the assets outright, not the business as a going concern. This method was rejected because the estimated fair market value of the assets individually is not an indicator of the income producing ability of the assemblage of all of the assets.

TEST OF REASONABLENESS

To test the reasonableness of our opinion as to the fair market value of Johnson Mechanical Contractors, we performed a proof of valuation analysis. This analysis includes assumptions regarding the cash down payment, the terms of the purchase notes, and the Company's projected cash flows. This analysis looks at the final opinion of the fair market value and determines the functionality of the ensuing projected cash flows and anticipated financing conclusions. The assumptions regarding the terms of the hypothetical purchase are presented in the following schedule and represents the findings from our analysis.

Final determination of market value:	\$2,640,163
From normalized income statement:	
Net operating income (NPBT):	\$675,127
Balance available to retire monthly debt service:	\$44,658
Buyer return on investment \$ (ROI):	\$139,228

Source of Purchase Funds	Amount	Terms (yrs)	Interest	Mo. Payment
Financial Institution Financing:				
Auto / Truck	\$409,934	4	7.00	\$9,816
Inventory	\$237,000	3	7.50	\$7,372
Machinery/Equipment	\$528,060	5	7.00	\$10,456
Office Furniture/Fixtures	\$98,795	3	6.50	\$3,028
Seller Financing	\$706,333	5	7.00	\$13,986
Total	\$1,980,122			\$44,658

Based upon the hypothetical terms presented above, the Company's projected cash flows were estimated to ascertain whether or not they cover the hypothetical interest and principal payments. The buyer post-sale cash flow was calculated in the following manner:

1. The projected before-tax income was reduced by interest payments on hypothetical purchase notes.
2. The projected post-sale pre-tax income was reduced by an income tax factor of 0.0%.
3. All non-cash expenses were added back.
4. The principal portion of all debt instruments (re-sale and post-sale) was deducted.

Test #1:

Opinion of business value:	\$2,640,163
Total Down payment + Debt:	<u>\$2,640,163</u>
Variance (Should be "0"):	\$0

Test #2:

Balance available to retire monthly debt plus ROI:	\$56,261
Structured monthly debt service payments:	- \$44,658
Monthly Cash Flow Before Taxes (ROI)	<u>- \$11,602</u>
Variance (Should be "0"):	\$0

TEST OF REASONABLENESS (CONTINUED)

Test #3:

Net operating income (NPBT):	\$675,127
Less: Balance available to retire debt service:	<u>\$535,899</u>
Amount available for buyer ROI:	\$139,228
Buyer required return on investment \$ (ROI):	\$139,228
Amount available for buyer ROI:	<u>\$139,228</u>
Variance (Should be "0"):	\$0

Test Conclusion:

The final opinion of value for Johnson Mechanical Contractors of \$2,640,163 passes the "test of reasonableness" because: 1) The total of all of the purchase funds created from the down payment and structured financing, equals the final opinion of value. 2) The total monthly payments of all structured financing at the hypothetical sale price, equals the total amount of the spendable cash flow available to make such payments. 3) The total amount of cash flow needed to give the buyer a fair market return on their investment equals the balance of the spendable cash flow that is made available to make such a payment. 4) The integrity of the buyer's ROI is maintained because a fair market salary was used in the normalization of income streams process and therefore does not dilute the total cash flow stream structured for the buyer.

Therefore:

Based on the above analysis, the priced cash flows are sufficient to pay the assumed interest and principle due on the hypothetical purchase notes and existing notes.

SELLER PRETAX CASH POSITION

HYPOTHETICAL TERMS OF ASSET SALE AT CALCULATED MARKET VALUE

Cash received from sale:

Down payment from Buyer: \$660,041

Financial Institution Financing:

Auto/truck \$409,934
Inventory \$237,000
Machinery/Equipment \$528,060
Other Financing \$0
Office Furniture/Fixtures \$98,795
Real Estate \$0

Other Cash/Credit:

Existing Cash from Business: \$244,083
Accounts Receivable Trade: \$1,703,212
Accounts Receivable Other: \$236,850
Costs in Excess of Billings: \$113,955
Prepaid Expenses: \$46,250
Deposits: \$0
Notes Receivable: \$0
Total Cash Received: \$4,278,180

Less cash/credit paid out from sale:

Accounts Payable Trade: \$380,810
Accounts Payable Other: \$0
Notes Payable Other: \$0
Accrued Expenses: \$46,465
Notes Payable Current/Long Term: \$462,465
Billings in Excess of Costs: \$347,600
Other Current Liabilities: \$18,000
Deferred Liabilities: \$36,000
Other Long Term Liabilities: \$0
Total Cash Paid Out: \$1,291,340

Net Cash/Credit Received from Sale: \$2,986,840

*The following unlisted balance sheet line-items are considered to be contributing assets and are assumed to stay in the business with the hypothetical buyer: Other Current Assets, Other Fixed Assets, and Other Assets.

Note: The actual seller proceeds received from a sale is totally dependent upon the final purchase terms.

Plus the seller will receive the following cash payments from the buyer:

Principal balance of seller loan: \$706,333
Monthly Payments: \$13,986
For a term period of: 5
@ Interest Rate: 7.00

BUYER BALANCE SHEET POSITION

HYPOTHETICAL TERMS OF ASSET SALE AT CALCULATED MARKET VALUE

	Period Beginning <u>Date of Sale</u>
CURRENT ASSETS	
Cash	\$36,100
Accounts Receivable – Trade	\$0
Accounts Receivable – Other	\$0
Costs in Excess of Billings	\$0
Inventory	\$474,000
Prepaid Expenses	\$0
Other	<u>\$0</u>
Total Current Assets	\$510,100
=====	
FIXED ASSETS	
Autos & Trucks	\$683,223
Machinery & Equipment	\$754,371
Office Furniture & Equipment	\$131,727
Real Estate	\$0
Leasehold Improvements	\$50,875
Other Fixed Assets	\$0
Total Depreciable Assets	\$1,620,196
Less: Accumulated Depreciation	\$0
Net Book Value	\$1,620,196
Land	<u>\$0</u>
Total Fixed Assets	\$1,620,196
=====	
OTHER ASSETS	
Deposits	\$0
Notes Receivable	\$0
Other	<u>\$0</u>
Total Other Assets	\$0
=====	
TOTAL ASSETS	<u>\$2,130,296</u>
=====	

CURRENT LIABILITIES

Accounts Payable – Trade	\$0
Accounts Payable – Other	\$0
Notes payable	\$0
Notes Payable – Current of LTD	\$409,672
Billings in Excess of Costs	\$0
Accrued Expenses	\$0
Other Current Liabilities	\$0
Total Current Liabilities	\$409,672

LONG TERM LIABILITIES

Notes Payable – LT of LTD	\$1,980,122
Less: Notes Payable Current	\$409,672
Deferred Liabilities	\$0
Other Long Term Liabilities	\$0
Total Long Term Liabilities	\$1,570,450

TOTAL LIABILITIES

\$1,980,122

NETWORTH

Capital stock	\$0
Paid in Capital / Treasury Stock	\$660,041
Other Equities	(\$509,867)
Retained Earnings	\$0
Profit and Losses – YTD	\$0
Total Net worth	\$150,174

TOTAL LIABILITIES

\$2,130,296

AND NETWORTH

OWNER INFORMATION

Company Name: Johnson Mechanical Contractors
Located: Madison WI, 53714
Number of shares issued: 2500
Total number of shares outstanding: 2500

<u>Owner Name</u>	<u># Shares Owned</u>	<u>% Ownership</u>
Alex Johnson	1250	50.00
Nick Johnson	1250	50.00
Totals	2500	100

EVALUATOR DATA

APPRAISER'S INFORMATION

Name: Robert Smith
Title: President
Designation: (If entered) CVA
Company: Business Valuation Services LLC
Address: 636 Maple Rd.
Suite 100
Middleton, WI 53717
Phone: 608 555-1234
Email: rsmith@bvs.com
Website: www.bvs.com
% of Business Being Valuated: 100
Date of Valuation: March 27 2005
Effective Date of Appraisal: December 31 2004
Purpose of Valuation: Valuation
Ownership Interest Being Valuated: 100
Type of Financial Statements Used: Reviewed
Type of Sale: Asset

LETTER INFORMATION

Report addressed to: Alexander Johnson
Title: President
Company: Johnson Mechanical Contractors
Address: 3569 Pipefitter Drive
Middleton, WI 53562

BUSINESS PROFILE

Business Name:	Johnson Mechanical Contractors
Business Address:	2754 Grand Avenue Madison, WI 53714
Website:	www.johnsonmechanical.com
SIC/NAICS Code:	1711 / 238220
SIC/NAICS Description:	Mechanical Construction Contractors
Business Owner:	Alexander Johnson
Title:	President
Business Owner's Phone:	608 555-1234
Business Owner's Email:	anjohnson@johnsonmechanical.com
Type of Entity:	S Corporation
State/Province of Incorporation:	WI
In Business Since:	1988
Stock:	
Number of Shares Outstanding:	2500
Number of Share Holders:	2
Number of Shares Issued:	2500

MARKET VARIABLES USED IN ANALYSIS

INVESTMENT CRITERIA

Down Payment (as a % of S/P):	25
Investor Required Rate of Return:	20
Subject Business NPBT (as % of Sales):	
Investor Other Cash Investments:	
Deferred Maintenance	\$12,600
Working Capital	\$20,500
Other	\$3,000

MARKET STANDARDS

Owner Market Salary in Dollars:	
Owner Market Salary as % of Sales	1.3

FINANCING

Number of Years to Analyze Income Statement	3
Beginning Year to Analyze	2004
Ending Month of Fiscal Year	December

LOANS:

Auto/Truck

Market Value	\$683,223
Loan to Value Ratio (%)	60
Amount to Finance	\$409,934
Term Length (Years)	4
Interest Rate %	7

Inventory

Market Value	\$474,000
Loan to Value Ratio (%)	50
Amount to Finance	\$237,000
Term Length (Years)	3
Interest Rate %	7.5

MARKET VARIABLES USED IN ANALYSIS (CONTINUED)

Machinery and Equipment

Market Value	\$754,371
Loan to Value Ratio (%)	70
Amount to Finance	\$528,060
Term Length (Years)	5
Interest Rate %	7

Office Furniture/Fixtures

Market Value	\$131,727
Loan to Value Ratio (%)	75
Amount to Finance	\$98,795
Term Length (Years)	3
Interest Rate %	6.5

Seller Financing

Assets Used as Collateral	GBSA - 2nd Position
Term Length (Years)	5
Interest Rate %	7

INCOME STATEMENT WEIGHTED AVERAGE SUMMARY

SALES WEIGHTED AVERAGE:

Year	Weighted %	Annual Adjusted Sales	Annual Weighted Sales
2004	100	\$9,216,687	\$9,216,687
2003		\$8,921,753	\$0
2002		\$8,564,883	\$0
Total Weighted Sales			\$9,216,687

NOTE: The "Total Weighted Sales Average" is calculated from the results of the average of the "Annual Weighted Sales" for the multi-years analyzed. Since the final results are the average of multiple years, it is possible that the amount of "Total Weighted Sales" will not be equal to the "Annual Adjusted Sales" for any one specific year of the different years weighted in the analysis.

NET OPERATING INCOME WEIGHTED AVERAGE:

Year	Weighted %	Annual Adjusted NOI	Weighted NOI Total \$	Weighted Annual Debt	Weighted Annual ROI
2004	100	\$675,127	\$675,127	\$535,899	\$139,228
2003		\$541,271	\$0	\$0	\$0
2002		\$426,780	\$0	\$0	\$0
Total Weighted Average			\$675,127	\$535,899	\$139,228

NOTE: The "Weighted Annual Debt" and the "Weighted Annual ROI" are calculated from the results of the average of the "Weighted Net Operating Incomes" for the multi-years analyzed. Since the final results are the average of multiple years, it is possible that the amount of "Annual Debt" and the amount of "Annual ROI", when totaled, will not be equal to the "Annual Net Operation Income" for any one specific year of the different years weighted in the analysis.

The weighting technique used for this analysis was determined to be the most appropriate method to determine the subject business' typical spendable income stream that takes the given circumstances and the specific ranges of financial performance into account for the multiple years analyzed.

Year 1

INCOME STATEMENT ADJUSTMENTS SUMMARY

	%	Actual Year Ending 12-31-2004	Adjustment Year Ending 12-31-2004	%	Adjusted Year Ending 12-31-2004
INCOME:					
Sales	100	\$9,216,687		100	\$9,216,687
Total Income	100	\$9,216,687	\$0	100	\$9,216,687
=====					
Cost of Goods Sold:					
Direct Costs - Labor	23.20	\$2,138,590	\$0	23.20	\$2,138,590
Direct Costs - Materials	23.84	\$2,197,498	\$0	23.84	\$2,197,498
Direct Costs - Equipment	0.20	\$18,568	\$0	0.20	\$18,568
Direct Costs - Subcontractor	2.70	\$248,976	\$0	2.70	\$248,976
Direct Costs - Other	1.13	\$103,848	\$0	1.13	\$103,848
Total Cost of Goods Sold	51.08	\$4,707,480	\$0	51.08	\$4,707,480
=====					
GROSS PROFIT	48.92	\$4,509,207	\$0	48.92	\$4,509,207
=====					
LESS: OPERATING COSTS					
Total Variable Costs (See detail schedule on next page)	18.80	\$1,732,522	(\$70,549)	18.03	\$1,661,973
=====					
Fixed Costs Total Fixed Costs (See detail schedule on next page)	25.22	\$2,324,035	(\$95,977)	24.17	\$2,228,058
=====					
Total Operating Expenses (Fixed Costs plus Variable Costs)	44.01	\$4,056,557	(\$166,526)	42.21	\$3,890,031
=====					
Other Income (Expenses) Total Other Income (Expenses)	0.14	\$13,078	\$42,873	0.61	\$55,951
=====					
NET OPERATING INCOME (NPBT) (Before Debt Service)	5.05	\$465,728	\$209,399	7.33	\$675,127
=====					
NET OPERATING INCOME (NPBT) (Multiple Year Weighted Average)	5.05	\$465,728	\$209,399	7.33	\$675,127
=====					
LESS: ANNUAL DEBT SERVICE					\$535,899
=====					
CASH FLOW AFTER DEBT SERVICE (Return on Investment ROI)				20.00	\$139,228
=====					
Earnings Before Interest, Taxes, Depreciation, Amortization (EBITDA) Multiple Year Weighted Average (EBITDA)				8.12	\$748,334
=====					
Debt Service Coverage Ratio (DSCR) Multiple Year Weighted Average (DSCR)					1.26
=====					
=====					

INCOME STATEMENT ADJUSTMENTS DETAIL

		Actual	Adjustment		Adjusted
	%	Year	Year	%	Year
		Ending	Ending		Ending
		12-31-2004	12-31-2004		2-31-2004
Variable Costs					
Advertising & Promotion	0.77	\$71,395	(\$25,000)	0.50	\$46,395
Auto & Truck Gas, Oil, Repairs	2.05	\$189,190	\$0	2.05	\$189,190
Bad Debt	0.30	\$27,710	\$0	0.30	\$27,710
Bank Charges	0.10	\$9,619	\$0	0.10	\$9,619
Employee Benefits	2.26	\$208,674	(\$35,000)	1.88	\$173,674
Freight	0.21	\$19,539	\$0	0.21	\$19,539
Insurance - W. C. Direct Labor	0.91	\$84,071	\$0	0.91	\$84,071
Laundry, Cleaning	0.09	\$8,646	\$0	0.09	\$8,646
License & Permits	0.06	\$5,735	\$0	0.06	\$5,735
Miscellaneous	0.00	\$418	\$0	0.00	\$418
Office Supplies	0.63	\$58,475	(\$10,549)	0.52	\$47,926
Other	0.09	\$8,014	\$0	0.09	\$8,014
Payroll Taxes (Direct Labor)	2.16	\$198,776	\$0	2.16	\$198,776
Shop Supplies & Small tools	0.62	\$57,051	\$0	0.62	\$57,051
Travel & Lodging & Entertainme	0.02	\$2,104	\$0	0.02	\$2,104
U.P.S./FedEx	0.02	\$1,861	\$0	0.02	\$1,861
Union Benefits/Dues	7.71	\$710,512	\$0	7.71	\$710,512
Warranty Expense	0.77	\$70,732	\$0	0.77	\$70,732
Total Variable Costs	18.80	\$1,732,522	(\$70,549)	18.03	\$1,661,973
Fixed Costs:					
Contributions	0.03	\$2,434	\$0	0.03	\$2,434
Depreciation	1.32	\$121,985	(\$48,778)	0.79	\$73,207
Dues & Subscriptions	0.23	\$20,867	\$0	0.23	\$20,867
Insurance - Auto & Liability	3.97	\$366,043	\$0	3.97	\$366,043
Insurance - Group Health	0.17	\$15,248	\$0	0.17	\$15,248
Insurance - Officer	0.10	\$8,981	\$0	0.10	\$8,981
Payroll Taxes - Office	1.58	\$145,787	(\$2,015)	1.56	\$143,772
Pension Plan	0.88	\$81,028	\$0	0.88	\$81,028
Professional Fees	0.70	\$64,435	(\$25,000)	0.43	\$39,435
Property Taxes	0.21	\$19,584	\$0	0.21	\$19,584
Rent	0.76	\$69,665	\$5,000	0.81	\$74,665
Repairs & Maintenance	0.05	\$4,409	\$0	0.05	\$4,409
Salaries - Owner	1.57	\$145,000	(\$25,184)	1.30	\$119,816
Salaries - Office/Shop	13.40	\$1,234,609	\$0	13.40	\$1,234,609
Telephone	0.11	\$9,960	\$0	0.11	\$9,960
Utilities	0.15	\$14,000	\$0	0.15	\$14,000
Total Fixed Costs	25.22	\$2,324,035	(\$95,977)	24.17	\$2,228,058
Total Operating Costs	44.01	\$4,056,557	(\$166,526)	42.21	\$3,890,031

COMMENTS – ADJUSTMENTS TO INCOME STATEMENT

ADJUSTMENTS FOR YEAR: 2004

<u>Line Item Adjusted</u>	<u>Comments</u>
Advertising & Promotion	Extra advertising for the 25th anniversary promotion was adjusted to standard.
Employee Benefits	Reduced by the amount of the employee's annual profit sharing. Next year's profit sharing will be included in next year's budget and paid from next year's performance.
Office Supplies	Adjusted to market standard from trade association survey.
Depreciation	Adjusted to economic life depreciation which is estimated to be the same as straight line depreciation.
Payroll Taxes - Office	Reduced to adjust for the reduction of owner's salary.
Professional Fees	Unusual legal fees were deducted.
Rent	The rent was determined to be under market rates as determined by a survey of commercial real estate brokers.
Salaries - Owner	Owner's salary is set to industry standard that is based on trade association surveys.
Other Expense - Interest	Adjusted to bring the interest expense to zero as part of the normalization process.

Year 2

INCOME STATEMENT ADJUSTMENTS SUMMARY

	%	Actual Year Ending 12-31-2003	Adjustment Year Ending 12-31-2003	%	Adjusted Year Ending 12-31-2003
INCOME:					
Sales	100	\$8,921,753	\$0	100	\$8,921,753
Total Income	100	\$8,921,753	\$0	100	\$8,921,753
=====					
Cost of Goods Sold:					
Direct Costs - Labor	23.65	\$2,110,096	\$0	23.65	\$2,110,096
Direct Costs - Materials	24.37	\$2,174,083	\$0	24.37	\$2,174,083
Direct Costs - Equipment	0.22	\$19,254	\$0	0.22	\$19,254
Direct Costs - Subcontractor	2.65	\$236,547	\$0	2.65	\$236,547
Direct Costs - Other	1.06	\$94,567	\$0	1.06	\$94,567
Total Cost of Goods Sold	51.95	\$4,634,547	\$0	51.95	\$4,634,547
=====					
GROSS PROFIT	48.05	\$4,287,206	\$0	48.05	\$4,287,206
=====					
LESS: OPERATING COSTS					
Total Variable Costs (See detail schedule on next page)	18.68	\$1,666,444	(\$45,305)	18.17	\$1,621,139
=====					
Fixed Costs Total Fixed Costs (See detail schedule on next page)	25.11	\$2,240,087	(\$62,593)	24.41	\$2,177,494
=====					
Total Operating Expenses (Fixed Costs plus Variable Costs)	43.79	\$3,906,531	(\$107,898)	42.58	\$3,798,633
=====					
Other Income (Expenses) Total Other Income (Expenses)	0.15	\$13,240	\$39,458	0.59	\$52,698
=====					
NET OPERATING INCOME (NPBT) (Before Debt Service)	4.42	\$393,915	\$147,356	6.07	\$541,271
=====					
NET OPERATING INCOME (NPBT) (Multiple Year Weighted Average)	5.05	\$465,728	\$209,399	7.33	\$675,127
=====					
LESS: ANNUAL DEBT SERVICE					\$535,899
=====					
CASH FLOW AFTER DEBT SERVICE (Return on Investment ROI)				20.00	\$139,228
=====					
Earnings Before Interest, Taxes, Depreciation, Amortization (EBITDA) Multiple Year Weighted Average (EBITDA)				6.88 8.12	\$614,002 \$748,334
=====					
Debt Service Coverage Ratio (DSCR) Multiple Year Weighted Average (DSCR)					1.01 1.26
=====					

INCOME STATEMENT ADJUSTMENTS DETAIL

		Actual Year Ending 12-31-2003	Adjustment Year Ending 12-31-2003		Adjusted Year Ending 2-31-2003
	%			%	
Variable Costs					
Advertising & Promotion	0.45	\$39,756	\$0	0.45	\$39,756
Auto & Truck Gas, Oil, Repairs	2.08	\$185,632	\$0	2.08	\$185,632
Bad Debt	0.20	\$17,456	\$0	0.20	\$17,456
Bank Charges	0.11	\$9,465	\$0	0.11	\$9,465
Employee Benefits	2.23	\$198,562	(\$35,000)	1.83	\$163,562
Freight	0.23	\$20,546	\$0	0.23	\$20,546
Insurance - W. C. Direct Labor	0.93	\$82,684	\$0	0.93	\$82,684
Laundry, Cleaning	0.09	\$8,356	\$0	0.09	\$8,356
License & Permits	0.05	\$4,895	\$0	0.05	\$4,895
Miscellaneous	0.01	\$758	\$0	0.01	\$758
Office Supplies	0.64	\$56,698	(\$10,305)	0.52	\$46,393
Other	0.09	\$7,589	\$0	0.09	\$7,589
Payroll Taxes (Direct Labor)	2.24	\$199,875	\$0	2.24	\$199,875
Shop Supplies & Small tools	0.63	\$55,852	\$0	0.63	\$55,852
Travel & Lodging & Entertainment	0.02	\$1,569	\$0	0.02	\$1,569
U.P.S./FedEx	0.02	\$1,648	\$0	0.02	\$1,648
Union Benefits/Dues	7.96	\$709,856	\$0	7.96	\$709,856
Warranty Expense	0.73	\$65,247	\$0	0.73	\$65,247
Total Variable Costs	18.68	\$1,666,444	(\$45,305)	18.17	\$1,621,139
Fixed Costs:					
Contributions	0.03	\$2,275	\$0	0.03	\$2,275
Depreciation	1.34	\$119,584	(\$46,853)	0.82	\$72,731
Dues & Subscriptions	0.23	\$20,546	\$0	0.23	\$20,546
Insurance - General & Auto	4.06	\$362,479	\$0	4.06	\$362,479
Insurance - Group Health	0.17	\$15,251	\$0	0.17	\$15,251
Insurance - Officer	0.10	\$8,651	\$0	0.10	\$8,651
Payroll Tax - Office	1.61	\$143,699	(\$1,622)	1.59	\$142,077
Pension Plan	0.90	\$79,853	\$0	0.90	\$79,853
Professional Fees	0.45	\$40,568	\$0	0.45	\$40,568
Property Taxes	0.21	\$18,750	\$0	0.21	\$18,750
Rent	0.76	\$67,800	\$4,900	0.81	\$72,700
Repairs & Maintenance	0.05	\$4,895	\$0	0.05	\$4,895
Salaries - Owner	1.51	\$135,000	(\$19,018)	1.30	\$115,982
Salaries - Office/Shop	13.42	\$1,197,570	\$0	13.42	\$1,197,570
Telephone	0.11	\$9,586	\$0	0.11	\$9,586
Utilities	0.15	\$13,580	\$0	0.15	\$13,580
Total Fixed Costs	25.11	\$2,240,087	(\$62,593)	24.41	\$2,177,494
Total Operating Costs	43.79	\$3,906,531	(\$107,898)	42.58	\$3,798,633

COMMENTS – ADJUSTMENTS TO INCOME STATEMENT

ADJUSTMENTS FOR YEAR: 2003

<u>Line Item Adjusted</u>	<u>Comments</u>
Employee Benefits	Adjusted for excessive bonuses to employees as was determined by industry surveys.
Office Supplies	Adjusted to market standard from trade association survey.
Depreciation	Adjusted to economic life which is estimated to be the same as straight line depreciation.
Payroll Tax - Office	Reduced to adjust for the reduction of owner's salary.
Rent	The rent is adjusted because it was determined to be under market rates as determined by a survey of commercial real estate brokers
Salaries - Owner	Owner's salary is adjusted to industry standard.
Other Expense - Interest	Adjusted to bring the interest to "0" as part of the normalization process.

Year 3

INCOME STATEMENT ADJUSTMENTS SUMMARY

	%	Actual Year Ending 12-31-2002	Adjustment Year Ending 12-31-2002	%	Adjusted Year Ending 12-31-2002
INCOME:					
Sales	100	\$8,564,883	\$0	100	\$8,564,883
Total Income	100	\$8,564,883	\$0	100	\$8,564,883
=====					
Cost of Goods Sold:					
Direct Costs - Labor	23.55	\$2,016,897	\$0	23.55	\$2,016,897
Direct Costs - Materials	24.17	\$2,070,004	\$0	24.17	\$2,070,004
Direct Costs - Equipment	0.21	\$17,785	\$0	0.21	\$17,785
Direct Costs - Subcontractor	2.88	\$246,789	\$0	2.88	\$246,789
Direct Costs - Other	1.09	\$93,654	\$0	1.09	\$93,654
Total Cost of Goods Sold	51.90	\$4,445,129	\$0	51.90	\$4,445,129
=====					
GROSS PROFIT	48.10	\$4,119,754	\$0	48.10	\$4,119,754
=====					
LESS: OPERATING COSTS					
Total Variable Costs (See detail schedule on next page)	19.35	\$1,656,943	(\$38,450)	18.90	\$1,618,493
=====					
Fixed Costs Total Fixed Costs (See detail schedule on next page)	25.47	\$2,181,317	(\$55,288)	24.82	\$2,126,029
=====					
Total Operating Expenses (Fixed Costs plus Variable Costs)	44.81	\$3,838,260	(\$93,738)	43.72	\$3,744,522
=====					
Other Income (Expenses) Total Other Income (Expenses)	-0.16	(\$13,352)	\$64,900	0.60	\$51,548
=====					
NET OPERATING INCOME (NPBT) (Before Debt Service)	3.13	\$268,142	\$158,638	4.98	\$426,780
=====					
NET OPERATING INCOME (NPBT) (Multiple Year Weighted Average)	5.05	\$465,728	\$209,399	7.33	\$675,127
=====					
LESS: ANNUAL DEBT SERVICE					\$535,899
=====					
CASH FLOW AFTER DEBT SERVICE (Return on Investment ROI)				20.00	\$139,228
=====					
Earnings Before Interest, Taxes, Depreciation, Amortization (EBITDA) Multiple Year Weighted Average (EBITDA)				5.85 8.12	\$500,976 \$748,334
=====					
Debt Service Coverage Ratio (DSCR) Multiple Year Weighted Average (DSCR)					0.80 1.26
=====					

INCOME STATEMENT ADJUSTMENTS DETAIL

		Actual	Adjustment		Adjusted
	%	Year	Year	%	Year
		Ending	Ending		Ending
		12-31-2002	12-31-2002		2-31-2002
Variable Costs					
Advertising & Promotion	0.44	\$37,582	\$0	0.44	\$37,582
Auto & Truck Gas, Oil, Repairs	2.18	\$186,542	\$0	2.18	\$186,542
Bad Debt	0.20	\$16,854	\$0	0.20	\$16,854
Bank Charges	0.11	\$9,578	\$0	0.11	\$9,578
Employee Benefits	2.31	\$197,451	(\$28,000)	1.98	\$169,451
Freight	0.20	\$17,468	\$0	0.20	\$17,468
Insurance - W. C. Direct Labor	0.96	\$81,947	\$0	0.96	\$81,947
Laundry, Cleaning	0.10	\$8,256	\$0	0.10	\$8,256
License & Permits	0.06	\$4,798	\$0	0.06	\$4,798
Miscellaneous	0.01	\$459	\$0	0.01	\$459
Office Supplies	0.64	\$54,987	(\$10,450)	0.52	\$44,537
Other	0.09	\$7,459	\$0	0.09	\$7,459
Payroll Taxes (Direct Labor)	2.32	\$198,946	\$0	2.32	\$198,946
Shop Supplies & Small tools	0.64	\$54,891	\$0	0.64	\$54,891
Travel & Lodging & Entertainment	0.02	\$1,856	\$0	0.02	\$1,856
U.P.S./FedEx	0.02	\$1,459	\$0	0.02	\$1,459
Union Benefits/Dues	8.28	\$708,954	\$0	8.28	\$708,954
Warranty Expense	0.79	\$67,456	\$0	0.79	\$67,456
Total Variable Costs	19.35	\$1,656,943	(\$38,450)	18.90	\$1,618,493
Fixed Costs:					
Contributions	0.03	\$2,150	\$0	0.03	\$2,150
Depreciation	1.39	\$118,952	(\$44,756)	0.87	\$74,196
Dues & Subscriptions	0.23	\$19,987	\$0	0.23	\$19,987
Insurance - Auto & Liability	4.15	\$355,468	\$0	4.15	\$355,468
Insurance - Group Health	0.17	\$14,987	\$0	0.17	\$14,987
Insurance - Officer	0.10	\$8,745	\$0	0.10	\$8,745
Payroll Tax - Office	1.66	\$142,568	(\$1,875)	1.64	\$140,693
Pension Plan	0.92	\$78,954	\$0	0.92	\$78,954
Professional Fees	0.47	\$39,872	\$0	0.47	\$39,872
Property Taxes	0.22	\$18,560	\$0	0.22	\$18,560
Rent	0.77	\$65,750	\$5,000	0.83	\$70,750
Repairs & Maintenance	0.07	\$5,841	\$0	0.07	\$5,841
Salaries - Owner	1.46	\$125,000	(\$13,657)	1.30	\$111,343
Salaries - Office/Shop	13.56	\$1,161,643	\$0	13.56	\$1,161,643
Telephone	0.11	\$9,651	\$0	0.11	\$9,651
Utilities	0.15	\$13,189	\$0	0.15	\$13,189
Total Fixed Costs	25.47	\$2,181,317	(\$55,288)	24.82	\$2,126,029
Total Operating Costs	44.81	\$3,838,260	(\$93,738)	43.72	\$3,744,522

COMMENTS – ADJUSTMENTS TO INCOME STATEMENT

ADJUSTMENTS FOR YEAR: 2002

<u>Line Item Adjusted</u>	<u>Comments</u>
Employee Benefits	Adjusted for excessive bonuses to employees as determined by industry standard.
Office Supplies	Adjusted to market standard from trade association survey.
Depreciation	Adjusted to economic life which is estimated to be the same as straight line depreciation.
Payroll Tax - Office	Reduced to adjust for the reduction of owner's salary.
Rent	The rent is adjusted because it was determined to be under market rates as determined by a survey of commercial real estate brokers
Salaries - Owner	Adjust to industry standard via trade association survey.
Other Expense - Interest	Adjusted to bring the interest to "0" as part of the normalization process.

STRUCTURED FINANCING SUMMARY

<u>Source of Purchase Funds</u>	<u>Amount</u>	<u>Terms (yrs)</u>	<u>Interest</u>	<u>Mo. Payment</u>
Financial Institution Financing:				
Auto / Truck	\$409,934	4	7.00	\$9,816
Inventory	\$237,000	3	7.50	\$7,372
Machinery/Equipment	\$528,060	5	7.00	\$10,456
Office Furniture/Fixtures	\$98,795	3	6.50	\$3,028
<u>Seller Financing</u>	<u>\$706,333</u>	<u>5</u>	<u>7.00</u>	<u>\$13,986</u>
Total	\$1,980,122			\$44,658

Year 1

BALANCE SHEET ADJUSTMENTS SUMMARY

	Actual Year Ending 12-31-2004	Adjustment Year Ending 12-31-2004	Adjusted Year Ending 2-31-2004
CURRENT ASSETS			
Total Current Assets	\$2,821,702	(\$3,352)	\$2,818,350
	=====	=====	=====
FIXED ASSETS			
Total Fixed Assets	\$467,157	(\$186,000)	\$281,157
	=====	=====	=====
OTHER ASSETS			
Total Other Assets	\$35,150	\$0	\$35,150
	=====	=====	=====
TOTAL ASSETS	\$3,324,009	(\$189,352)	\$3,134,657
	=====	=====	=====
CURRENT LIABILITIES			
Total Current Liabilities	\$1,067,394	\$0	\$1,067,394
	=====	=====	=====
LONG TERM LIABILITIES			
Total Current Liabilities	\$223,946	\$0	\$223,946
	=====	=====	=====
TOTAL LIABILITIES	\$1,291,340	\$0	\$1,291,340
	=====	=====	=====
NETWORTH			
Total Net worth	\$2,032,669	(\$189,352)	\$1,843,317
	=====	=====	=====
TOTAL LIABILITIES AND NETWORTH	\$3,324,009	(\$189,352)	\$3,134,657
	=====	=====	=====

BALANCE SHEET ADJUSTMENTS DETAIL

	Actual Year Ending 12-31-2004	Adjustment Year Ending 12-31-2004	Adjusted Year Ending 2-31-2004
CURRENT ASSET ADJUSTMENTS			
Accounts Receivable – Trade	\$1,718,064	(\$14,852)	\$1,703,212
Inventory	\$462,500	\$11,500	\$474,000
Total Current Assets	\$2,821,702	(\$3,352)	\$2,818,350
	=====	=====	=====
FIXED ASSET ADJUSTMENTS			
Autos & Trucks	\$753,223	(\$70,000)	\$683,223
Machinery & Equipment	\$814,371	(\$60,000)	\$754,371
Office Furniture & Equipment	\$187,727	(\$56,000)	\$131,727
Total Depreciable Assets	\$1,806,196	(\$186,000)	\$1,620,196
	=====	=====	=====
Net Book Value	\$467,157	(\$186,000)	\$281,157
Total Fixed Assets	\$467,157	(\$186,000)	\$281,157
	=====	=====	=====
OTHER ASSET ADJUSTMENTS			
Total Other Assets	\$35,150	\$0	\$35,150
TOTAL ASSET ADJUSTMENTS	\$3,324,009	(\$189,352)	\$3,134,657
	=====	=====	=====
CURRENT LIABILITIES ADJUSTMENTS			
Total Current Liabilities	\$1,067,394	\$0	\$1,067,394
	=====	=====	=====
LONG TERM LIABILITIES ADJUSTMENTS			
Total Long Term Liabilities	\$223,946	\$0	\$223,946
	=====	=====	=====
TOTAL LIABILITIES	\$1,291,340	\$0	\$1,291,340
	=====	=====	=====
NETWORTH ADJUSTMENTS			
Other Equities	(\$113,307)	(\$189,352)	(\$302,659)
Total Networth	\$2,032,669	(\$189,352)	\$1,843,317
	=====	=====	=====

COMMENTS – ADJUSTMENTS TO BALANCE SHEET

ADJUSTMENTS FOR YEAR: 2004

<u>Line Item Adjusted</u>	<u>Comments</u>
Accounts Receivable	Adjusted for known noncollectable accounts.
Inventory	Adjusted for conversion of raw materials to finished goods.
Autos & Trucks	Adjusted to estimated fair market value.
Machinery & Equipment	Adjusted to estimated fair market value.
Office Furniture / Equipment	Adjusted to estimated fair market value.
Less Accumulated Depreciation	Since all adjustments to the estimated fair market value were taken on the specific fixed asset's line item, no adjustment has been taken here.
Other Equities	Adjusted to balance line items that were adjusted to estimated fair market value.

Year 2

BALANCE SHEET ADJUSTMENTS SUMMARY

	Actual Year Ending 12-31-2003	Adjustment Year Ending 12-31-2003	Adjusted Year Ending 2-31-2003
CURRENT ASSETS			
Total Current Assets	\$2,745,482	(\$8,278)	\$2,737,204
	=====	=====	=====
FIXED ASSETS			
Total Fixed Assets	\$469,558	(\$150,000)	\$319,558
	=====	=====	=====
OTHER ASSETS			
Total Other Assets	\$33,392	\$0	\$33,392
	=====	=====	=====
TOTAL ASSETS	\$3,248,432	(\$158,278)	\$3,090,154
	=====	=====	=====
CURRENT LIABILITIES			
Total Current Liabilities	\$1,265,734	\$0	\$1,265,734
	=====	=====	=====
LONG TERM LIABILITIES			
Total Current Liabilities	\$475,353	\$0	\$475,353
	=====	=====	=====
TOTAL LIABILITIES	\$1,741,087	\$0	\$1,741,087
	=====	=====	=====
NETWORTH			
Total Net worth	\$1,507,345	(\$158,278)	\$1,349,067
	=====	=====	=====
TOTAL LIABILITIES AND NETWORTH	\$3,248,432	(\$158,278)	\$3,090,154
	=====	=====	=====

BALANCE SHEET ADJUSTMENTS DETAIL

	Actual Year Ending 12-31-2003	Adjustment Year Ending 12-31-2003	Adjusted Year Ending 2-31-2003
CURRENT ASSET ADJUSTMENTS			
Accounts Receivable – Trade	\$1,685,145	(\$16,842)	\$1,668,303
Inventory	\$478,956	\$8,564	\$487,520
Total Current Assets	\$2,745,482	(\$8,278)	\$2,737,204
	=====	=====	=====
FIXED ASSET ADJUSTMENTS			
Autos & Trucks	\$702,560	(\$56,445)	\$646,115
Machinery & Equipment	\$751,613	(\$48,390)	\$703,223
Office Furniture & Equipment	\$181,564	(\$45,165)	\$136,399
Total Depreciable Assets	\$1,686,612	(\$150,000)	\$1,536,612
	=====	=====	=====
Net Book Value	\$469,558	(\$150,000)	\$319,558
Total Fixed Assets	\$469,558	(\$150,000)	\$319,558
	=====	=====	=====
OTHER ASSET ADJUSTMENTS			
Total Other Assets	\$33,392	\$0	\$33,392
TOTAL ASSET ADJUSTMENTS	\$3,248,432	(\$158,278)	\$3,090,154
	=====	=====	=====
CURRENT LIABILITIES ADJUSTMENTS			
Total Current Liabilities	\$1,265,734	\$0	\$1,265,734
	=====	=====	=====
LONG TERM LIABILITIES ADJUSTMENTS			
Total Long Term Liabilities	\$475,353	\$0	\$475,353
	=====	=====	=====
TOTAL LIABILITIES	\$1,741,087	\$0	\$1,741,087
	=====	=====	=====
NETWORTH ADJUSTMENTS			
Other Equities	(\$75,000)	(\$158,278)	(\$233,278)
Total Networth	\$1,507,345	(\$158,278)	\$1,349,067
	=====	=====	=====

COMMENTS – ADJUSTMENTS TO BALANCE SHEET

ADJUSTMENTS FOR YEAR: 2003

<u>Line Item Adjusted</u>	<u>Comments</u>
Accounts Receivable	Adjusted for known noncollectable accounts.
Inventory	Adjusted for conversion of raw materials to finished goods.
Autos & Trucks	Adjusted to estimated fair market value.
Machinery & Equipment	Adjusted to estimated fair market value.
Office Furniture / Equipment	Adjusted to estimated fair market value.
Less Accumulated Depreciation	Since all adjustments to the estimated fair market value were taken on the specific fixed asset's line item, no adjustmet was taken here.
Other Equities	Adjusted to balance line items that were adjusted to estimated fair market value.

Year 3

BALANCE SHEET ADJUSTMENTS SUMMARY

	Actual Year Ending <u>12-31-2002</u>	Adjustment Year Ending <u>12-31-2002</u>	Adjusted Year Ending <u>2-31-2002</u>
CURRENT ASSETS			
Total Current Assets	\$2,630,000 =====	(\$4,739) =====	\$2,625,261 =====
FIXED ASSETS			
Total Fixed Assets	\$470,190 =====	(\$137,000) =====	\$333,190 =====
OTHER ASSETS			
Total Other Assets	\$31,723 =====	\$0 =====	\$31,723 =====
TOTAL ASSETS	\$3,131,913 =====	(\$141,739) =====	\$2,990,174 =====
CURRENT LIABILITIES			
Total Current Liabilities	\$1,469,830 =====	\$0 =====	\$1,469,830 =====
LONG TERM LIABILITIES			
Total Current Liabilities	\$607,246 =====	\$0 =====	\$607,246 =====
TOTAL LIABILITIES	\$2,077,076 =====	\$0 =====	\$2,077,076 =====
NETWORTH			
Total Net worth	\$1,054,837 =====	(\$141,739) =====	\$913,098 =====
TOTAL LIABILITIES AND NETWORTH	\$3,131,913 =====	(\$141,739) =====	\$2,990,174 =====

BALANCE SHEET ADJUSTMENTS DETAIL

	Actual Year Ending 12-31-2002	Adjustment Year Ending 12-31-2002	Adjusted Year Ending 2-31-2002
CURRENT ASSET ADJUSTMENTS			
Accounts Receivable – Trade	\$1,675,896	(\$12,589)	\$1,663,307
Inventory	\$435,666	\$7,850	\$443,516
Total Current Assets	\$2,630,000	(\$4,739)	\$2,625,261
	=====	=====	=====
FIXED ASSET ADJUSTMENTS			
Autos & Trucks	\$658,456	(\$51,553)	\$606,903
Machinery & Equipment	\$685,740	(\$44,196)	\$641,544
Office Furniture & Equipment	\$172,589	(\$41,251)	\$131,338
Total Depreciable Assets	\$1,567,660	(\$137,000)	\$1,430,660
	=====	=====	=====
Net Book Value	\$470,190	(\$137,000)	\$333,190
Total Fixed Assets	\$470,190	(\$137,000)	\$333,190
	=====	=====	=====
OTHER ASSET ADJUSTMENTS			
Total Other Assets	\$31,723	\$0	\$31,723
TOTAL ASSET ADJUSTMENTS	\$3,131,913	(\$141,739)	\$2,990,174
	=====	=====	=====
CURRENT LIABILITIES ADJUSTMENTS			
Total Current Liabilities	\$1,469,830	\$0	\$1,469,830
	=====	=====	=====
LONG TERM LIABILITIES ADJUSTMENTS			
Total Long Term Liabilities	\$607,246	\$0	\$607,246
	=====	=====	=====
TOTAL LIABILITIES	\$2,077,076	\$0	\$2,077,076
	=====	=====	=====
NETWORTH ADJUSTMENTS			
Other Equities	(\$60,000)	(\$141,739)	(\$201,739)
Total Networth	\$1,054,837	(\$141,739)	\$913,098
	=====	=====	=====

COMMENTS – ADJUSTMENTS TO BALANCE SHEET

ADJUSTMENTS FOR YEAR: 2002

<u>Line Item Adjusted</u>	<u>Comments</u>
Accounts Receivable	Adjusted for known noncollectable accounts.
Inventory	Adjusted for conversion of raw materials to finished goods.
Autos & Trucks	Adjusted to estimated fair market value.
Machinery & Equipment	Adjusted to estimated fair market value.
Office Furniture / Equipment	Adjusted to estimated fair market value.
Less Accumulated Depreciation	Since all adjustments to the estimated fair market value were taken on the specific fixed asset line item, no adjustment has been taken here.
Other Equities	Adjusted to balance line items that were adjusted to estimated fair market value.

DEFINITION OF MARKET VALUE

The market value is the most probable price that a business should bring in a competitive and open market under all conditions necessary for a fair sale presuming the buyer and seller each act prudently, knowledgeably, and assuming the price is not affected by undue stimuli. Implicit in this definition the consummation of a sale as of a specified date and the title from seller to buyer under condition by:

1. Buyer and seller are typically motivated.
2. Both parties are well informed or well advised and each of them is acting in what one considers one's own best interests.
3. A reasonable time is allowed for exposure in the open market.
4. Payment is made in terms of cash of the same currency which the business has adopted as their accounting standard or in terms of financial arrangements comparable thereto.
5. The price represents the normal consideration for the business sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

A fair market transaction must be a "win-win" for all parties concerned. The fair market value of a going business, in its specific market, is that value where the normalized spendable income stream of the business can accomplish three criteria.

1. It must be able to support the structured debt service that is created from the business sale.
2. It must be able to pay the owner a fair salary as determined by the size, type and location of the business to current market standards.
3. It must be able to pay the owner a fair return on their investment as determined by current market standards.

STATEMENT OF LIMITING CONDITIONS

1. The establishing of the fair market value of this business is not based in whole or in part upon: the race, color, sex or national origin of the prospective owners or occupants of the business evaluated; or upon the race, color, sex or national origin of the present owners or occupants of the businesses in the vicinity of the business evaluated.
2. The evaluator has personally inspected the business, both inside and out.
3. To the best of the evaluator's knowledge and belief, all statements and information in this report are true and correct and the evaluator has not knowingly withheld any significant information.
4. This evaluation has been made in conformity with the use of good, common accepted business and accounting practices.
5. The evaluator has relied upon the representations made to him/her by the owners and/or management of the subject business. All information, where possible, has been verified by the evaluator. The information, although not guaranteed by the evaluator, has been compiled from sources we believe reliable.
6. The evaluator has used financial sources such as the business' tax forms to assure the accuracy of this report. These forms are signed by the owner and/or management of the business certifying to the government that it is a true and accurate representation of the financial condition of the business.

7. The evaluator has mathematically compiled the final opinion of value through the use of commonly accepted accounting practices. The evaluator assumes no liability in the determining of this value.
8. This analysis cannot be duplicated or otherwise copied in whole or in part without the permission of the evaluator.
9. It is understood that the evaluator is not required to give testimony or appear in court because of having made this evaluation with reference to the business in question, unless arrangements have been previously make.
10. This is a sample insert for the evaluator limiting conditions to show the location of the insert in this sample business analysis/valuation sample report.

VALUATION TECHNIQUES (METHODOLOGIES)

This evaluation has not used some of the industries' typical valuation techniques because of their commonly known inaccuracy. One of the major problems with using the different techniques listed below is that the price they establish gives no guarantee or even a probable chance that the evaluated business will be able to support the debt service which the sale has created. If the debt service payments cannot be made, there is certainly no chance of profit, even in companies that were profitable before the sale. Some evaluators believe that if you use more than one of these techniques you can then average them for a more accurate answer. This is just not true. A list of these valuation techniques and the reasons for their inherent inaccuracy are provided below.

CAPITALIZATION OF EARNINGS

This approach is an income approach where the earnings of the business are capitalized into the total value. The accuracy of this technique is dependent upon the evaluator being able to accurately select a rate of return that reflects both the tangible and the intangible assets of the business. The more stable the business' income stream, the lower the capitalization rate. If the income stream is more speculative, the capitalization rate is higher. The technique also applies a weighted average and a division factor to the earnings of those years analyzed. Since a small discrepancy in the arbitrary selection of the factor of the rate of return can adversely affect the business' value by many thousands of dollars, it was not used for this evaluation.

PRICE TO EARNING (P/E) RATIO APPROACH

The users of this approach believe that the value of a business is determined according to a relationship that the selling price of common stocks in publicly-owned and traded companies has to the annual earnings of these companies. One of the shortcomings here is that this ratio is determined from the sale of smaller "blocks" of stock, a much different situation than purchasing 100% of a company or even a controlling share. Many times, the P/E ratio within an industry increases or decreases for reasons not associated with the

industry but rather due to other market conditions (such as political circumstances of the time). These factors could seriously distort the value of the business. For these reasons, this technique cannot be considered accurate.

DISCOUNTED FUTURE EARNINGS APPROACH

This valuation approach establishes the market value of a business by projecting the value of its future cash flows and then discounting them back to their present value. This approach relies on the evaluator's ability to perform two almost impossible tasks. First, the evaluator must be able to accurately project future cash flows for periods as distant as ten years. Second, the evaluator must establish a realistic discount value to apply to these future cash flows. These can only be considered as "educated guesses", not an acceptable accurate valuation technique.

COST TO CREATE APPROACH

With this approach, an examination of the subject business' records will show us what was the actual cost to create (start) the business. This cost includes organizational costs, assemblage of personal costs, acquisition of lease or real estate costs, assemblage of fixed assets costs, development of intangible (goodwill) costs and the costs of the net tangible assets. This method requires the summation of all of these costs. There are many problems with this approach with the biggest being the reality of having an accurate way to figure the intangible costs; it is simply impossible to accurately calculate and therefore makes this technique inaccurate.

ECONOMIC MULTIPLES OF VALUE APPROACH

The economic multiples approach is simply the use of "market" originated multiples that are multiplied to different areas of a business' financial statement. An example of this would be that hotels and motels "should" sell for between 3 and 4 times their gross sales. There is no accuracy when using multiples. No one knows from where they came or how they were created. A range of multiples such as the example given above can show a difference in the market value (selling price) of tens and even hundreds of thousands of

dollars. Therefore, this valuation technique cannot be considered accurate enough for this analysis.

THE RULES OF THUMB APPROACH

This approach closely resembles the “Multiples” approach. Over a period of time, different industry shortcuts for valuation are created. One example of this would be that taverns are “supposed” to sell for \$10,000 per bar stool. If the seller wants to increase the value, why not just add some more bar stools? From this example one can see how even the slightest difference in the number will affect the final valuation by many thousands of dollars.

BALANCE SHEET (SUMMATION OF ASSETS) APPROACH

In this approach the value of a business is established by the summation of the market value of its assets. In it, the current market value of all of the business’ assets, including the intangibles, are totaled to arrive at the total market value for the business. Upon inspection of the balance sheet, the intangibles (also known as goodwill) may or may not be found. If an established value for goodwill was carried over from the allocation of the selling price from a prior sale, the goodwill cannot be depreciated and remains on the balance sheet without change. If there was not a prior sale, none is listed. How can you verify the value of goodwill if it is listed? How do you establish the value of goodwill if it is not listed? Since the fair market of “goodwill” cannot be substantiated, the total value arrived at by this approach is distorted to an unacceptable level.

EVALUATOR'S COMMENTS

The business valuation in this study is an evaluation of the subject business as a going business only. This valuation is not an appraisal of the individual parts making up this business, but rather an evaluation of how the individual parts work together to create the spendable cash flows that form it into a going business.

In this evaluation it is not the evaluator's intention to determine if the integral parts that make up this business are being used for their best or highest income producing value. It is an evaluation of the income that they are creating. The market values of those individual assets that can be used as collateral to support the structured business loans are only considered. If the business' value as an existing business is less than the current market value of its parts, the parts should then be sold separately for their higher value.

A business is worth that price at which it will support its structured debt service and pay a fair salary to the owner along with a fair return on the owner's investment. This evaluation considers all of these criteria using the listed existing market variables of interest rates, loan terms, rent factors, wage rates and other factors as listed under the attached schedule entitled "Market Variables Used in Analysis". Mathematically, under these existing variables, there is only ONE business value that will allow the business to meet these three criteria. This evaluation is a study that calculates that value.

Once the business' value is determined, the breakdown of its price is not a function of determining the market value of its individual parts (assets) but rather is a function of tax allocations that must be properly determined by accountants and tax attorneys. An example of items that would be allocated and included in a business' value would be: real estate and land (if any), furniture, fixtures, equipment, goodwill, covenants not-

to-compete, management consulting agreements, customer lists, telephone numbers, signage, trade names, business records, leases, licenses, franchise rights and so on.

This is a sample insert for the evaluator comments to show the location of the insert in this sample business analysis/valuation sample report.

APPENDICES

TAX FORMS

FINANCIAL STATEMENTS

MISCELLANEOUS SUPPORTING DOCUMENTATION

Johnson Mechanical Contractors
Valuation
December 31 2004



OFFERED AT: \$2,640,163

Type of Business: Mechanical Construction Contractors

Business Profile:

This is a sample insert for the evaluator business/income listing profile to show the location of the insert in this sample business/analysis sample report.

Johnson Mechanical Contractors
Valuation
December 31 2004



Johnson Mechanical Contractors
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Madison, WI 53714
www.johnsonmechanical.com