



Valuation of:

Carpet Cleaning & Maintenance, Inc.

Date of Valuation: December 31, 2012

Report Date: August 29, 2013

Performed by:

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Mergers & Acquisition Master Intermediary
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August 29, 2013

Mr. Charles Glover
President
Carpet Cleaning & Maintenance, Inc.
2484 Ships Watch Court
Virginia Beach, VA 23451

RE: Fair Market Value of a 100 Percent Interest in Carpet Cleaning & Maintenance, Inc.

Dear Mr. Glover:

In accordance with your request, we have conducted an analysis of the fair market value of a 100 percent interest in Carpet Cleaning & Maintenance Inc., referred to herein as the Company. The 100 percent interest was valued on a closely-held marketable basis. The intended use of this valuation is to provide an independent valuation opinion for 100% interest in Carpet Care & Maintenance, Inc., an operating company

The use of this report and information contained in it is restricted to the use set forth above, and if used for any other application is invalid. The distribution of this report is limited to Mr. Charles Glover, Mrs. Mary Glover and their legal and financial advisors.

The valuation date, the date as of which our opinion of value applies, is December 31, 2012. The date of this report is August 29, 2013.

The valuation report is reported here in the form of an Appraisal Report as defined by the Uniform Standards of Appraisal Practice (USPAP).

The valuation assignment specifies the Company be valued at fair market value. This is the standard of value applied here under Revenue Ruling S9-60.

Our opinion of value assumes the assets are part of a going concern business entity. That is, we believe the continued existing use of the property and operation of the business will result in the greatest economic value for the Company.

After we collected the information received from the Company or obtained from our own sources, we analyzed this information so as to be able to select those methods of valuation applicable to this assignment.



It is the appraiser's independent unbiased professional opinion, using the valuation approaches and methods, which are subject to the assumptions and limiting conditions described in this appraisal report¹ dated August 29, 2013, the fair market value of an equity interest in 100% interest in this Virginia corporation known as Carpet Cleaning & Maintenance, Inc. as of December 31, 2012 is best expressed as;

\$1,148,000.00
(One Million One Hundred Forty Eight Thousand Dollars)

The attached business valuation report has been made for valuation purposes and the information contained therein, while sufficient for that purpose, is not guaranteed as to the accuracy of the financial statements submitted to us, or the accounting procedures used. The appraiser has gathered data from sources thought to be relevant and reliable, and has compiled the report using that data as a base in employing their experience and judgment.

The attached Appraiser's Certification, Statement of Assumptions and Limiting Conditions, and Appraiser's Professional Qualifications are integral parts of our valuation opinion.

If you have any questions or comments concerning this valuation, please contact us.

Respectfully submitted,

Roland J. Davis Jr.

Attachment: Carpet Cleaning & Maintenance Inc. Valuation Report

¹As defined by The Appraisal Foundation USPAP 20X0-20X1 Edition Standard Rule 10-2

APPRAISER'S CERTIFICATION

- The statement of facts, opinions and conclusions expressed are correct to the best of the appraiser's knowledge and belief.
- The report analysis, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and is this appraiser's personal, unbiased analysis, opinions and conclusions.
- The appraiser has no present or prospective interest in the property that is the Subject of this report, and the appraiser has no personal interest or bias with respect to the parties involved.
- The compensation paid is not contingent on an action or event resulting from the analysis, opinions, or conclusions in, or the use of this appraisal report.
- No one provided significant professional assistance to the person signing this report.
- We have performed no services, as an appraiser or in any other capacity, regarding the subject property or business within the three year period immediately preceding acceptance of this valuation assignment.
- This appraisal has been prepared and this report has been prepared in conformity with Uniform Standards of Professional Appraisal Practice (USPAP), as proclaimed by the International Society of Business Analysts.

As indicated above, our report and conclusions are attached hereto and must be attached to this transmittal letter as an integral part of it.

Roland J. Davis Jr.

BCA, M&AMI, CMEA
Davis Business Appraisers, Inc.

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1 Introduction

1.1.1 Scope of the Assignment

Scope of work rule² states an appraiser must; (i) identify the problem to be solved; (ii) determine and perform the scope of work necessary to develop credible assignment results and (iii) disclose the scope of work in the report. This section of the valuation report discusses in detail the aforementioned.

1.1.2 Scope of Work Limitations

The scope of this appraisal assignment is limited to the development of a good-faith estimate or opinion of value based on the standard of value and assumptions set forth herein. The scope of this appraisal precludes forensic accounting, and is no more than a reasonable inquiry into the quality of management.

1.1.3 Subject of the Appraisal

Sajomach Business Services has been retained by Mr. Charles Glover, President of Carpet Cleaning & Maintenance to provide an opinion on the fair market value of a 100% interest in Carpet Cleaning & Maintenance, Inc., as of December 31, 2012.

Valuation is not an exact science, subject to a precise formula, but is based on relevant facts, elements of common sense, informed judgment and reasonableness. Therefore, this report and the values determined herein cannot be utilized or relied upon for any purpose other than that stated above.

1.1.4 Summary Description of Subject

Charles and Mary Glover, each owning a 50% interest in Carpet Cleaning & Maintenance, Inc. (hereafter referred to as the Company or Subject), is an S Corporation in the State of Virginia. The Company was formed in 1993 to operate a carpet cleaning business

1.1.5 Form of Report

An "appraisal report" format is selected here and sets forth the conclusion of value through a comprehensive study of the business, economy and industry in which it competes.

1.1.6 Confidentiality and Privacy

This appraiser will maintain the conformity and privacy of Carpet Cleaning & Maintenance, Inc. information obtained in the course of this valuation assignment in compliance with the USPAP and Title V of Gramm, Leach, Bliley Financial Modernization Act. Information about this client or

² Source: Uniform Standards of Professional Appraisal Practice (USPAP)

their business model will not be sold to others. Sajomach Business Service's objective is to protect the security and any confidential information about personal and business related activities. Information is shared outside Sajomach Business Services only when necessary to administer products or services provided when we have permission, or when required or permitted by law or the courts.

1.1.7 Restricted Use of the Appraisal

The use and distribution of this appraisal report is restricted to: (i) the shareholders of Carpet Cleaning & Maintenance and (ii) the legal and tax professionals advising the Glovers.

1.1.8 Definition of the Standard of Value

The most commonly used definition of "fair market value" is located in Revenue Ruling 59-60. This revenue ruling defines fair market value as *"the price at which property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts. Court decisions frequently state that the hypothetical buyer and seller are assumed to be able, as well as willing, to trade and to be well informed about property and concerning the market for such property"*.

Also implied in this definition is the value is to be stated in cash or cash equivalents and the property would have been exposed on the open market for a period long enough to allow the market forces to interact to establish the value.

Furthermore, the buyer under fair market value is a "financial" and not a "strategic" buyer. That is, the buyer contributes only capital and management at least equivalent to that contributed by the current management and/or ownership. This excludes the buyer who because of other business activities might bring some "value-added" benefits to Carpet Cleaning & Maintenance that might enhance Carpet Cleaning & Maintenance's value along with the buyer's other business activities. This also excludes buyers who are already shareholders, creditors, related or a controlling entity, which might be willing to acquire the interest at a higher or lower price due to considerations not typical of the arm's-length financial buyer.

1.1.9 Effective Date of the Valuation (Appraisal Date)

The valuation date, the date of which the opinion of value applies, is December 31, 2012. The opinion of value represented in this appraisal would likely change if the effective date was modified. The opinion of value is based on the premise that Carpet Cleaning & Maintenance will continue as a going concern, and the business will remain an operating and ongoing enterprise.

1.1.10 Ownership and Control

Carpet Cleaning & Maintenance is owned by two principals, Charles Glover (50% shareholder) and Mary Glover (50% shareholder). The number of common shares authorized is 5,000. All shares are issued.

1.1.11 Prior Ownership Transactions

Management states there have been no prior transactions in Carpet Cleaning & Maintenance.

1.1.12 Principal Sources of Information

While the appraiser has been diligent in preparing this valuation, it is important to all concerned that this appraiser has relied heavily upon information given by others. For those persons who may review this valuation now and in the future, this appraiser has endeavored to clearly identify the information sources as follows:

- Financial statement prepared by Charles Glover
- Information provided verbally by Charles Glover in multiple interviews and emails
- Industry information supplied by management.
- Research conducted with respect to the Subject's business and industry.
- Economic and industry studies, statistics and forecasts as mentioned in this report.
- Other sources which are footnoted throughout this report.

Information for this report has been obtained from management, public information and other sources considered reliable and is of the type reasonably relied upon by experts in the field of business valuation. This appraiser has relied upon such information and no independent verification has been performed on any of the information received.

1.1.13 Assumptions & Limiting Conditions

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

1. The valuation process is not a finding of fact, but is a good faith finding of opinion. The opinion is supported by a reasonable amount of research and analysis, but is ultimately only the appraiser's personal, unbiased professional judgment.
2. This appraisal report is designed to provide an opinion of value. It is not an accounting report and should not be relied upon to disclose hidden assets or to verify financial reporting.
3. The valuation report is based upon facts and conditions existing as of the date of valuation. This appraiser has not considered subsequent events. Unless specifically requested by the client and agreed upon by me, I have no obligation to update this valuation report for such events and conditions.
4. The estimate of value included in this report assumes the existing business will maintain the character and integrity of the business through any sale, reorganization or reduction of any owner's/manager's participation in the existing activities of the business.
5. The ultimate price paid in any actual transaction is a function of negotiations between a specific buyer and seller, and those negotiations may be affected by individual interests not contemplated in our analysis. The timing of and conditions surrounding such a

negotiation would differ from the effective date of our valuation. Therefore, we are not responsible for any buyer's or seller's ability or inability to consummate a transaction at the value developed herein.

6. This appraiser relied upon representations made by management of Carpet Cleaning & Maintenance regarding the background and history of the business. Management has acknowledged information provided was complete and accurate. However, this appraiser assumes no responsibility for the accuracy of the information provided to this appraiser by Carpet Cleaning & Maintenance representatives.
7. The appraiser assumes no responsibility for the legal description or matters including legal or title considerations. Titles to Subject's assets, properties, or business interests are assumed to be good and marketable unless otherwise stated.
8. Subject's assets, properties, or business interests are appraised free and clear of any or all liens or encumbrances unless otherwise stated.
9. This report is based on financial information provided by management of Carpet Cleaning & Maintenance and other third parties. This appraiser has not audited the underlying financial data. Accordingly, this appraiser takes no responsibility for the underlying financial data presented in this report and users of this valuation report should be aware that valuations may be based on future earnings potential that may or may not materialize. Therefore, the actual results achieved may vary from the information utilized in this valuation and the variations may be material.
10. Sajomach Business Services accepted the financial statements of Carpet Cleaning & Maintenance without testing their accuracy. The financial statements consist of balance sheets and income statements. The accuracy of the financial statements is the sole responsibility of Carpet Cleaning & Maintenance's management.
11. This appraiser is not aware of any information that was knowingly withheld. However, this appraiser makes no guarantee that Carpet Cleaning & Maintenance or others have disclosed all relevant information to this appraiser. The information furnished by others is believed to be reliable. However, Sajomach Business Services issues no warranty or other form of assurance regarding its accuracy.
12. This appraiser assumes there are no hidden or unapparent conditions regarding the Subject's assets, properties, or business interests. The Subject is assumed to be in full compliance with all applicable federal, state, and local regulations and laws unless the lack of compliance is stated, defined, and considered in the appraisal report.
13. Sajomach Business Services assumes that all required licenses, certificates of occupancy, consents, or legislative or administrative authority from any local, state, or national government, or private entity or organization have been or can be obtained or reviewed for any use on which the opinion contained in this report is based.
14. Unless otherwise stated in this report, this appraiser did not observe and has no knowledge of, the existence of hazardous materials with regard to the Subject's assets, properties, or business interests. However, this appraiser is not qualified to detect such substances and accepts no responsibility for such conditions or for any expertise required to discover them.

15. Neither this appraiser, nor Sajomach Business Services, is a guarantor of value. Valuations of closely held companies are an imprecise science, with value being a question of fact and reasonable people can differ in their estimates of value. This appraiser, however, used conceptually sound and commonly accepted methods and procedures of valuation theory in determining the estimate of value included in this report.
16. Possession of this report, or a copy thereof, does not carry with it the right of publication of all or part of it, nor may it be used for any purpose without our previous written consent, and in any event only with proper authorization. Authorized copies of this report will be signed in blue ink by the appraiser of Sajomach Business Services. Unsigned copies, or copies not signed in blue ink, should be considered to be incomplete.
17. The terms of this engagement do not require this appraiser to give testimony in court, be in attendance during any hearings or depositions, or appear at any Internal Revenue Service examination, with reference to the Company being valued, unless previous arrangements have been made.
18. Neither all nor any part of the contents of this report shall be disseminated to the public through advertising, public relations, news, sales, or other media without our prior written consent and approval.
19. Sajomach Business Services are not licensed attorneys. Any comments, discussions, or analyses of Company documents or any other federal or state law, provision, or regulation are not to be considered legal opinions. The appraiser's focus is to consider all relevant factors that might impact value and estimate the extent of the impact of such factors.

2 Analysis of the Business

2.1.1 History

Carpet Cleaning & Maintenance, Inc. was formed in January of 1989 as a sole proprietorship to specialize in cleaning and dyeing of carpeting. The business was incorporated as an S Corporation in 1992. The business was started in their residence and currently is located in Virginia Beach, Virginia at 2484 Ships Watch Court. The business was started after Charles Glover had worked for other carpet cleaning businesses and saw the opportunity to see a great opportunity to specialize in the cleaning of multi-family residences. Neither owner has a college degree or any specialized business training.

2.1.2 Form of the Organization

The Subject has elected to be taxed as an S Corporation under the Internal Revenue Code and comparable State of Virginia tax laws.

2.1.3 Location

The Company's operations are located at 2484 Ships Watch Court, Virginia Beach, VA 23451. The location is just off of Shore Drive, a major traffic area. This facility is leased from a related entity, Charles & Mary Glover.

The facilities are located in a commercial business park. The building is 4500 square feet (1,000 office and 3,000 warehouse). The building has large garage door access for vehicles as well as parking spaces for 25 vehicles. In addition, there is a secure fenced in area for overnight storage. The business does not utilize all the current space.

Lease expense, as a percentage of annual revenues, is 0 percent. The lease is on a triple net basis, and according to management. The shareholders personally own the building that the business is located in and has indicated they pay the mortgage from the business, but do not delineate it as a line item in the profit & loss statement.

2.1.4 Operations and Equipment

The Company operates 7am to 5pm, 5 days a week. According to management, the busiest months are May - October, which accounts for 60% sales earned. The slowest months are November - April. There are two trucks and a supervisor on call 24/7.

According to management, the Company owns all the equipment. The equipment is stated to be in good condition and a forecast for replacement would ideally be 5 years from now. The equipment is regularly serviced.

2.1.5 Ownership, Management and Employees

Charles Glover, Shareholder, does work full time in the business on a daily basis. Mary Glover (Shareholder) works part time (20 to 30 hours per week) and is primarily involved in accounting. In 2012, Mary Glover did not work in the business. The remaining workforce is comprised of 14 full time and 2 part time employees. A majority of the employees have been with the company more than 5 year.

Management indicates that none of the employees are under an employment agreement and none are represented by a collective bargaining agreement. Policies are established in an employee handbook. Management believes morale is good and anticipates no undue employee problems.

There are two key employees outside of the shareholders (Manager and Salesperson). The Manager supervises the business operations. The only sales person in the business is very experienced and has long term relationships with the customer base.

2.1.6 Customer Base

The customer base is somewhat concentrated. The top 5 customers account for 43% of the business. Equitable Residential is the largest customer representing 23% of sales. All of the sales are local.

The vast majority of the businesses revenues are achieved through multi-family cleaning (76%).

2.1.7 Competition

The marketplace has competition. The primary result of the competition is that the business is forced to compete on price to gain new contracts. The management indicates once the business wins a client the business has a great retention rate due to their focus on service and quality.

It is not difficult to start a business to compete with Carpet Cleaning & Maintenance. The competitor would just need to acquire the equipment and have a reasonable level of working capital in place. This is the main reason why the business has focused on service and support to provide referrals and retain customers as clients. The main competition would be the well-established and franchised carpet cleaning businesses in the immediate area.

They include:

Stanley Steamer
Peerless Carpet Cleaning and Restoration
Monster Carpet Cleaning

Management believes the business competes effectively and is only compromised in competitive bids by the price.

2.1.8 Environmental, Regulatory and Other Conflicts

Management represents it has neither any problems with environmental, tax, licensing matters, nor any personnel nor other litigious problems. The appraiser has relied on this representation and this valuation report will give no further consideration to these matters.

2.1.9 Sales and Marketing

Carpet Cleaning & Maintenance does little or no marketing. The vast majority of business (85%) is a result of repeat customers and word of mouth. Direct Mail and advertising is minimal

2.1.10 Suppliers and Vendors

Carpet Cleaning & Maintenance has good relations with all its vendors, and has traded with many of them for some period of time. It uses various businesses for supply of products – Sysco, Ferguson Plumbing, Sunbelt Rentals. In addition the products used are readily available at Home Depot and Lowes.

2.1.11 SWOT Analysis

SWOT analysis ("Strengths", "Weaknesses", "Opportunities" and "Threats") is a technique for understanding Commonwealth/Southampton's strengths and weaknesses and for looking at Carpet Cleaning & Maintenance's opportunities and threats. This analysis helps discover what Carpet Cleaning & Maintenance does well; how it could be improved; whether the organization is making the most of the opportunities; and whether there are any changes that might threaten it.

This analysis is a combination of management's input and analysis of the information relied upon for this valuation report.

The main strengths for the Company are the employees, quality of customer service and customer loyalty. The major threats are loss of key employees, the economy and the economic outlook for housing market.

2.1.12 Barriers to Entry

The industry has low barriers to entry. It requires a small amount of capital to start a carpet cleaning business in today's market.

It is difficult to obtain a reputation, existing market share held by the business, along with employees, all of these factors factor into the value. Individuals attempting to enter this type of business at the current level achieved by Carpet Cleaning & Maintenance would likely experience the following barriers or challenges:

- **Systems & Procedures:** Having a business with established systems and procedures, such as; accounting, manuals and daily procedures, annual repair and maintenance etc. is essential to being able to operate in a profitable manner.
- **Trained & Assembled Work Force:** Carpet Cleaning & Maintenance has an established workforce that has built great long relationships with clients.

2.1.13 Company Future Expectations

Management feels it has a well-established market position, with a strong customer base and excellent reputation. Management feels they can maintain or improve their present position, because they maintain a close relationship with their existing customers. Projections by management indicate gross revenues and profitability growing 5% of the next 3-5 years. Historically between 2008 to 2012 growth has been 4 %.

3 Economic & Industry Conditions

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

The economy more or less affects every business. If demand for the product/service is elastic, the business will be more greatly affected by economic changes than the business whose product/service society regards as a necessity. The capacities of those who use the product/service to delay or cancel purchases determine the extent to which economic factors will influence each business enterprise.

In this case we used economic information that was compiled as of December 2012.

3.1.1 Overview of the National Economy

December 2012 National Economic Report:

Summary

The U.S. economy, which had grown by 3.0% during the fourth quarter of 2011, slipped back to meager growth rates of 2.0% during the first quarter of 2012 and to 1.3% for the second quarter before rebounding to an initially reported, only mildly improved rate of 2.0% for the third quarter—rates that renewed concerns about a return to recession. However, on December 20, the U.S. Commerce Department sharply raised the Q3 growth estimate to 3.1% (following a previous upward revision to 2.7%). At the same time, the U.S. job market experienced strong growth in December for the fourth month in a row: 155,000 new jobs were created, on the heels of 146,000 new jobs in November, 171,000 in October, and 873,000 in September—the last being largest gain in 29 years. The unemployment rate, which stalled at an upwardly revised 7.8% in November, stayed at that level in November, while the U-6 underemployment rate remained at 14.4%.

Congress and the President did agree on January 1 to a deal to avoid the so-called fiscal cliff, raising taxes sharply on the wealthy but doing little to cut the growth of Federal spending. As a result, serious budget problems remain. The U.S. budget deficit passed \$1 trillion for the fourth year in a row and is on track to do so for a fifth year, and total outstanding U.S. debt hit another new record of \$16.38 trillion. Elsewhere, on the positive side of the ledger, industrial production gained ground in November, the U.S. auto market continues to rebound, housing sales increased, the manufacturing sector returned to growth, consumer spending and retail sales jumped, and both inflation and energy prices waned. On the other hand, consumer confidence fell sharply in December.

Third-Quarter Growth Revised Upward to 3.1%

According to a December 20 report from the U.S. Commerce Department, the U.S. gross domestic product (GDP) during the third quarter of 2012 grew even more strongly than at first expected. The Department's first reading for third-quarter growth, released on October 26, had come in at 2.0%, while the second reading, released on November 30, had come in at 2.7%, both representing significant increases from the meager second-quarter growth rate of 1.3%. However, the second revision for the third quarter registered an even higher 3.1%, topping the 3.0% annual growth rate achieved during the fourth quarter of 2011. Encouraging as the new third-quarter numbers were, though, most economists expected the GDP growth figure for the fourth quarter to be lower.

Job Gains Continue Strong in December; Unemployment Edges Back Up to 7.8%

The U.S. Labor Department reported on January 4 that the number of people who held jobs in December rose by 155,000—the fourth straight strong monthly jobs gain. The December report followed on the heels of an upwardly revised November rise of 146,000 jobs, an October jump of 171,000, and a September reading that showed the number of jobs soaring by 873,000—the largest gain in 29 years. In contrast, the U.S. unemployment rate climbed back up to 7.8% in December from an originally reported 7.7% in November (although the November rate itself was revised upward in January to 7.8% as well). The U-6 underemployment rate, which had declined from 14.7% in September to 14.4% in November, remained at that latter level in December.

Budget Deficit Hits \$1 Trillion for Fourth Year in a Row

By the end of the third quarter of fiscal 2012, the new debt accumulated by the Federal government during the 2012 fiscal year had exceed \$1 trillion for the fourth year in a row, the U.S. Treasury Department reported on July 23. Later, on October 1, the Department announced that debt for fiscal 2012, which ended on September 30, had reached \$1.276 trillion, up \$10,855 per household in just 12 months. Prior to fiscal 2008, the Federal government had never increased its debt by as much as \$1 trillion in a single fiscal year.

Budget Deficit on Track for Another Trillion-Dollar Year

Based on figures from the first three months of the new fiscal year, the Federal budget deficit is on track to exceed \$1 trillion for the fifth straight year. The Federal government actually posted its narrowest December deficit for the past five years—a mere \$260 million—but that was due largely to the fact that a large number of taxpayers paid their taxes early in order to avoid next year's higher tax rates. For the fiscal year's first three months as a whole, however, the government still has registered deficits of \$292 billion.

U.S. Debt Eclipses \$16 Trillion Mark

The U.S. Department of the Treasury reported on September 4 that total public outstanding debt in the United States had climbed to \$16.02 trillion—the first time in U.S. history that the public debt had breached the \$16 trillion level—and now stands at \$16.38 trillion. The debt has risen by about 50%, or \$5.4 trillion, since January 2009, and totals \$136,260 per American household.

Fiscal Cliff Avoided As Agreement is Reached to Raise Taxes on the Wealthy

The fiscal cliff deal, agreed to in early January, scales back on the level that taxes would have risen in its absence, but taxes still will go up. According to a January 10 analysis by Forbes magazine, the lowest earning 20% of Americans will face an average increase in their 2013 tax rates of about 1.1 percentage points, while middle-income households will pay rates that are about 1.3 percentage points higher. By contrast, those in the top 20% of income-earners will see their average tax rate rise by about 2.5 points, while the top 1% will pay about 4.5 percentage points more. Despite the agreement, President Obama and Congressional Democrats vowed to press for even higher taxes in coming months.

Stocks Edge Up Over the Last Month

Following the November 6 presidential election, the Dow-Jones Industrial Average tumbled from 13,246 on November 6 to 12,542 on November 15. Within the next month, the Dow had recouped most of these losses, closing at 13,170 on December 10. In the month thereafter, the Dow edged back up even further, closing at 13,488 on January 11.

Industrial Production Soars Back in November

U.S. industrial production rose more than expected in November—and by the most since December 2010—as the nation's manufacturers recovered from Superstorm Sandy. According to a December 14 report from the U.S. Federal Reserve, industrial production climbed by 1.1% in November after a 0.7% falloff in October (which had been revised downward from an initially reported 0.4% decline).

Manufacturing Sector Returns to Expansion in December

Economic activity in the U.S. manufacturing sector expanded in December following one month of contraction, according to a January 2 report from the Institute for Supply Management (ISM), a private trade group. The group's index of manufacturing activity rose to 50.7, an increase of 1.2 percentage points from the November reading of 49.5.

Productivity Gains Slow During Third Quarter

U.S. nonfarm business sector labor productivity increased at a 1.9% annual rate during the third quarter of 2012, the U.S. Bureau of Labor Statistics reported on November 1. The third-quarter

performance, which represented an improvement over the meager 0.9% productivity gain during the first quarter of the year, dropped off slightly from the revised 2.2% gain during the second quarter of 2012.

U.S. Auto Sales Strong in December

Major U.S. automakers reported strong sales in December, raising total sales for 2012 to a five-year high. According to automotive-industry tracking firm Autodata, U.S. light vehicle sales—including passenger cars and light trucks—rose to 1.4 million units in December 2012, a 9% increase over 2011. For 2012 as a whole, automakers sold some 4.5 million vehicles in the U.S. market, a 13% increase over 2011 levels.

New Home Sales and Existing Home Sale Rise in November

New U.S. single-family home sales increased by 4.4% in November to a seasonally adjusted annual rate of 377,000 units, according to a January 11 report from the U.S. Department of Housing & Urban Development. The November figure was the highest monthly total since April 2010, when the Federal homebuyer tax credit expired. Likewise, the index of pending sales of existing homes rose by 1.7% to 106.4 in November—the third consecutive monthly increase, the National Association of Realtors reported.

Consumer Confidence Falls Sharply in December

The Conference Board *Consumer Confidence Index*, which had declined slightly in November, posted a sharp decline in December. The Index now stands at 65.1 (1985=100), down from 71.5 in November. The Present Situation Index increased to 62.8 from 57.4 last month, but the Expectations Index fell to 66.5 from 80.9.

Consumer Spending Jumps in November

U.S. consumers spent 0.4% more in November as compared with October, the U.S. Commerce Department reported on December 21. Previously, consumer spending had declined by 0.2% in October vs. September.

Retail Sales Edge Up in November

U.S. retail sales rose by 0.3% in November after declining by 0.3% in October, the U.S. Commerce Department reported on December 13. When the decline in gasoline spending was factored out, the monthly retail sales gain was more than twice as strong.

Consumer and Producer Prices Fall

On a seasonally adjusted basis, the U.S. Consumer Price Index (CPI) for all goods fell by 0.3% in November after rising by 0.1% in October. Likewise, the Producer Price Index (PPI) for finished goods—often, a harbinger of future consumer price movements—tumbled by 0.8% in November after falling by 0.2% in October.

Gasoline Prices Continue to Fall

Despite declines in late summer and early fall, U.S. retail gasoline prices (regular unleaded) had remained above \$3.80 per gallon by the beginning of October. However, prices began to dampen at

that time, and have fallen sharply since then, declining to \$3.30 per gallon by January 7.

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3.1.2 Overview of the Industry

Industry Research Information¹

Janitorial & Carpet Cleaning Services

12.11.2012

NAICS CODES: 56172, 56174

SIC CODES: 7217, 7349

Industry Overview

Companies in this industry clean building interiors, windows, carpets, and upholstery. Major US companies include divisions of companies such as ABM Industries and ServiceMaster, as well as Coverall Health-Based Cleaning System, Jani-King, and Stanley Steemer; major companies based outside the US include divisions of Aeon Delight (Japan), CNS Consorzio Mazonale Servizi (Italy), ISS Property Services (Australia), and Wisag (Germany).

The global janitorial and carpet cleaning services industry is dominated by countries with industrialized economies. Demand for commercial janitorial services is dependent on extensive infrastructure in office, retail, educational, health care, industrial, transportation, and government facilities. Demand for carpet cleaning services relies on a large population of middle class customers. Therefore, the industry is heavily concentrated in Australia, Canada, Japan, the US, and Western Europe.

The US janitorial services and carpet cleaning industry consists of about 50,000 janitorial companies and about 9,000 carpet and upholstery cleaning companies with combined annual revenue of about \$35 billion. The industry is expected to experience moderate growth over the next two years. A key growth driver for the janitorial industry is demand for office space. A key driver for carpet cleaning services is growth in consumer spending.

Competitive Landscape

Commercial real estate occupancy and income growth drive demand for cleaning services. The profitability of individual companies depends on good marketing. Large companies have an advantage in serving customers with multiple locations. Small companies can compete effectively in local markets, especially for small business and residential customers. The janitorial services industry is fragmented: the 50 largest companies generate about 30 percent of revenue. The carpet cleaning industry is highly fragmented; the 50 largest companies account for about 20 percent of revenue.

Products, Operations & Technology

Janitorial services account for about 90 percent of industry revenue. Janitorial work includes general services, such as cleaning, trash pickup, floor polishing, and the specialty services of cleaning carpet and ducts and washing windows. Operations consist of crews cleaning commercial, industrial, and residential buildings by hand or with the help of basic equipment like floor polishers.

³ Information obtained from First Research

Carpet and upholstery cleaning firms account for about 10 percent of industry revenue. Water, steam, and/or various chemicals are injected into a carpet and removed by vacuum along with dirt and stains. Some companies use proprietary application/extraction systems. Cleaning companies buy supplies and equipment from distributors and manufacturers. Some carpet cleaning companies also offer water damage restoration services, leather cleaning, tile and grout cleaning, and cleaning for cars, boats, and RV interiors.

Sales & Marketing

Customers include owners, managers, and tenants of commercial, industrial and residential property. Janitorial companies usually market to commercial companies or building operators through sales visits. Carpet cleaning companies usually market to residential customers through referrals. Customer retention is important because of high levels of competition.

Janitorial service companies bid on annual contracts for a fixed price, with a 30- to 90-day cancellation notice and automatic renewal. Some contracts are cost-plus-fee, which indicate that customers reimburse wages, payroll taxes, insurance charges, and other expenses, plus a stated profit margin. Contracts usually specify a particular cleaning program, with a list and schedule of tasks to perform.

Finance & Regulation

Profit margins are typically low, as barriers to entry are low and competition is fierce. Large companies may have a high percentage of contract business and steady cash flow. Payroll costs for janitorial services are about 50 percent of sales; payroll represents about a third of carpet and upholstery cleaning sales. Both segments of the industry are labor-intensive: for janitorial services, average annual revenue per employee is about \$35,000; for carpet cleaning, about \$60,000.

Some firms franchise their names and business methods to local operators. Franchising is more common for firms serving the residential segment than for those specializing in commercial customers.

Federal, state, and local environmental regulations apply to the disposal of trash that is collected, especially if it contains hazardous materials like medical waste or toxic metals and chemicals. Chemicals in cleaning products and improper disposal of trash can contribute to poor indoor air quality (IAQ). Companies in this industry are susceptible to regulations regarding the hiring of immigrants.

International Insights

The global janitorial and carpet cleaning services industry is dominated by countries with industrialized economies. Demand for commercial janitorial services is dependent on extensive infrastructure in office, retail, educational, health care, industrial, transportation, and government facilities. Demand for carpet cleaning services relies on a large population of middle class customers. Therefore, the industry is heavily concentrated in Australia, Canada, Japan, the US, and Western Europe.

However, opportunities exist for expansion into emerging countries. Growth of GDP, a demand indicator for janitorial and carpet cleaning services, is forecast to rise at a much faster rate in emerging economies in 2013, according to the Conference Board. Collectively, developing economies are expected to grow 4.7 percent in 2013 compared to the prior year; developed economies are forecast to only grow 1.3 percent.

Among emerging economies, China and India should see the greatest growth, with rises in GDP of 6.9 percent and 4.7 percent, respectively. GDP in areas in Asia outside China and India are forecast to grow 5 percent. Latin American GDP is expected to increase about 3 percent; growth in the Middle East is forecast to be slightly more than 2 percent.

Of the advanced economies, the US is projected to see the most GDP growth in 2013 with a rise of 1.8 percent, followed by Japan with a 1.6 percent increase. Europe's growth is expected to be flat, growing by less than one-half of 1 percent.

In selecting possible expansion strategies, large companies in developed markets may opt to move into markets geographically close to home. US companies may look for opportunities in Latin America, European players may turn to Eastern Europe and Russia, and Japanese firms may explore opportunities in Association of Southeast Asian Nations (ASEAN) region and China. Japan's Aeon Delight has expanded into China, Malaysia, and Vietnam. In 2012 the company increased its number of locations in China from four to 16.

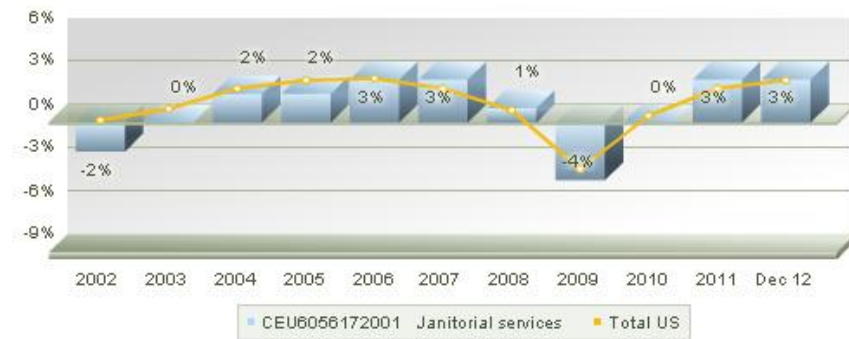
Regional Highlights

Because business activity drives demand for cleaning services, janitorial services and carpet and upholstery cleaning companies tend to cluster in states with large amounts of occupied office space. Janitorial services and carpet and upholstery cleaning companies are most prevalent in California, Florida, New York, and Texas.

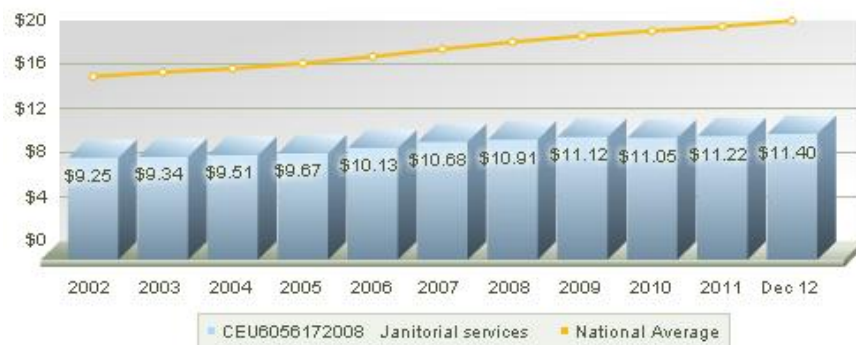
Human Resources

Most janitorial and carpet cleaning employees work short weeks, because much of the cleaning at businesses must occur after hours. Average hourly pay for janitorial workers is significantly lower than the national average. Pay for carpet and upholstery cleaners is moderately less than the national average. Companies have the high employee turnover typically associated with low-wage jobs, and many rely on immigrant labor. Small firms often employ family members and tend to have lower turnover. The industry's safety record is similar to the national average.

**Industry Employment Growth
Bureau of Labor Statistics**



**Average Hourly Earnings & Annual Wage Increase
Bureau of Labor Statistics**



Trend: Renewed Hope for US Immigration Reform - Passage of immigration reform legislation could help resolve staffing issues for the US janitorial services and carpet cleaning industries, which tend to employ large numbers of immigrants. Early in 2013, US politicians signaled they were ready to take another look at immigration reform, an issue that failed to gain traction when a plan was rejected by the Senate in 2007. Lawmakers and the Obama administration are working on legislation that would address the issue of the estimated 11 million undocumented immigrants currently in the US. Provisions of proposed plans include work visas for undocumented immigrants and a path to citizenship that would include a lengthy waiting period and the paying of back taxes and fines.

Industry Impact - Substantive reform of US immigration policies could simplify janitorial and carpet cleaning companies' hiring practices and reduce the risks associated with hiring undocumented workers.

Challenge: Moderate Growth Forecast for Industry - The output of the US janitorial services and carpet cleaning industry is expected to rise by 3 percent in 2013 compared to 2012, according to the latest industry forecast for First Research from INFORUM. The janitorial services industry is highly dependent upon demand for office space, which is beginning to pick up after the late-2000s recession. The value of nonresidential construction put in place, including office and commercial buildings, rose 8.3 percent through the first eight months of 2012 compared to the same period in 2011.

Industry Impact - Increased investment in nonresidential construction may help boost demand for janitorial services companies.

Janitorial Services Company Wins Marketing Award - Coverall, a franchiser of office cleaning services, has won a 2012 Sales and Marketing Integration Award by DemandGen Report for its use of digital marketing. The company incorporates high-tech customer management and lead generation technology into its marketing efforts, according to *The Sacramento Bee*. The company's focus on a digital marketing strategy is rare in the industry, in which companies generally market locally through direct sales calls.

Communal Office Space Reduces Real Estate Needs - Large companies are turning to communal offices in part as a way to save on real estate square footage and maintenance expenses. One result of the trend, in which employees share cubicles or workspaces or work in communal areas, is the reduced need for janitorial services. For large corporations, reducing office square footage could save millions of dollars in expenses, according to *The Wall Street Journal*. However, although cubicle and office space is shared, companies still have to accommodate workers with lockers, filing cabinets, and storage areas.

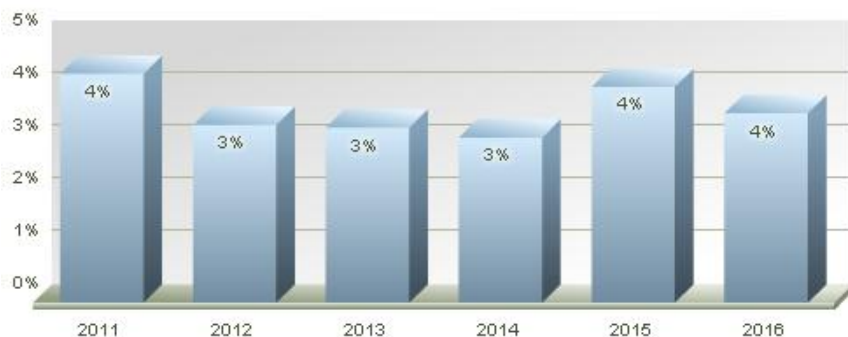
Janitorial Market Gains New Supplier - Amazon.com is targeting janitorial and industrial customers with the launch of its new AmazonSupply.com website. Janitorial products for sale include brooms, hand dryers, cleaner, toilet paper, and trash containers. With a goal to win customers from traditional supply sources, AmazonSupply.com is offering competitively priced products, a line of credit, ordering by phone Monday through Friday, a generous return policy, and free shipping on orders over \$50. Janitorial customers may

feel comfortable trying the new commercial site if they already trust Amazon.com from personal use. However, traditional janitorial suppliers may effectively compete by promoting their personalized attention to customers and better knowledge of the customer's product needs. Janitorial businesses may want to review their suppliers in light of the new competitor to determine which offerings have the best fit of price, convenience, and service.

Industry Forecast

The output of US janitorial and carpet cleaning services is forecast to grow at an annual compounded rate of 3 percent between 2012 and 2016. Data Published: September 2012

Janitorial and Carpet Cleaning Growth Steady



Forecasts are based on INFORUM forecasts that are licensed from the Interindustry Economic Research Fund, Inc. (IERF) in College Park, MD. INFORUM's "interindustry-macro" approach to modeling the economy captures the links between industries and the aggregate economy.

Critical Issues

Revenue Depends on Business Activity - Demand for commercial cleaning services depends on the amount of office space that businesses occupy, which varies according to the health of the economy. During the late 2000s recession, office vacancy rates in some markets exceeded 20 percent, according to Grubb & Ellis. Demand for residential cleaning services is linked to income growth; during economic downturns, consumers cut cleaning services.

Labor Supply - Due to the relatively low prices that cleaning companies can charge, they depend on a supply of low-cost workers. However, low pay and often-difficult working conditions lead to high personnel turnover. To provide contracted levels of service to customers, companies frequently have to find new sources of labor and provide adequate training. Cleaning crews often consist largely of immigrants.

Business Challenges

Competition from Diversified Companies - Large customers are increasingly negotiating multifunction, multisite contracts with large service companies that can provide a full range of services. Janitorial companies usually don't have the range of expertise to compete with diversified companies for such contracts. Bundled services may include electrical and mechanical maintenance, energy management, pest control, security, parking, snow removal, recycling, and grounds maintenance.

Customer Concentration - Many small janitorial companies depend on a few large customers for the bulk of revenue. Large commercial properties are anchor accounts for many floor-cleaning contractors. To get large accounts, small cleaning companies must usually build their reputation by starting with smaller

properties. Cleaning companies can damage their reputation by taking accounts that they aren't equipped and staffed to handle.

Competition from Customers - As consolidation has increased in the building management industry, particularly with the growth of apartment and office REITs, some managers of large buildings are achieving efficiencies by operating in-house janitorial services. Janitorial companies may have to lower prices, offer extra services, or offer expertise in environmentally friendly cleaning methods to appeal to some customers.

Ease of Entry for New Competitors - With costs largely determined by labor availability and contracts often awarded through competitive bidding, new competitors with low-cost labor can easily enter and compete successfully with established firms. Janitorial services are considered by customers to be a commodity product that should be bought at the lowest cost.

Liability for Worker Exposure to Hazardous Substances - On many construction, manufacturing, and healthcare sites, janitorial service workers can unknowingly be exposed to hazardous substances. Many cleaning products also contain chemicals with volatile organic compounds (VOCs) which can have adverse health effects.

Inspections by Regulators - Due to the potential for financial abuse of their low-wage labor force, janitorial companies are a frequent focus of state and federal labor regulators. The large number of immigrant workers also increases scrutiny from immigration inspectors. Companies that violate labor or immigration laws face substantial penalties.

Business Trends

Standard Building Services - Although corporate customers with office space in large buildings may hire their own janitorial company, more building managers provide janitorial service as part of the office lease. With security a greater concern in office buildings, operators prefer to approve just a single company to clean all the offices.

Green Cleaning Products - Concern is increasing about the damaging impact of cleaning chemicals on the environment, which is influencing the types of cleaning supplies companies buy. With more environmental laws, frequent inspections, and higher fines, companies have an incentive to adopt a proactive, environmentally friendly "green" housekeeping program. Using green chemicals is potentially less harmful to the environment and employees working with them, and disposing of green chemicals is less expensive than disposing of hazardous chemicals.

Conservation Measures - Most maintenance companies are taking measures to be more environmentally responsible by recycling solid waste and water, reusing materials, using natural daylight or retrofitting lighting fixtures, buying recycled office products, and instituting employee education programs. A survey by the International Facility Management Association shows that 95 percent of facility professionals consider sustainability an upcoming important issue for their profession.

House Cleaning Demand - Demand for residential cleaning services is impacted by household employment. Families with two earners have less time to clean house but enough income to hire cleaners. During periods of substantial job loss, such as the late 2000s recession, demand for cleaning services declines as households have less disposable income and more time to clean.

Industry Opportunities

Outsourcing by Customers - Companies that can't afford the time or money to maintain their own maintenance staff are increasingly outsourcing janitorial and other facilities services. Outsourcing noncore

functions by many businesses and smaller apartment building managers has expanded the market for commercial janitorial services.

Cross-Selling Services - Companies that provide diversified services can serve a larger variety of customers. While not all janitorial companies can also provide engineering and mechanical or electrical maintenance services, because they require a more-skilled workforce, many can provide security, parking, and snow removal.

New Cleaning Methods - New solvents and patented technologies for dirt removal can make inroads in an industry with old technology. Most carpet cleaners use techniques that haven't changed for decades and are ineffective for removing modern dyes and chemicals from modern fabrics. Over the last several years, new developments in cleaning technology and methods have revolutionized the industry. For example, new products like premoistened, disposable wipes, and microfiber can improve productivity.

Industry Websites

British Columbia Contract Cleaners Association
News, events, links, and resources.
Building Owners & Managers Association
Research and statistics.
Building Owners and Managers Association of Canada
News, advocacy, resources, and links.
Cleaning & Maintenance Management Online
Industry news.
Cleaning Specialist
Industry news.
CleanLink
Industry News
International Executive Housekeepers Association
Member organization
International Facilities Management Association
Industry journal.
Professional Carpet & Upholstery Cleaning Association
Member information.
Glossary of Acronyms
BSC - Building service contractor
CSP - Cleaning Service Provider
IAQ - indoor air quality
SEIU - Service Employees International Union
VOC - volatile organic compound

3.1.3 Overview of Virginia Beach

Virginia Beach is home to nearly 440,000 people, and it is the largest city in the Commonwealth of Virginia as well as the 39th largest city in the United States. The City's population is estimated to be 49 percent male and 51 percent female.

The Virginia Beach Metropolitan Statistical Area (MSA), also known as Hampton Roads, is the 36th largest metropolitan area in the United States. It encompasses six counties and nine cities in Virginia and one county in North Carolina with a combined population of 1.7 million people and a workforce of about 830,000.

While a low cost of doing business may be attractive, it is the highly skilled workforce, enhanced by thousands of military personnel and more than 12,000 college or university graduates who enter the workforce on an annual basis, and multiple internationally renowned research and development centers that truly make Virginia Beach the best place to do business.

The cost of doing business here is well below the national average, thanks in large part to low City and state tax rates, competitive wages and a transportation infrastructure that provides businesses access to more than two-thirds of the U.S. population within a two-day drive.

Virginia Beach was the first city in Virginia to eliminate the machinery and tools tax. Over fifty percent of the City of Virginia Beach annual budget funds public education with the Virginia Beach City Public Schools, the key to establishing a continuous supply of a highly skilled emerging workforce. Based on the Department of Defense statistics, approximately 12,000 members of the military are available to enter the local workforce each year, along with more than 16,000 graduating college students and 58,000 graduating high school students.

For more detailed analysis of the City of Virginia Beach please visit the economic development website at www.yesvirginiabeach.com

4 Financial Analysis of the Subject

4.1.1 Historical Financial Statements

Analysis of the Company's financial statements is performed to help appraisers determine the financial condition of a business, identify assets and liabilities, and perform internal trend and ratio analysis.

4.1.2 Balance Sheet Analysis

The balance sheet indicates the financial status of a business as of a certain date. The balance sheets are for the years 2008 thru 2012. The exhibit presents the unadjusted balance sheet analysis.

High points of the balance sheet analysis are as follows:

- Total Current Assets have decreased since 2008. This is primarily due to the extraction of distributions by the owners starting in 2009. In addition, accounts receivables have reduced due to the economic downturn & recession in the economy starting in 2008. The commercial real estate market and business in general have suffered from the economy and the carpet cleaning business is no different.
- Fixed assets have not changed significantly since 2008, there was an increase of \$50,000 in 2012
- Total current liabilities have increased since 2008 (AP), but so have sales. In addition, the owners are taking cash distributions starting in 2009 and utilizing lines of credit compared to payment in cash prior to 2008.
- The Company long term liabilities to related party have not been reduced.
- The shareholders have taken distributions of 107,000 to \$252,000 per year since 2009.

- Equity has been positive for all years analyzed.

Historical Internal Analysis of Balance Sheet										
Year	Balance Sheet					Common-size as a % of Total Assets				
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
Months of Operation in year	12	12	12	12	12	12	12	12	12	12
Assets										
Cash	86,309	17,362	54,698	49,580	65,254	8.2%	2.1%	7.1%	6.7%	8.9%
Receivables	206,535	130,217	97,375	119,137	130,487	19.6%	15.8%	12.7%	16.1%	17.7%
Inventory	157,109	134,585	145,943	140,150	143,125	14.9%	16.3%	19.0%	18.9%	19.4%
Other	0	0	0	0	0	0.0%	0.0%	0.0%	0.0%	0.0%
Total Current Assets	449,953	282,164	298,016	308,867	338,866	42.7%	34.2%	38.9%	41.6%	46.0%
Total FF&E Assets	984,911	983,718	960,975	986,437	1,040,838	93.5%	119.3%	125.3%	132.9%	141.4%
Total Accum Depreciation	(607,984)	(640,550)	(668,877)	(700,666)	(775,361)	-57.7%	-77.7%	-87.2%	-94.4%	-105.3%
Net FF&E Assets	376,927	343,168	292,098	285,771	265,477	35.8%	41.6%	38.1%	38.5%	36.1%
Land & Building	214,966	189,743	164,520	132,731	118,044	20.4%	23.0%	21.5%	17.9%	16.0%
Social Event tickets	11,450	9,561	12,033	14,900	13,890	1.1%	1.2%	1.6%	2.0%	1.9%
Total Assets	1,053,296	824,636	766,667	742,269	736,277	100.0%	100.0%	100.0%	100.0%	100.0%
Liabilities & Equity										
Short Term Debt	54,994	65,280	66,769	113,779	80,523	5.2%	7.9%	8.7%	15.3%	10.9%
Payables	77,950	72,569	84,821	78,153	116,220	7.4%	8.8%	11.1%	10.5%	15.8%
Other		39,560	13,569	0	3,500	0.0%	4.8%	1.8%	0.0%	0.5%
Total Current Liabilities	132,944	177,409	165,159	191,932	200,243	12.6%	21.5%	21.5%	25.9%	27.2%
Total Long Term Liabilities	416,522	440,323	442,927	408,855	424,368	39.5%	53.4%	57.8%	55.1%	57.6%
Total Liabilities	549,466	617,732	608,086	600,787	624,611	52.2%	74.9%	79.3%	80.9%	84.8%
Stockholder's Equity										
Common Stock	500	500	500	500	500	0.0%	0.1%	0.1%	0.1%	0.1%
Retained Earnings	359,470	282,937	220,217	180,600	145,883	34.1%	34.3%	28.7%	24.3%	19.8%
Distributions	0	(160,000)	(234,442)	(107,995)	(252,860)	0.0%	-19.4%	-30.6%	-14.5%	-34.3%
Other	0	0	583	0	0	0.0%	0.0%	0.1%	0.0%	0.0%
Net Earnings	143,860	83,467	171,722	68,378	218,143	13.7%	10.1%	22.4%	9.2%	29.6%
Total Equity/Capital (Net Worth)	503,830	206,904	158,580	141,483	111,666	47.8%	25.1%	20.7%	19.1%	15.2%
Liabilities and Shareholder Equity	1,053,296	824,636	766,666	742,270	736,277	100.0%	100.0%	100.0%	100.0%	100.0%

4.1.3 Income Statement

The income statement shows the financial activities of a business over a specific time period. This information is useful in determining costs associated with sales and operating line item expenses of Carpet Cleaning & Maintenance. Income statements are for years ending 2008 through 2012. This exhibit presents unadjusted income statement analysis.

High points of the analysis are as follows:

- Gross sales are stable during the analyzed years. There has been a 23% increase in 2012. Gross sales decrease between 2009 and 2011 as a result of the economic recession in the commercial business marketplace.
- Cost of goods averaged 65% the past 5 years
- Operating Expenses have been reduced since 2008 as a percentage of Gross Revenues. This is directly due to a reduction in owner's compensation. In 2008 the owner's compensation was \$242,000. In subsequently years, it has ranged from \$34,000 to \$99,000. The decision

appears to have been made to take compensation through distributions rather than salaries.

- Historically speaking, total operating EBT have averaged 9.68 percent of revenues

Historical Analysis of Income Statement										
Source: Income Statement										
Year Ending	Income Statement					Common-size as a % of Total				
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
Months of Operation in year	12	12	12	12	12	12	12	12	12	12
Gross Sales	1,479,136	1,232,449	1,294,723	1,279,786	1,643,579	100%	100%	100%	100%	100%
Payroll	459,487	473,472	499,188	486,844	539,816	31.1%	38.4%	38.6%	38.0%	32.8%
Payroll Taxes	63,483	47,162	59,253	52,650	74,020	4.3%	3.8%	4.6%	4.1%	4.5%
Insurance	50,959	46,895	33,754	45,063	61,721	3.4%	3.8%	2.6%	3.5%	3.8%
Repairs & Maintenance	39,168	20,486	12,664	32,980	35,862	2.6%	1.7%	1.0%	2.6%	2.2%
Supplies & Tools	71,966	58,176	74,242	121,869	118,028	4.9%	4.7%	5.7%	9.5%	7.2%
Vehicle Gas	118,347	105,966	124,497	138,339	112,211	8.0%	8.6%	9.6%	10.8%	6.8%
Depreciation	16,850	32,566	28,327	31,789	74,695	1.1%	2.6%	2.2%	2.5%	4.5%
Other	15,693	7,867	16,500	29,761	15,946	1.1%	0.6%	1.3%	2.3%	1.0%
Less: Cost of Goods Sold	835,953	792,590	848,425	939,295	1,032,299	56.5%	64.3%	65.5%	73.4%	62.8%
Gross Profit	643,183	439,859	446,298	340,491	611,280	43.5%	35.7%	34.5%	26.6%	37.2%
<i>Selected Operating Expenses from Line Items</i>										
Advertising	10,092	13,035	14,640	7,253	15,258	0.7%	1.1%	1.1%	0.6%	0.9%
Owners Compensation	242,827	89,322	34,615	57,692	99,944	16.4%	7.2%	2.7%	4.5%	6.1%
Rent	0	0	0	0	0	0.0%	0.0%	0.0%	0.0%	0.0%
Bldg Repair	3,389	2,323	3,156	2,641	1,710	0.2%	0.2%	0.2%	0.2%	0.1%
Bldg Depreciation	12,254	25,223	14,258	19,923	14,687	0.8%	2.0%	1.1%	1.6%	0.9%
Office Payroll	31,520	32,158	33,450	33,624	38,401	2.1%	2.6%	2.6%	2.6%	2.3%
Travel/Meals/Entertainment	6,017	4,838	10,941	14,107	16,193	0.4%	0.4%	0.8%	1.1%	1.0%
Insurance	23,582	19,269	22,884	13,826	16,533	1.6%	1.6%	1.8%	1.1%	1.0%
Utilities	6,818	5,909	7,362	7,208	7,297	0.5%	0.5%	0.6%	0.6%	0.4%
Communications	32,885	22,629	21,568	24,584	31,528	2.2%	1.8%	1.7%	1.9%	1.9%
Vehicle Expense-Personal	1,216	1,494	541	8,062	825	0.1%	0.1%	0.0%	0.6%	0.1%
Office Expenses	28,143	18,256	26,100	25,890	33,612	1.9%	1.5%	2.0%	2.0%	2.0%
Legal & Professional Fees	5,093	21,315	4,510	5,271	6,578	0.3%	1.7%	0.3%	0.4%	0.4%
Misc	65,281	63,521	45,268	14,326	84,509	4.4%	5.2%	3.5%	1.1%	5.1%
Operating Expenses	469,117	319,292	239,293	234,407	367,075	31.7%	25.9%	18.5%	18.3%	22.3%
Net Ordinary Income	174,066	120,567	207,005	106,084	244,205	11.8%	9.8%	16.0%	8.3%	14.9%
Other Income (Expenses)										
Interest Expenses	37,763	44,945	42,410	38,456	34,580	2.6%	3.6%	3.3%	3.0%	2.1%
Interest Income	7,557	7,845	7,127	750	8,518	0.5%	0.6%	0.6%	0.1%	0.5%
Net Earnings (EBT)	143,860	83,467	171,722	68,378	218,143	9.7%	6.8%	13.3%	5.3%	13.3%

4.1.4 Summary of Historical Financial Analysis

The balance sheet and income statement historical analysis shows nothing alarming. The Company has been profitable for all the years analyzed. As discussed earlier, if the economy turns negative, this would impact gross sales -however as demonstrated by the Company's past performance, management has a very good handle on expenditures.

4.1.5 Financial and Industry Benchmark Ratios

Ratios are among the best-known and most widely used tools of financial analysis. A financial ratio is a relationship between two quantities on a company's financial statements, which is derived by dividing one quantity by another. The purpose of using ratios is to reduce the amount of data to a workable form and to make it more meaningful. Ratios are tools of analysis that in most cases provide us with clues and symptoms of underlying conditions.

In addition, industry and trade associations sometimes collect and publish statistics on financial performance and conditions of companies in their industry. In this case, comparative information was obtained primarily from BizMiner Industry Financial Profile information, and is based on the reported operating statistics of companies classified under NAICS code 7217 -Carpet Cleaning (22 companies were analyzed). We selected this business classification because it represents the primary business lines of Carpet Cleaning & Maintenance.

Industry Comparison Analysis - Historical							
	2008	2009	2010	2011	2012	Average	Industry
Balance Sheet							
Cash	8.2%	2.1%	7.1%	6.7%	8.9%	6.60%	16.00%
Receivables	19.6%	15.8%	12.7%	16.1%	17.7%	16.37%	20.44%
Inventory	14.9%	16.3%	19.0%	18.9%	19.4%	17.72%	20.24%
Other	0.0%	0.0%	0.0%	0.0%	0.0%	0.00%	1.79%
Total Current Assets	42.7%	34.2%	38.9%	41.6%	46.0%	40.69%	58.47%
Total FF&E Assets	93.5%	119.3%	125.3%	132.9%	141.4%	122.48%	
Accumulated Depreciation	-57.7%	-77.7%	-87.2%	-94.4%	-105.3%	-84.47%	
Net FF&E Assets	35.8%	41.6%	38.1%	38.5%	36.1%	38.01%	16.88%
Land & Building	20.4%	23.0%	21.5%	17.9%	16.0%	19.76%	24.64%
Social Event Tickets	1.1%	1.2%	1.6%	2.0%	1.9%	1.54%	
Total Assets	100.0%	100.0%	100.0%	100.0%	100.0%	100.00%	99.99%
						0.00%	
Liabilities & Net Worth						0.00%	
Short Term Debt	5.2%	7.9%	8.7%	15.3%	10.9%	9.62%	5.47%
Payables	7.4%	8.8%	11.1%	10.5%	15.8%	10.72%	14.11%
Other	0.0%	4.8%	1.8%	0.0%	0.5%	1.41%	17.34%
Total Current Liabilities	12.6%	21.5%	21.5%	25.9%	27.2%	21.75%	36.92%
						0.00%	
Total Long Term Liabilities	39.5%	53.4%	57.8%	55.1%	57.6%	52.69%	16.12%
Total Liabilities	52.2%	74.9%	79.3%	80.9%	84.8%	74.43%	53.04%
Stockholder's Equity							
Common Stock	0.0%	0.1%	0.1%	0.1%	0.1%	0.06%	
Retained Earnings	34.1%	34.3%	28.7%	24.3%	19.8%	28.26%	
Distributions	0.0%	-19.4%	-30.6%	-14.5%	-34.3%	-19.77%	
Other	0.0%	0.0%	0.1%	0.0%	0.0%	0.02%	
Net Earnings	13.7%	10.1%	22.4%	9.2%	29.6%	17.00%	
Total Equity/Capital (Net Worth)	47.8%	25.1%	20.7%	19.1%	15.2%	25.57%	46.96%
Liabilities and Shareholder Equity	100.0%	100.0%	100.0%	100.0%	100.0%	100.00%	100.00%

The analysis in exhibit of the balance sheet only indicates the company is comparable to industry averages. The factors that cause the company to appear more or less than industry are directly related to two factors. 1) The company has the land and building incorporated into the internal financials (even though those assets are not owned by the company); 2) The owners have been taking large distributions from the company in the past 4 years instead of reducing the principal to the loans that the company owes them. Consequently, any industry comparisons are mitigated by those factors

We believe a comparison of the historical average performance of the Company would be a better indicator of risk and value drivers.

The analysis in exhibit of the income statement demonstrates clearly that Carpet Cleaning & Maintenance is very comparable to the industry analysis. Two factors would even put the industry analysis equal:

- 1) The company is not paying rent (This will be adjusted in the normalized income statement as an adjustment)
- 2) The company is not paying the owners a market compensation. This will be adjusted in the normalized income statement.

Industry Comparison Analysis- Historical							
Income Statement	2008	2009	2010	2011	2012	Average	Industry
Gross Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Payroll	31.1%	38.4%	38.6%	38.0%	32.8%	35.8%	
Payroll Taxes	4.3%	3.8%	4.6%	4.1%	4.5%	4.3%	
Insurance	3.4%	3.8%	2.6%	3.5%	3.8%	3.4%	
Repairs & Maintenance	2.6%	1.7%	1.0%	2.6%	2.2%	2.0%	0.18%
Supplies & Tools	4.9%	4.7%	5.7%	9.5%	7.2%	6.4%	
Vehicle Gas	8.0%	8.6%	9.6%	10.8%	6.8%	8.8%	
Depreciation	1.1%	2.6%	2.2%	2.5%	4.5%	2.6%	1.08%
Other	1.1%	0.6%	1.3%	2.3%	1.0%	1.3%	
Less: Cost of Goods Sold	56.5%	64.3%	65.5%	73.4%	62.8%	64.5%	65.51%
Gross Profit	43.5%	35.7%	34.5%	26.6%	37.2%	35.5%	34.49%
<i>Selected Operating Expenses from Line Items</i>							
Advertising	0.7%	1.1%	1.1%	0.6%	0.9%	0.9%	0.53%
Owners Compensation	16.4%	7.2%	2.7%	4.5%	6.1%	7.4%	4.96%
Rent	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.37%
Bldg Repair	0.2%	0.2%	0.2%	0.2%	0.1%	0.2%	
Bldg Depreciation	0.8%	2.0%	1.1%	1.6%	0.9%	1.3%	
Office Payroll	2.1%	2.6%	2.6%	2.6%	2.3%	2.5%	
Travel/Meals/Entertainment	0.4%	0.4%	0.8%	1.1%	1.0%	0.7%	
Insurance	1.6%	1.6%	1.8%	1.1%	1.0%	1.4%	
Utilities	0.5%	0.5%	0.6%	0.6%	0.4%	0.5%	
Communications	2.2%	1.8%	1.7%	1.9%	1.9%	1.9%	
Vehicle Expense-Personal	0.1%	0.1%	0.0%	0.6%	0.1%	0.2%	
Office Expenses	1.9%	1.5%	2.0%	2.0%	2.0%	1.9%	
Legal & Professional Fees	0.3%	1.7%	0.3%	0.4%	0.4%	0.6%	
Misc	4.4%	5.2%	3.5%	1.1%	5.1%	3.9%	
Operating Expenses	31.7%	25.9%	18.5%	18.3%	22.3%	23.4%	27.70%
Net Ordinary Income	11.8%	9.8%	16.0%	8.3%	14.9%	12.1%	6.80%
Other Income (Expenses)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Interest Expenses	2.6%	3.6%	3.3%	3.0%	2.1%	2.9%	1.22%
Interest Income	0.5%	0.6%	0.6%	0.1%	0.5%	0.5%	0.34%
Net Earnings (EBT)	9.7%	6.8%	13.3%	5.3%	13.3%	9.7%	5.99%

4.1.6 Adjustment to the Financial Information

The main objective of valuation-related adjustments is to convert earnings and values from those based on accounting elections and tax regulations to amounts that better reflect fair market values. These adjustments are rarely accurate but are generally made when two conditions are present; (i) the amount reflected on the financial statements appears to be inconsistent with fair market values; and (ii) when the authority to make changes rests within the interest being valued or some other clear circumstance applies.

4.1.7 Income Statement Adjustments

Discussions with management and the appraiser's review of the financial information indicated several adjustments to the income statements were necessary. Because this is a corporation, the Company has decided to run it like a true corporation with actual expenses being recorded. Management indicated there were some personal items charged against the Company's earnings. The appraiser elected to consider some of the personal adjustments, but not all. Without detailed financial documentation it is highly unlikely any financial institution would consider personal expenses as additional cash flow to the company.

First, the building and land are owner personally, not by the corporation. The owners indicate in the written discussion that they are paying rent, yet it is not documented in the financials. Consequently, an adjustment for a market based rent is needed. The current market rent for class b office/warehouse space in Virginia Beach is \$9 per square foot triple net. The building has 5,304 square feet of space which would equate to \$47,736 per year. The appraiser concluded the rent expense needed to be adjusted to market.

Income Statement Adjustments					
	2008	2009	2010	2011	2012
Rent					
Rent Expense Charged	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Market Rent	\$47,736	\$47,736	\$47,736	\$47,736	\$47,736
Rent Adjustment	\$ (47,736)	\$ (47,736)	\$ (47,736)	\$ (47,736)	\$ (47,736)

Second, owner's compensation has varied widely. In a closely related business this can be discretionary for the ownership. The industry standard of 22 companies is 4.96% of revenue per Bizminer. The adjustment is based on the industry standard.

Income Statement Adjustments						
	2008	2009	2010	2011	2012	Industry
Owners Compensation	\$242,827	\$89,322	\$34,615	\$57,692	\$99,944	4.96%
Industry	\$73,365	\$61,129	\$64,218	\$63,477	\$81,522	
Adjustment	\$169,462	\$28,193	-\$29,603	-\$5,785	\$18,423	

Third, it was determined that the owners had several definitive adjustments to the income statement that needed to be made. 1) Their son was being paid \$8,000 for the past 4 years, but not working in the business. 2) A one-time legal expense 3) Expense for Personal Vehicle being paid by the business.

Income Statement Adjustments					
	2008	2009	2010	2011	2012
Personal & One Time					
Legal & Professional Fees	\$0	\$12,356	\$0	\$0	\$0
Vehicle Expense-Personal	\$1,216	\$1,494	\$541	\$8,062	\$825
Son Payroll	\$0	\$8,000	\$8,000	\$8,000	\$8,000

4.1.8 Balance Sheet Adjustments

Typically adjustments are made to the fixed assets category to reflect the true fair market

value of the underlying assets and liabilities. This will be performed in the valuation section of this report under the heading of Net Asset Value Method.

4.1.9 Financial Implications to Subject's Business

While the economy, fuel costs and the housing market had an impact on the business in 2009 – 2011, the company has done an excellent job of managing its expenses and costs of sales. The Company has demonstrated good management skills as it has control of expenses, as sales decline so do expenditures.

Comparing the Company to the Industry analysis shows that expenses are well below the industry. After income statement adjustments, profitability for the Company will even be higher compared to the industry in terms of percentage comparison. This appraiser's summary analysis of the financial conditions implies the following:

- Growth in sales should increase at a moderate rate.
- Profit Margins (i.e., operating) guarded to moderate.
- Borrowing Costs (i.e., interest rates) are not material to the company
- Business Risk (i.e., volatility of operating income) low.
- Financial Risk (i.e., likelihood of bankruptcy) extremely low.

5 Valuation of Subject

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

5.1.1 Description of Valuation Approaches

Generally speaking there are three broad approaches to valuation, which are considered during the appraisal process.

Asset Approach
Income Approach
Market Approach

Approaches and methods used by an appraiser in deriving value for a company will depend upon the Subject interest being valued. All three approaches may be appropriate in controlling interest valuations, where an interest enjoys financial control and has access to and the ability to control such assets. The Asset Approach is most often not appropriate for a minority interest valuation when an interest cannot access the assets or sell them and distribute any proceeds to shareholders, but sometimes can be helpful in determining value of the underlying assets of the business.

The *Asset Approach* uses the assets of a business as a basis for value. Several factors must be considered when using this approach. Factors to consider include premise of either a going concern or liquidation and does the Subject's interest have access to these assets. Under the Asset Approach there is a method called the "Excess Earning Method". This method is conducted in two stages. The first stage is to develop a value of the tangible assets and the second stage is to develop a value for the intangible assets. The two values are then joined to form a final

opinion of value under the Adjusted Book Value Method (*sometimes called Net Asset Value Method*).

The *Income Approach* uses a financial return stream to develop an indication of value for the Subject interest. Two primary methods of the Income Approach are; Capitalization of Earnings Method and; Discounted Cash Flow Method. The Capitalization of Earnings Method is most appropriate when forecasted earnings are stable and a constant growth rate is anticipated. The Discounted Cash Flow Method is used when forecasted earnings are anticipated to be unstable, or fluctuating growth is expected.

The *Market Approach* looks to the marketplace to form a foundation for an indication of value. Methods under this approach include; Direct Market Data Method (DMDM); Prior Sales in the Subject Securities; Guideline Public Company Method and; Mergers and Acquisition Transactional Data Method. The DMDM uses transactions of controlling-interests in closely held companies; Prior Sales in the Subject Securities uses prior transactions in which interests in the company have been sold in an arm's-length transaction(s); Guideline Public Company Method uses minority interest transactions in public companies whose securities are actively and freely traded; Mergers and Acquisition Transactional Data Method relies upon actual transactions of mostly controlling interests in publicly traded and closely held target companies.

5.1.2 Premises of Value

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

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

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

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

This appraiser has considered both premises of value and it is management's intentions to continue operating the business as a going-concern. This appraiser has analyzed all data available and has established going-concern value to be the highest and best use. Thus, this valuation will not be based on liquidation value.

5.1.3 Valuing Equity of Invested Capital

Generally speaking "equity" means ownership minus liabilities. "Invested capital", sometimes called "enterprise capital" is the sum of equity and debt in a business enterprise. Debt is typically the sum of short-term interest-bearing debt and long term liabilities.

A simplified example is when a real estate appraiser, let's say, values your home at \$200,000, thus the value is based on an "invested capital" model. If you were to subtract the debt amount, let's say in our example of \$50,000, you would have "equity" in your home of \$150,000. The assignment in this case is to determine the fair market value of "equity" for a 100% ownership interest in the business.

5.1.4 Methods Considered but Rejected

The following valuation methods were considered but rejected for this valuation.

- **Liquidation Method**
The business is an operating entity – a going concern. This method is inappropriate for a going concern. Therefore, we did not utilize the Liquidation Method
- **Adjusted Book Value Method**
The business is profitable and generates cash flow beyond the value of its tangible assets. Consequently this method would only provide a value of the business with no consideration for goodwill. It is inappropriate for a profitable business. Therefore, we did not utilize the Adjusted Book Value Method.
- **Guideline Public Company Method**
This business is too small to be comparable with a public company. Its revenues and expenses would not provide a valid result. Therefore, we did not utilize the Guideline Public Company Method.
- **Mergers & Acquisitions Transactional Method**
The Mergers & Acquisition Transactional Method would compare this business to a much larger entity. Mergers and Acquisitions would consider companies in the \$100 million dollar or more revenue range or larger. Therefore, we did not utilize the Mergers and Acquisition Transactional Method.

5.1.5 Selection of the Most Suitable Methods

After considering the methods rejected in the former section, the appraiser has selected the following methods as most suitable for use in this assignment:

- Capitalization of Earnings Method
- Net Asset Value Method
- Transaction Method

One of these methods is earnings driven, one of these methods is market driven and the other utilizes the assets of the Company to determine value. The earnings driven method and market driven method are more appropriate because they accord primary consideration to the historical/future earnings potential and what could reasonably be expected to occur in the market based on historical market sales of comparable companies.

The asset-based method provides an alternative method, but one which is clearly less appropriate for two primary reasons; (i) the business valuation community is in agreement that earnings should be pre-eminent and (ii) adjustments made to the balance sheet are less precise, particularly with regard to valuing the fixed assets.

5.1.6 Income Approach

Income methods are earnings or cash flow based and calculated on a forward looking basis,

then a risk-related rate of return is determined and applied to earnings or cash flows to estimate the fair market value of the Company. When an income approach is used to determine fair market value, goodwill is inclusive in the indication of value.

5.1.7 Projected Pre-Tax Earnings

According to Internal Revenue Service Revenue Ruling 59-60, "valuation ...is, in essence, a prophecy as to the future and must be based on facts available at the required date of appraisal,"⁴⁷ A business' value is based on its expected future earnings. In this exhibit we have prepared a projection that is believed to be representative of what might reasonably occur in the future for Carpet Cleaning & Maintenance.

The appraiser considered management's expectation for future events; however, sometimes management's projections are widely optimistic or incredibly pessimistic depending on the outcome desired by management. A large part of an appraiser's job is to evaluate management's forecasts as to how realistic they appear based on historical operating results, economic forecasts and industry conditions. Management does not normally prepare financial forecasts.

As discussed earlier, we have made three normalized adjustment to the historical earnings stream for each period. After making this adjustment the percentage of pre-tax income to sales changes to a relatively stable figure from 2008 thru 2012. We have applied weighting to each period; the application of weights is applied not so much in terms of mathematics, but to allow the reader to understand the appraiser logic for a given period or periods. Weights in excess of one - the appraiser is expressing more confidence in a given period over the other periods analyzed which have a high probability of recurring again in the future. Considering the adjusted percentages and annualized adjusted pre-tax income lines in this exhibit have applied greater weighting to the last year of financial performance as being indicative of recurring in our forecast.

Normalized Income Statement					
	Income Statement				
Year Ending	2008	2009	2010	2011	2012
Months of Operation in year	12	12	12	12	12
Gross Sales	1,479,136	1,232,449	1,294,723	1,279,786	1,643,579
Less: Cost of Goods Sold	835,953	792,590	848,425	939,295	1,032,299
Gross Profit	643,183	439,859	446,298	340,491	611,280
Operating Expenses	469,117	319,292	239,293	234,407	367,075
Operating EBITDA	174,066	120,567	207,005	106,084	244,205
Other Income	7,557	7,845	7,127	750	8,518
Total Operating Income	181,623	128,412	214,132	106,834	252,723
<i>Percentage of Sales</i>	12.3%	10.4%	16.5%	8.3%	15.4%
Normalized Adjustments					
Add Non Cash Charges					
Depreciation	16,850	32,566	28,327	31,789	74,695
Bldg Depreciation	12,254	25,223	14,258	19,923	14,687
Interest Expenses	37,763	44,945	42,410	38,456	34,580
Legal & Professional Fees	0	12,356	0	0	0
Vehicle Expense-Personal	1,216	1,494	541	8,062	825
Son Payroll	0	8,000	8,000	8,000	8,000
Owners Compensation	169,462	28,193	-29,603	-5,785	18,423
Rent Adjustment	-47,736	-47,736	-47,736	-47,736	-47,736
	189,809	105,041	16,197	52,709	103,474
Adjusted Pre-Tax Income	371,432	233,453	230,329	159,543	356,197
<i>Percentage of Sales</i>	25.1%	18.9%	17.8%	12.5%	21.7%
Weighting Applied	3	3	3	3	4
Weighting Annual Pre-Tax Income	1,114,296	700,359	690,987	478,629	1,424,788
Aggregate Weighted Pre-Tax Income					4,409,059
Divided by Aggregate Weights Applied					16
Weighted Normalized Pre-Tax Income					275,566
Long-Term Sustainable Growth Rate					1.04
Normalized Pre-Tax Income (Next year) Available to Equity					286,589

Note: The financial information presented above includes normalization adjustments made solely to assist in the development of the value conclusion presented in this report. This information should not be used to obtain credit or for any purpose other than to assist in this valuation, and we express no opinion or other assurances on this presentation.

5.1.8 Selection of Appropriate Rate of Return

Capitalization and discount rates are used in the income approach to valuation. These rates are applied to an expected stream of earnings or cash flows to arrive at a business' entity value. Discount of Capitalization rates vary among particular types of businesses and from one period of time to another. Expressed as a percentage, the more speculative a business' income stream, the higher a discount/capitalization rate (produces less value); conversely, the more stable an income stream, produces a lower discount/capitalization rate (produces a higher value). This stability or non-stability is termed "risk".

While various methods exist to estimate discount and capitalization rates (*rates of return*), a model used in this appraisal is Duff & Phelps Risk Premium Report 2013 "build-up" model. The build-up model breaks the rate of return into various components for analysis. Carpet Cleaning & Maintenance falls into the 25th Portfolio by percentile on multiple measurement characteristics. Taking the average these average risk premiums provides and unbiased market equity risk premium of for our buildup model.

Equity Rate of Return - Ranked By Portfolio Size					
Measurement Size Characteristics	Portfolio Rank	Company \$	Average Value	# of Firms	Average Risk Premium
Book Value of Equity	25	0.8	67	310	12.1%
Average Net Income	25	1.5	4	265	13.1%
Total Assets	25	1.2	118	326	12.8%
Average EBITDA	25	1.4	16	356	12.9%
Gross Sales	25	2.2	115	320	12.0%
Average Market Equity Risk Premium					12.6
Normalized Risk Free Rate					2.5
Equity Risk Premium Adjustment					4.6
Specific Company Risk Adjustments					3.0
Importance of Key Personnel				2.0	
Economic Risk				1.0	
Net Cash Flow Discount Rate (next year's)					22.7
Estimated Long Term Sustainable Growth Rate					-4
Equity Capitalization Rate (next year's)					18.7
Conversion Factor (Net cash Flow to Net Income)					0.99
Net Income Capitalization Rate					18.5
Divided by One Minus Tax rate					0.75
Pre-Tax Capitalization Rate					24.7

A pre-tax equity capitalization rate can be developed by using information compiled by Duff & Phelps which utilizes specific financial components of Carpet Cleaning & Maintenance historical performance. A risk-free rate of return is the return available to investors on a low-risk guaranteed investment, an investment generally considered as being free of default. The financial community typically uses the yield to maturity of long-term Treasury bonds as a proxy for the risk-free rate. In this analysis we utilized the long-term (20-year) U.S. Treasury bond yield, at the date of valuation.

We believe the Company's risk characteristics are similar to the average benchmark company in terms of; customer mix and reliance; supplier mix and reliance; quality of variability of earnings; coverage, liquidity; financial leverage; and strength and duration of banking relationships. We believe the Company has more risk than the average industry benchmark data in terms of:

- **Economic Risk.** Carpet Cleaning & Maintenance is above average dependent on one customer and its top 5 customers represent almost 50% of the revenue. This increases risk and justifies an increase in the specific-company risk premium. We have added one additional percentage point as a proxy for this risk factor.
- **Importance of Key Personnel.** The sales person relationships with key customers are critical to the success of the business. In addition, the experienced manager would be hard to replace. Therefore, we have added an additional two percentage points as a proxy for this risk factor.

Given the preceding discussion, we believe a 3% specific-company risk premium for the Company is reasonable. Using the rates discussed above, we have calculated an equity pre-tax discount rate as being appropriate for this valuation assignment. The equity discount rate reflects the time value of money, inflation, and the risks associated with ownership of the specific business or business interest that is the Company as of the valuation date.

Converting a discount rate into a capitalization rate requires the subtraction of the long-term growth rate for earnings. The appraiser develops a long-term sustainable growth in earning power for the Company based upon an analysis of the historical sales of the company for the past 5 years and the industry segment report for carpet cleaning companies.

The growth rate assumption is not necessarily the Company's expected growth rate for next year, but rather what can be expected for the long-term growth expectation based upon a fundamental understanding of the business and the industry it competes within. The long-term growth rate for earnings is an average of future growth rates in earnings and not one expected to occur every year into perpetuity. Some of the Company's growth years will be higher or lower, but the expectation is that future long-term growth will represent the average over time.

The effective tax rate is the combination of the individual's state and federal rates. The blended rate is 25% and is used to convert the net cash flow discount rate into a pre-tax rate applicable to a pre-tax income stream.

5.1.9 Application of the Capitalization of Earnings Method

Income methods are earnings, or cash flow based, and is calculated for our Subject business, then a risk-related rate of return is determined and applied to earnings or cash flows to estimate the fair market value of the business. If an income approach is used to determine fair market value, goodwill is inclusive in the indication of value.

Capitalization of Earnings Method	
Pre-Tax Income Available to Equity	286,589
Pre-Tax Income Capitalization Rate	0.247
Fair Market Value for a 100% Interest	\$1,160,279

5.1.10 Asset Approach

In the asset-based approach, primary emphasis is placed on the fair market value of the business' underlying assets and liabilities. As a result, an asset-based approach uses various methods that consider value of individual assets and liabilities, including any intangible asset value. These methods rely on a concept that value in a company can be estimated from its balance sheet, adjusted to include all assets and liabilities at their fair market value. These methods are appropriate for valuation of interests that possess the authority to access values locked in these assets.

Generally, a corporation owns the assets and not the shareholders who typically own shares in the corporation. However, even when valuing an interest with shares that do not have the power to liquidate the assets of the corporation, development of this method can be useful as a comparison, and can sometimes produce a useful indication of fair market value.

5.1.11 Net Asset Value Method

This appraiser believes, in this case, a more appropriate asset-based method is the *net asset value method* (also referred to as the *asset accumulation method* or *adjusted net asset method*). In order to apply this method, fixed assets have been re-valued to current fair market value, as nearly as can be estimated. Value of intangible assets will be estimated by application of the excess earnings method.

The first step is to consider any adjustments to the tangible assets and liabilities of the Company's balance sheet as of the valuation date. In this case, the balance sheet as of the end of 2012 was used. In the case of Carpet Cleaning & Maintenance a Certified Machinery Equipment Appraisal was performed.

The second step is to remove any assets or liabilities that are not owned by the company. In this case the land and building are owned personally by Mr. & Mrs. Glover and are not to be included in the assets of the company. In addition, the personal vehicle is not a company asset

The result was \$1,106,256 in value after adjustments per the appraisal and extraction of the personal assets.

Normalized Balance Sheet			
<i>Balance Sheet Item</i>	Historical	Adjusted	Normalized
Assets			
Cash	65,254		65,254
Receivables	130,487		130,487
Inventory	143,125		143,125
Other	0		0
Total Current Assets	338,866		338,866
Total FF&E Assets	1,040,838	-287,338	753,500
Total Accum Depreciation	(775,361)	775,361	0
Net FF&E Assets	265,477		753,500
Land & Building	118,044	-118,044	0
Social Event tickets	13,890		13,890
Total Assets	736,277		1,106,256
Liabilities & Equity			
Short Term Debt	80,523		80,523
Payables	116,220		116,220
Other	3,500		3,500
Total Current Liabilities	200,243		200,243
Total Long Term Liabilities	424,368		424,368
Total Liabilities	624,611		624,611
Stockholder's Equity			
Common Stock	500		500
Retained Earnings	145,883		145,883
Distributions	(252,860)		(252,860)
Other	0		0
Net Earnings	218,143		218,143
Total Equity/Capital (Net Worth)	111,666	369,979	481,645
Liabilities and Shareholder Equity	736,277		1,106,256

5.1.12 Excess Earnings Method

The Excess Earnings Method values a business based on a combination of earnings and operating assets. This method assumes within a given industry, a certain level of assets will generate a measurable level of earnings. The extent by which a business has earnings in excess of the expected level of earnings, is attributed to intangible assets.

Application of this method requires the following four critical steps for Carpet Cleaning & Maintenance:

1. determine the net tangible asset value;
2. determine the normalized level of economic earnings;
3. determine an appropriate rate of return on the tangible assets, and;
4. determine an appropriate rate of return on excess earnings.

Step 1: Net Tangible Asset Value: As used in this appraisal, the value of net tangible assets is the fair market value of the Subject's tangible assets minus the current value of its liabilities. The fair market value of the net tangible assets is \$481,645.

Step 2: Normalized Level of Economic Earnings: The appraiser selected pre-tax income as the appropriate basis of earnings. Pre-tax income for the Subject is defined as pre-tax income available to equity. The expected pre-tax income for the Subject is \$286,589.

Step 3: Rate of Return on Tangible Assets: Based on the analysis of the financial condition of Carpet Cleaning & Maintenance current lending rates. A developed rate of return on tangible assets is 6.78% and is deemed reasonable and appropriate for Carpet Cleaning & Maintenance.

Development - Rate of Return - Net Tangible Assets					
Line Items	Percentage of Total	Adjusted Book Value Amounts	Capital Structure Market Rates	Weighted Market Rates	Rate of Return
Cash	5.9%	65,254	2.8	0.2	
Accounts Receivable	11.8%	130,487	7.0	0.8	
Inventory	12.9%	143,125	7.0	0.9	
Other	1.3%	13,890	9.0	0.1	
Equipment	68.1%	753,500	7.0	4.8	
Total		1,106,256			6.78

Step 4: Rate of Return of Excess Earnings: The value of intangible assets was determined by using the excess earnings method as described in Revenue Ruling 69-609. The estimated rate of return for the intangible assets is 42.6% (moderate level of assets category).

Development - Rate of Return - Intangible Assets				
Earnings Capitalization Rate		24.7		
Cap Rate of Return - Tangible		-6.78		
Premium for Intangibles		17.9		
Description of Assets	Spread	Premium for Intangibles	Earnings Cap Rate	Intangible Capitalization Rate
Very Few Tangible Assets	151%	27.0	24.7	51.7
Moderate Level of Tangible Asset	100%	17.9	24.7	42.6
High Level of Tangible Assets	51%	9.1	24.7	33.8

5.1.13 Indication of Intangible Asset Value

The following exhibit summarizes our calculation of the Company's intangible assets value. The excess earnings, as calculated here, is the difference between the forecasted pre-tax income and the rate of return on the tangible assets. The intangible asset rate of return is applied to excess earnings to arrive at an indication of the intangible asset value.

Excess Earnings Method		
Forecasted Pre-Tax Income to Equity		286,589
FMV Tangible Assets	1,106,256	
Less: Total Liabilities	-624,611	
Value of Net Tangible Assets	481,645	
Rate of return for Net Tangible Assets	6.78	
Less: Return on Net Tangible Assets		32,656
Excess Earnings Available to Intangible Assets		253,933
Capitalization Rate for Intangibles		42.6%
Value of Intangible Assets		596,088

5.1.14 Summary and Indicated Net Asset Value Method

The estimated intangible asset value amount is added to the value of the net tangible assets (equity value) to arrive at an indication of value for Carpet Cleaning & Maintenance.

Net Asset Value Method		
Fair Market Value of Net Tangible Equity	481,645	
Fair Market Value of Intangible Assets	596,088	
Indicated Equity Value for 100% Interest	\$1,077,733	

5.1.15 Market Approach Methods

The market approach includes a collection of methods which uses transactional data from the market. The general theory is that if one can find sufficiently similar companies that have been sold in an arm's-length transaction, those transactions may form a foundation for an indication of value. Considerations in looking at market transactions include the following:

- Were the companies that sold, or in which interests were sold, sufficiently similar to the company in which the Subject interest is held?
- Were the buyers sufficiently motivated?
- Were motivations of actual buyers in these transactions similar enough to allow the transactions to be relevant in the context of "equally desirable substitutes"?
- Were buyers in those transactions financial buyers inherent in the definition of fair market value or strategic buyers inherent in the definition of investment value?

Sources of Transactional Data

The search for transactional data on closely held businesses begins with developing search criteria that is a representative sample of the same or similar types of businesses from the market as Carpet Cleaning & Maintenance, Inc.:

- SIC codes; primary 7217-7252 (NAISC Code 56174).
- Annual sales from \$1 to \$2 million. This range was selected because businesses with annual sales in this range would probably operate in a similar fashion.
- Domicile: U.S. based businesses.
- Time Frame: Executed within the past ten years. This stipulation is based on the stability of the economy and market conditions during this period.

Next, we statistically calculated the mean of the 31 businesses selected utilizing data from BizComps (see Appendix D). It is the appraiser's professional judgment, a valuation multiple of the mean average should be selected since the business was comparable to the Industry average. The mean of the 31 businesses was a Price to Sales Ratio of .784

5.1.16 Application of the Private Company Transactional Method

The selected Price to Sales valuation is applied to the last twelve months of sales. In our case, that would be the sales of Carpet Cleaning & Maintenance for the year 2012.

The appraiser analyzed the sale results of 31 carpet cleaning companies. The mean sales were \$1,332,419 in revenues. Revenues ranged from \$1,100,000 to \$1794,000.

Market Transaction Method		
Price to Sales Multiple	Revenues	Valuation Multiple
2012	\$1,643,579	0.784
Indicated Value		\$1,288,566
Add Cash		\$65,254
Add Inventory		\$143,125
Fair Market Value for a 100% Interest		\$1,496,945

One final adjustment is necessary to the indication of value to account for inventory and cash, which are not considered in the transactional data. For these types of transactions, the inventory figure is typically added to the final sales price before closing. The seller retains cash, other assets and generally all liabilities.

6 Adjustments to the Indication of Values

Before arriving at a final opinion of value, the appraiser must consider adjustments appropriate to this valuation assignment. The most common adjustments to values initially determine the differences between the level of control and/or marketability in the interest being appraised versus the level reflected in the value initially determined by each method employed. Although adjustments may be required for differing levels of lack of control and marketability, each are considered separately.

6.1.1 Non-operating and Excess Assets

The discussions with management indicated that there were no non-operating assets or liabilities on the Company's balance sheet other than those which were discussed in this report.

6.1.2 Adjustments for Control

The valuation assignment was to estimate an opinion of value for a 100% controlling interest. All methods utilized in this appraisal utilized generated an estimate of value of control. Consequently no control adjustment is needed.

6.1.3 Applicable Discounts for Lack of Marketability

Marketability adjustments are appropriate when the basis of the indicated values is different from the basis value. The following discussion explains the basis obtained using the selected valuation methods and the selected discounts from within the range of discounts discussed earlier.

- **Capitalization of Earnings Method:** The rate of return was determined by considering general public market data compiled by Duff & Phelps. The resulting value therefore has an attribute of being a "freely traded" investment. A freely traded investment basis is not appropriate for Carpet Cleaning & Maintenance at the "entity" or "shareholder" levels. The Subject is closely held and is a business type that is considered small by U.S. standards.

We believe a discount for lack of marketability is required because of the difference in time required to realize the cash proceeds of the sale of the Company (months) compared to the sale of a freely traded security (7 days or less to receive the cash). We have selected an entity marketability discount of 15% .

6.1.4 Reconciliation of the Valuation Estimates

At this point in the appraisal process, the appraiser must consider the relative merits of each method employed and determine the degree of influence or weight each method will have in the final opinion of value.

The *Capitalization of Earnings Method* is most appropriate, because primary consideration is given towards the future earning capacity of the Business. Support for adjustments were considered the type which a prudent buyer would likely judge as being reasonable. Buyers place a high priority on earnings or the anticipation of future earnings in their purchase decision. *Conclusion:* Value indicated under the income approach will figure in the final opinion of value and will receive the greatest amount of weight.

The *Direct Market Data Method* is conceptually correct in that evidence of actual transactions of closely held businesses similar to Carpet Cleaning & Maintenance have sold in the market place. However, the limitations on the data about these private transactions somewhat tarnishes the indication of value. *Conclusion:* The value indicated under the market approach will figure in the final opinion of value and will receive the second highest amount of weight.

The *Net Asset Value Method* is somewhat suspect because the assets are not owned by the individual shareholders, but by the corporation. The value indicated under the asset approach will receive the least amount of weight towards our final opinion of value.

7 Summary and Conclusion of Value

Reconciliation of Indicated Values						
Valuation Method	Value and Basis Indicated by Method	Adjustments in the Degree of		Adjusted Value and Basis	Weighted Confidence Level	Weighted Component Value
		Entity	Entity			
		Control	Marketability			
	1,160,279			986,237		
Capitalization of Earnings Method	Freely Traded	n/a	-0.15	Closely-Held	0.6	\$591,742
	Minority					
	1,496,145			1,496,145		
Transaction Method	Closely Held	n/a	n/a	Closely-Held	0.3	\$448,844
	Conrtol					
	1,077,733			1,077,733		
Net Asset Value Method	Closely Held	n/a	n/a	Closely-Held	0.1	\$107,773
	Conrtol					
FMV for a 100% Interest, on a Closely Held Basis (rounded)						\$1,148,000

Note: The real estate is not owned by the corporation. It is owned individually by Charles and Mary Glover. The real estate was appraised separately by a real estate appraiser. The real estate value is NOT a part of this Business Appraisal.

Retail advertising sales. Exceeded sales goals and desired to work for major market newspaper.

9/1976 - 9/1979 Boy Scouts of America Baltimore, MD.

District Executive/Director of Public Relations

Responsible for fundraising, recruitment of volunteers, publicity, and program development for Anne Arundel County for the Boy Scouts Explorer Division. Camp Director for Summer Camp for 2 summers. Promoted successful Boy Scout Expo for Baltimore Area in 1978. Coordinated advertising and public relations to Baltimore media market

EDUCATION

6/1976 West Virginia University Bachelor's Degree

COMMUNITY LEADERSHIP

First Citizen Award of Chesapeake 2013
City of Chesapeake 50th Anniversary - Chairman
Chesapeake Rotary Club - President
Chesapeake Division Hampton Roads Chamber of Commerce Board of Directors
Treasurer - Chesapeake Regional Medical Ctr. Foundation Board
Chairman - Bishop Sullivan Catholic High Foundation Board
Boys & Girls Clubs of Chesapeake Board of Directors
Chesapeake Virginia Wine Festival – Chairman & Creator
Convergent Technologies User Group – President & Founder

ACHIEVEMENTS

Eagle Scout – Bronze Palm
 2011 Rotarian of the Year, Paul Harris Fellow – Chesapeake Rotary Club
 Chesapeake Chamber of Commerce Volunteer of the Year 2012

BUSINESS BROKERAGE CERTIFICATIONS & EDUCATION

Business Certified Appraiser Course

International Society of Business Analysts
Level 1 and Level 2 – Valuation essentials and Advanced Techniques.

Mergers & Acquisitions Master Intermediary

International Business Brokers Association
An M&AMI is an experienced, proven professional whose claim of competence is supported and documented. Mergers and Acquisitions Master Intermediary (M&AMI) is the highest designation awarded by the International Business Brokers Association. There are only 75 M&AMIs worldwide.

Certified Business Intermediary

International Business Brokers Association
A CBI is an experienced, proven professional whose claim of competence is supported and documented. Certified Business Intermediary (CBI) is the designation awarded by the International Business Brokers Association to members that have satisfied the educational requirements and conform to the ethical standards of the IBBA.

IBBA University Courses Passed

Analyzing and Recasting Financial Statements Level I & II
 Dollars from Distress
 Closing at Maximum Value in 90 Days
 Business Valuation Level I & II
 SBA Financing
 Tax Boot Camp for M&A Professional
 Financing the M&A Acquisition
 Seller Seminar for the Business Broker
 Manufacturing M&A
 Succession Planning: Exit Strategies for Privately Held Companies
 Advanced M&A Tax Strategies & Deal Structures

Certified Machinery and Equipment Appraiser

National Equipment and Business Brokers Institute

Business Valuations – SBA

Fulton Bank, PNC Bank, Private Acquisitions, Gift Tax

Senior Business Analyst

International Society of Business Analysts

Commercial Virginia Real Estate Salesperson License

Riddle & Associates, Chesapeake, VA

Appendices B – Definition of Terms

This Glossary was developed jointly by representatives of the American Institute of CPAs, the American Society of Appraisers, the Canadian Institute of Business Valuers, the Institute of Business Appraisers, and the National Association of Certified Valuation Analysts.

Adjusted Book Value - the value that results after one or more asset(s) or liability amounts are added, deleted, or changed from their respective financial statement amounts.

Appraisal - See Valuation.

Appraisal Approach - See Valuation Approach.

Appraisal Date - See Valuation Date. **Appraisal**

Method - See Valuation Method.

Appraisal Procedure - See Valuation Procedure.

Asset (Asset-Based) Approach - a general way of determining a value indication of a business, business ownership interest, or security by using one or more methods based on the value of the assets of that business net of liabilities.

Benefit Stream - any level of income, cash flow, or earnings generated by an asset, group of assets, or business enterprise. When the term is used, it should be supplemented by a definition of exactly what it means in the given valuation context.

Beta - a measure of systematic risk of a security; the tendency of a security's returns to correlate with swings in the broad market.

Blockage Discount - an amount or percentage deducted from the current market price of a publicly traded security to reflect the decrease in the per share value of a block of those securities that is of a size that could not be sold in a reasonable period of time given normal trading volume.

Business - see Business Enterprise.

Business Enterprise - a commercial, industrial, service, or investment entity, or a combination thereof, pursuing an economic activity.

Business Valuation - the act or process of determining the value of a business enterprise or ownership interest therein.

Capital Asset Pricing Model (CAPM) - a model in which the cost of capital for any security or portfolio of securities equals a risk free rate plus a risk premium that is proportionate to the systematic risk of the security or portfolio.

Capitalization - a conversion of a single period stream of benefits into value.

Capitalization Factor - any multiple or divisor used to convert anticipated benefits into value.

Capitalization Rate - any divisor (usually expressed as a percentage) used to convert anticipated benefits into value.

Capital Structure - the composition of the invested capital of a business enterprise; the mix of debt and equity financing.

Cash Flow - cash that is generated over a period of time by an asset, group of assets, or business enterprise. It may be used in a general sense to encompass various levels of specifically defined cash flows. When the term is used, it should be supplemented by a qualifier (for example, "discretionary" or "operating") and a definition of exactly what it means in the given valuation context.

Control - the power to direct the management and policies of a business enterprise.

Control Premium - an amount (expressed in either dollar or percentage form) by which the pro rata value (calculated, in proportion value) of a controlling interest exceeds the pro rata value of a noncontrolling interest in a business enterprise, that reflects the power of control.

Cost Approach - a general way of estimating a value indication of an individual asset by quantifying the amount of money that would be required to replace the future service capability of that asset.

Cost of Capital - the expected rate of return (discount rate) that the market requires in order to attract funds to a particular investment.

Discount - a reduction in value or the act of reducing value.

Discount for Lack of Control - an amount or percentage deducted from the pro rata share of value of one hundred percent (100%) of an equity interest in a business to reflect the absence of some or all of the powers of control.

Discount for Lack of Marketability - an amount or percentage deducted from the value of an ownership interest to reflect the relative absence of marketability.

Discount Rate - a rate of return (cost of capital) used to convert a monetary sum, payable or receivable in the future, into present value.

Economic Life - the period of time over which property may generate economic benefits.

Effective Date - See Valuation Date.

Enterprise - See Business Enterprise.

Equity Net Cash Flows - those cash flows available to pay out to equity holders (in the form of dividends) after funding operations of the business enterprise, making necessary capital investments, and reflecting increases or decreases in debt financing.

Equity Risk Premium - a rate of return in addition to a risk free rate to compensate for investing in equity instruments because they have a higher degree of probable risk than risk free instruments (a component of the cost of equity capital or equity discount rate).

Excess Earnings - that amount of anticipated benefits that exceeds a fair rate of return on the value of a selected asset base (often net tangible assets) used to generate those anticipated benefits.

Excess Earnings Method - a specific way of determining a value indication of a business, business ownership interest, or security determined as the sum of the value of the assets obtained by capitalizing excess earnings and the value of the selected asset base. Also frequently used to value intangible assets. See Excess Earnings.

Fair Market Value - the price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm's length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts. {NOTE: In Canada, the term "price" should be replaced with the term "highest price".}

Forced Liquidation Value - liquidation value at which the asset or assets are sold as quickly as possible, such as at an auction.

Going Concern - an ongoing operating business enterprise.

Going Concern Value - the value of a business enterprise that is expected to continue to operate into the future. The intangible elements of Going Concern Value result from factors such as having a trained work force, an operational plant, and the necessary licenses, systems, and procedures in place.

Goodwill - that intangible asset arising as a result of name, reputation, customer loyalty, location, products, and similar factors not separately identified.

Goodwill Value - the value attributable to goodwill.

Income (Income-Based) Approach - a general way of determining a value indication of a business, business ownership interest, security, or intangible asset using one or more methods that convert anticipated benefits into a present single amount.

Intangible Assets - nonphysical assets (such as franchises, trademarks, patents, copyrights, goodwill, equities, mineral rights, securities and contracts as distinguished from physical assets) that grant rights, privileges, and have economic benefits for the owner.

Invested Capital - the sum of equity and debt in a business enterprise. Debt is typically long term liabilities or the sum of short term interest bearing debt and long term liabilities. When the term is used, it should be supplemented by a definition of exactly what it means in the given valuation context.

Invested Capital Net Cash Flows - those cash flows available to pay out to equity holders (in the form of dividends) and debt investors (in the form of principal and interest) after funding operations of the business enterprise and making necessary capital investments.

Investment Risk - the degree of uncertainty as to the realization of expected returns.

Investment Value - the value to a particular investor based on individual investment requirements and expectations. {NOTE: In Canada, the term used is "Value to the Owner."}

Key Person Discount - an amount or percentage deducted from the value of an ownership interest to reflect the reduction in value resulting from the actual or potential loss of a key person in a business enterprise.

Levered Beta - the beta reflecting a capital structure that includes debt.

Liquidity - the ability to quickly convert property to cash or pay a liability.

Liquidation Value - the net amount that can be realized if the business is terminated and the assets are sold piecemeal. Liquidation can be either "orderly" or "forced".

Majority Control - the degree of control provided by a majority position.

Majority Interest - an ownership interest greater than fifty percent (50%) of the voting interest in a business enterprise.

Market (Market-Based) Approach - a general way of determining a value indication of a business, business ownership interest, security, or intangible asset by using one or more methods that compare the subject to similar businesses, business ownership interests, securities, or intangible assets that have been sold.

Marketability - the ability to quickly convert property to cash at minimal cost.

Marketability Discount - See Discount for Lack of Marketability.

Minority Discount - a discount for lack of control applicable to a minority interest.

Minority Interest - an ownership interest less than fifty percent (50%) of the voting interest in a business enterprise.

Net Book Value - with respect to a business enterprise, the difference between total assets (net of accumulated depreciation, depletion, and amortization) and total liabilities of a business enterprise as they appear on the balance sheet (synonymous with Shareholder's Equity); with respect to an intangible asset, the capitalized cost of an intangible asset less accumulated amortization as it appears on the accounting books of the business enterprise.

Net Cash Flow - a form of cash flow. When the term is used, it should be supplemented by a qualifier (for example, "Equity" or "Invested Capital") and a definition of exactly what it means in the given valuation context.

Net Tangible Asset Value - the value of the business enterprise's tangible assets (excluding excess assets and nonoperating assets) minus the value of its liabilities.

{NOTE: In Canada, tangible assets also include identifiable intangible assets.}

Nonoperating Assets - assets not necessary to ongoing operations of the business enterprise.

{NOTE: In Canada, the term used is "Redundant Assets."}

Orderly Liquidation Value - liquidation value at which the asset or assets are sold over a reasonable period of time to maximize proceeds received.

Premise of Value - an assumption regarding the most likely set of transactional circumstances that may be applicable to the subject valuation; e.g. going concern, liquidation.

Portfolio Discount - an amount or percentage that may be deducted from the value of a business enterprise to reflect the fact that it owns dissimilar operations or assets that may not fit well together.

Rate of Return - an amount of income (loss) and/or change in value realized or anticipated on an investment, expressed as a percentage of that investment.

Redundant Assets - {NOTE: In Canada, see "Nonoperating Assets."}

Report Date - the date conclusions are transmitted to the client.

Replacement Cost New - the current cost of a similar new property having the nearest equivalent utility to the property being valued.

Reproduction Cost New - the current cost of an identical new property.

Residual Value - the prospective value as of the end of the discrete projection period in a discounted benefit streams model.

Risk Free Rate - the rate of return available in the market on an investment free of default risk.

Risk Premium - a rate of return in addition to a risk free rate to compensate the investor for accepting risk.

Rule of Thumb - a mathematical relationship between or among variables based on experience, observation, hearsay, or a combination of these, usually applicable to a specific industry.

Special Interest Purchasers - acquirers who believe they can enjoy post-acquisition economies of scale, synergy, or strategic advantages by combining the acquired business interest with their own.

Standard of Value - the identification of the type of value being utilized in a specific engagement; e.g. fair market value, fair value, investment value.

Sustaining Capital Reinvestment - the periodic capital outlay required to maintain operations at existing levels, net of the tax shield available from such outlays.

Systematic Risk - the risk that is common to all risky securities and cannot be eliminated through diversification. When using the capital asset pricing model, systematic risk is measured by beta.

Terminal Value - See Residual Value.

Unlevered Beta - the beta reflecting a capital structure without debt.

The Risk Management Association – Formerly know as Robert Morris Associates .

Unsystematic Risk - the portion of total risk specific to an individual security that can be avoided through diversification.

Valuation - the act or process of determining the value of a business, business ownership interest, security, or intangible asset.

Valuation Approach - a general way of determining a value indication of a business, business ownership

interest, security, or intangible asset using one or more valuation methods.

Valuation Date - the specific point in time as of which the valuator's opinion of value applies (also referred to as "Effective Date" or "Appraisal Date").

Valuation Method - within approaches, a specific way to determine value.

Valuation Procedure - the act, manner, and technique of performing the steps of an appraisal method.

Valuation Ratio - a fraction in which a value or price serves as the numerator and financial, operating, or physical data serve as the denominator.

Value to the Owner - {NOTE: In Canada, see Investment Value.}

Weighted Average Cost of Capital (WACC) - the cost of capital (discount rate) determined by the weighted average at market value of the cost of all financing sources in the business enterprise's capital structure.

Appendices C – BizMiner Industry Economic Report

Industry Financial Information**BizMiner Industry Financial Analysis Profile**

Release Date	December 2012					
Segment	Industry					
Carpet & Rug Cleaning Machinery Manufacturers [333312.01] Sector	Manufacturing					
Sales Class	industry-wide					
Firms Analyzed	22					
Income and Expense- Profit and Loss (\$)						
	2007	2008	2009	2010	2011	2012
Business Revenue	1,353,333	1,305,000	1,305,000	1,862,492	2,609,588	2,218,546
Cost of Sales	879,628	852,594	865,918	1,237,178	1,720,960	1,453,273
Gross Margin	473,705	452,406	439,082	625,314	888,628	765,273
Officers Comp.	43,309	54,494	30,024	88,311	127,143	110,023
Salary-Wages	123,040	117,005	113,342	171,681	214,002	176,239
Rent	18,318	14,200	20,657	27,909	34,317	30,350
Taxes Paid	29,784	23,979	27,052	28,597	36,203	27,316
Advertising	10,515	6,910	12,271	19,054	14,957	11,746
Benefits-Pensions	45,965	26,128	30,927	64,723	76,690	65,182
Repairs	4,631	3,264	2,616	3,781	5,258	4,059
Bad Debt	2,095	1,157	1,507	1,134	3,523	2,560
Other SG&A Exp.	101,063	121,160	158,112	121,431	177,976	163,077
EBITDA	94,984	84,110	42,575	98,692	198,558	174,721
Amort-Deprec-Depl	10,287	13,771	12,131	17,148	32,237	23,937
Operating Expenses	389,008	382,067	408,638	543,770	722,307	614,489
Operating Income	84,697	70,340	30,444	81,544	166,321	150,783
Interest Income	1,704	2,696	1,258	912	1,762	1,568
Interest Expense	4,497	4,671	4,972	13,376	35,907	26,981

Other Income	4,418	5,347	12,506	5,935	9,885	7,516
Pre-Tax Net Profit	86,322	73,712	39,235	75,015	142,060	132,887
Income Tax	17,599	13,428	5,885	13,755	38,653	35,076
After Tax Net Profit	68,723	60,284	33,350	61,260	103,407	97,811

Income and Expense- Profit and Loss %

	2007	2008	2009	2010	2011	2012
Business Revenue	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of Sales	65.00%	65.33%	66.35%	66.43%	65.95%	65.51%
Gross Margin	35.00%	34.67%	33.65%	33.57%	34.05%	34.49%
Officers Comp.	3.20%	4.18%	2.30%	4.74%	4.87%	4.96%
Salary-Wages	9.09%	8.97%	8.69%	9.22%	8.20%	7.94%
Rent	1.35%	1.09%	1.58%	1.50%	1.32%	1.37%
Taxes Paid	2.20%	1.84%	2.07%	1.54%	1.39%	1.23%
Advertising	0.78%	0.53%	0.94%	1.02%	0.57%	0.53%
Benefits-Pensions	3.40%	2.00%	2.37%	3.48%	2.94%	2.94%
Repairs	0.34%	0.25%	0.20%	0.20%	0.20%	0.18%
Bad Debt	0.15%	0.09%	0.12%	0.06%	0.13%	0.12%
Other SG&A Exp.	7.47%	9.28%	12.12%	6.52%	6.82%	7.35%
EBITDA	7.02%	6.45%	3.26%	5.30%	7.61%	7.88%
Amort-Deprec-Depl	0.76%	1.06%	0.93%	0.92%	1.24%	1.08%
Operating Expenses	28.74%	29.28%	31.31%	29.20%	27.68%	27.70%
Operating Income	6.26%	5.39%	2.33%	4.38%	6.37%	6.80%
Interest Income	0.13%	0.21%	0.10%	0.05%	0.07%	0.07%
Interest Expense	0.33%	0.36%	0.38%	0.72%	1.38%	1.22%
Other Income	0.33%	0.41%	0.96%	0.32%	0.38%	0.34%
Pre-Tax Net Profit	6.38%	5.65%	3.01%	4.03%	5.44%	5.99%
Income Tax	1.30%	1.03%	0.45%	0.74%	1.48%	1.58%
After Tax Net Profit	5.08%	4.62%	2.56%	3.29%	3.96%	4.41%

Balance Sheet - dollar-based

Assets	2007	2008	2009	2010	2011	2012
Cash	87,996	165,698	104,536	171,351	245,727	212,846
Receivables	124,952	210,070	82,844	230,546	326,354	271,958
Inventory	137,125	230,195	100,772	229,848	316,381	269,309
Other Current Assets	28,765	23,639	5,452	45,751	29,676	23,750
Total Current Assets	378,826	629,545	293,604	677,496	918,138	777,954
Net Fixed Assets	103,100	164,553	67,589	178,794	262,017	224,515
Other Non-Current Assets	85,311	214,528	89,704	236,447	380,503	327,817

Total Assets	567,237	1,008,625	450,896	1,092,737	1,560,693	1,330,286
Liabilities						
Accounts Payable	69,398	129,399	43,869	127,705	221,514	187,725
Loans/Notes Payable	40,574	53,842	24,350	57,901	84,809	72,731
Other Current Liabilities	98,473	105,492	5,244	158,457	294,413	230,668
Total Current Liabilities	208,444	288,734	73,463	344,064	600,736	491,124
Total Long Term Liabilities	79,490	149,279	70,824	175,057	240,969	214,481
Total Liabilities	287,935	438,012	144,287	519,121	841,704	705,606
Net Worth	279,302	570,613	306,609	573,616	718,989	624,680

Balance Sheet - percentage-based

Assets	2007	2008	2009	2010	2011	2012
Cash	15.51%	16.43%	23.18%	15.68%	15.74%	16.00%
Receivables	22.03%	20.83%	18.37%	21.10%	20.91%	20.44%
Inventory	24.17%	22.82%	22.35%	21.03%	20.27%	20.24%
Other Current Assets	5.07%	2.34%	1.21%	4.19%	1.90%	1.79%
Total Current Assets	66.78%	62.42%	65.12%	62.00%	58.83%	58.48%
Net Fixed Assets	18.18%	16.31%	14.99%	16.36%	16.79%	16.88%
Other Non-Current Assets	15.04%	21.27%	19.89%	21.64%	24.38%	24.64%
Total Assets	100%	100%	100%	100%	100%	100%
Liabilities						
Accounts Payable	12.23%	12.83%	9.73%	11.69%	14.19%	14.11%
Loans/Notes Payable	7.15%	5.34%	5.40%	5.30%	5.43%	5.47%
Other Current Liabilities	17.36%	10.46%	1.16%	14.50%	18.86%	17.34%
Total Current Liabilities	36.75%	28.63%	16.29%	31.49%	38.49%	36.92%
Total Long Term Liabilities	14.01%	14.80%	15.71%	16.02%	15.44%	16.12%
Total Liabilities	50.76%	43.43%	32.00%	47.51%	53.93%	53.04%
Net Worth	49.24%	56.57%	68.00%	52.49%	46.07%	46.96%
Total Liabilities & Net Worth	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Appendices D – Market Transactional Data

The market transactional data, obtained from BizComps database

SIC Code	NAICS Code	Business Description	Area	Annual Gross Sales \$000.	Sale Date	Sellers Discretionary Earnings \$000.	Sale Price \$000.	Sale Price To Annual Gross Sales	Sale Price To SDE	Percent Down	Terms	Inventory Amount \$000.	FF&E \$000.	Real Estate Value	Number Of Employees	Days On Market	Franchise Royalty
7217	56174	Carpet Cleaning	Tucson, AZ	\$149	8/10/2009	\$124	\$135	0.90660	1.2016	57%		\$11	\$34		1		No
7218	56174	Carpet Cleaning	Florida	\$152	7/25/2008	\$139	\$15	0.0987	1.0935	100%		\$10	\$12		1	319	No
7219	56174	Carpet/Tile Cleaning	W Central Florida	\$174	11/11/2010	\$145	\$175	1.0057	1.2000	55%	1 Yrs 12%	\$10	\$30		2	41	No
7220	56174	Carpet Cleaning	Florida	\$175	7/25/2008	\$140	\$150	0.8571	1.2500	100%		\$11	\$20		1		No
7221	56174	Carpet Cleaning	Central Florida	\$1100	2/17/2009	\$382	\$180	0.1636	3.8596	100%		\$10	\$10		14	342	No
7222	56174	Carpet Cleaning	Florida	\$1123	12/8/2009	\$382	\$1100	0.9795	2.9398	100%		\$11	\$260		17	104	No
7223	56174	Carpet Cleaning	Florida	\$1124	7/7/2008	\$349	\$145	0.1290	3.2206	100%		\$11	\$205		14	32	No
7224	56174	Carpet Cleaning	Florida	\$1130	2/28/2006	\$315	\$1100	0.9735	3.5873	80%	2 Yrs @ 8%	\$10	\$159		11	165	No
7225	56174	Carpet Cleaning	Florida	\$1169	2/16/2004	\$489	\$1155	0.9880	2.3906	100%		\$11	\$250		16	103	No
7226	56174	Carpet Cleaning	Florida	\$1173	7/14/2008	\$479	\$1160	0.9889	2.8680	100%		\$11	\$400		13	247	No
7227	56174	Carpet Cleaning	Phoenix, AZ	\$1177	6/30/2006	\$409	\$1150	0.9771	2.4572	100%		\$11	\$370		-		No
7228	56174	Carpet Cleaning	Nampa, ID	\$1185	11/6/2007	\$485	\$120	0.1013	2.4433	100%	5 Yrs @ 8%	\$10	\$135		-	60	No
7229	561740	Carpet Cleaning	Montana	\$1214	9/15/2011	\$468	\$196	0.1614	2.5940	100%		\$20	\$0		21	116	No
7230	56174	Carpet Cleaning	Florida	\$1243	12/1/2004	\$382	\$1190	0.9574	3.2539	21%	10 Yrs @ 7%	\$20	\$285		20	545	No
7231	56174	Carpet Cleaning	West Central Florida	\$1251	3/5/2009	\$389	\$1125	0.8993	3.2159	36%	5 Yrs @ 9%	\$21	\$160		12	24	
7232	56174	Carpet Cleaning	Ft Worth, TX	\$1270	9/19/2002	\$572	\$1148	0.9039	2.2203	25%	5 Yrs @ 8%	\$25	\$287		10	150	Y-5%
7233	56174	Carpet Cleaning	SF Bay Area, CA	\$1300	3/31/2000	\$490	\$1230	0.9462	2.6531	100%		\$50	\$0		-	30	
7234	56174	Carpet Cleaning	Central Florida	\$1306	1/31/2000	\$472	\$1136	0.8698	2.7669	62%	2 Yrs @ 9%	\$0	\$500		-	116	
7235	56174	Carpet Cleaning	Florida	\$1307	3/7/2008	\$470	\$1125	0.8607	2.7809	100%		\$0	\$365		19	188	No
7236	56174	Carpet Cleaning	Phoenix, AZ	\$1315	6/29/2007	\$400	\$1150	0.8745	3.2875	100%		\$0	\$0		-		No
7237	56174	Carpet Cleaning	Las Vegas, NV	\$1326	8/28/2008	\$505	\$1265	0.9540	2.6257	100%		\$0	\$480		-		No
7238	56174	Carpet Cleaning	Florida	\$1335	5/14/2004	\$520	\$1168	0.8749	2.5673	100%		\$30	\$450		13	63	No
7239	56174	Carpet Cleaning	Colorado Springs, CO	\$1363	3/14/2011	\$588	\$1420	1.0418	2.3180	100%		\$10	\$540		15	7	No
7240	56174	Carpet Cleaning	Florida	\$1389	7/13/2009	\$547	\$1155	0.8315	2.5393	46%	5 Yrs @ 8%	\$0	\$380		16	187	No
7241	56174	Carpet Cleaning	Florida	\$1390	4/22/2003	\$475	\$175	0.1259	2.9263	37%	5 Yrs @ 7%	\$0	\$350		15	48	No
7242	56174	Carpet Cleaning	CN-Ottawa, ON	\$1409	10/10/2008	\$570	\$1308	0.9283	2.4719	86%	3 Yrs @ 7%	\$41	\$450		17	360	No
7243	56174	Carpet Cleaning	Georgia	\$1410	5/22/2002	\$537	\$1300	0.9220	2.6257	13%	10 Yrs @ 7.8%	\$52	\$302		19	200	
7244	56174	Carpet Cleaning	South Florida	\$1445	6/27/2005	\$491	\$1300	0.8997	2.9430	20%	10 Yrs @ 6%	\$0	\$275		15	291	
7245	56174	Carpet Cleaning	Denver, CO	\$1457	7/31/2000	\$415	\$1234	0.8469	3.5108	100%		\$0	\$0		-		Yes
7246	56174	Carpet Clean Franchise	Wisconsin	\$1480	8/12/2004	\$433	\$1242	0.8392	3.4180	100%		\$0	\$100		12	161	7.50%
7247	56174	Carpet Cleaning	Tennessee	\$1500	2/12/2009	\$440	\$1360	0.9067	3.4091	86%	1 Yrs @ 5%	\$50	\$380		16	365	Y-3%
7248	56174	Carpet Cleaning	Central Florida	\$1522	3/31/2003	\$450	\$1135	0.7457	3.3822	100%		\$20	\$352		16	61	No
7249	56174	Carpet Cleaning	Florida	\$1548	9/29/2006	\$542	\$1467	0.9477	2.8561	11%	10 Yrs @ 11%	\$40	\$285		15	169	No
7250	56174	Carpet Cleaning	Midwest	\$1550	10/1/2012	\$565	\$1453	0.9374	2.7434	20%	7 Yrs @ 3.5%	\$0	\$480		13	60	No
7251	56174	Carpet Cleaning	Phoenix, AZ	\$1794	6/30/2006	\$553	\$1300	0.7246	3.2441	100%		\$70	\$228		-		No
7252	56174	Carpet Cleaning	Michigan	\$11504	8/30/2006	\$968	\$4950	0.4303	11.8843	100%		\$0	\$0		-		No