

BUSINESS ANALYSIS/VALUATION MARKET VALUE CALCULATION

For

Johnson Mechanical Contractors
2754 Grand Avenue
Madison WI, 53714

Valuation as of: December 31 2004



PREPARED BY

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BUSINESS VALUATION SUMMARY

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

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

Summary of Value:

We have determined that a 100% ownership interest of Johnson Mechanical Contractors is the fair market value of the assets.

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

Scope and Limitations:

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

Standard of Value:

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

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

Summary Comments:

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

MARKET VARIABLES USED IN ANALYSIS

INVESTMENT CRITERIA

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

MARKET STANDARDS

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

FINANCING

Number of Years to Analyze Income Statement	1
Beginning Year to Analyze	2004
Ending Month of Fiscal Year	December

LOANS:

Auto/Truck	
Market Value	\$683,223
Loan to Value Ratio (%)	60
Amount to Finance	\$409,934
Term Length (Years)	4
Interest Rate %	7
Inventory	
Market Value	\$474,000
Loan to Value Ratio (%)	50
Amount to Finance	\$237,000
Term Length (Years)	3
Interest Rate %	7.5

MARKET VARIABLES USED IN ANALYSIS (CONTINUED)

Machinery and Equipment

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

Office Furniture/Fixtures

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

Seller Financing

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

Year 1

INCOME STATEMENT ADJUSTMENTS SUMMARY

	%	Actual Year Ending 12-31-2004	Adjustment Year Ending 12-31-2004	%	Adjusted Year Ending 12-31-2004
INCOME:					
Sales	100	\$9,216,687		100	\$9,216,687
Total Income	100	\$9,216,687	\$0	100	\$9,216,687
=====					
Cost of Goods Sold:					
Direct Costs - Labor	25.37	\$2,338,590	\$0	25.37	\$2,338,590
Direct Costs - Materials	23.84	\$2,197,498	\$0	23.84	\$2,197,498
Direct Costs - Equipment	0.20	\$18,568	\$0	0.20	\$18,568
Direct Costs - Subcontractor	2.70	\$248,976	\$0	2.70	\$248,976
Direct Costs - Other	1.13	\$103,848	\$0	1.13	\$103,848
Total Cost of Goods Sold	53.25	\$4,907,480	\$0	53.25	\$4,907,480
=====					
GROSS PROFIT	46.75	\$4,309,207	\$0	46.75	\$4,309,207
=====					
LESS: OPERATING COSTS					
Total Variable Costs (See detail schedule on next page)	18.80	\$1,732,522	(\$70,549)	18.03	\$1,661,973
=====					
Fixed Costs Total Fixed Costs (See detail schedule on next page)	25.22	\$2,324,035	(\$95,977)	24.17	\$2,228,058
=====					
Total Operating Expenses (Fixed Costs plus Variable Costs)	44.01	\$4,056,557	(\$166,526)	42.21	\$3,890,031
=====					
Other Income (Expenses) Total Other Income (Expenses)	0.14	\$13,078	\$42,873	0.61	\$55,951
=====					
NET OPERATING INCOME (NPBT) (Before Debt Service)	2.88	\$265,728	\$209,399	5.16	\$475,127
=====					
LESS: ANNUAL DEBT SERVICE					N/A
=====					
CASH FLOW AFTER DEBT SERVICE (Return on Investment ROI)				N/A	N/A
=====					
Earnings Before Interest, Taxes, Depreciation, Amortization (EBITDA)				N/A	N/A
=====					
Debt Service Coverage Ratio (DSCR)					N/A
=====					

INCOME STATEMENT ADJUSTMENTS DETAIL

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

COMMENTS – ADJUSTMENTS TO INCOME STATEMENT

ADJUSTMENTS FOR YEAR: 2004

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

STRUCTURED FINANCING SUMMARY

Source of Purchase Funds	Amount	Terms (yrs)	Interest	Mo. Payment
Financial Institution Financing:				
Auto / Truck	\$409,934	4	7.00	\$9,816
Inventory	\$237,000	3	7.50	\$7,372
Machinery/Equipment	\$528,060	5	7.00	\$10,456
Office Furniture/Fixtures	\$98,795	3	6.50	\$3,028
<u>Seller Financing</u>	<u>\$450,575</u>	<u>5</u>	<u>7.00</u>	<u>(\$658)</u>
Total	\$1,724,364			\$30,014

1. The negative seller monthly payment of (\$658) indicates the monthly income shortfall needed to pay both the monthly debt service on the indicated loans and provide the required market rate of return.
2. When a negative seller monthly payment is shown, the seller financing loan amount of \$450,575 is the maximum amount of the loan principal that can be paid by the existing income stream of the business when the required return on investment is equal to "0".

DEFINITION OF MARKET VALUE

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

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

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

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

STATEMENT OF LIMITING CONDITIONS

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

7. The evaluator has mathematically compiled the final opinion of value through the use of commonly accepted accounting practices. The evaluator assumes no liability in the determining of this value.
8. This analysis cannot be duplicated or otherwise copied in whole or in part without the permission of the evaluator.
9. It is understood that the evaluator is not required to give testimony or appear in court because of having made this evaluation with reference to the business in question, unless arrangements have been previously make.
10. This report is a “calculation” of value only! Unlike a full fair market valuation, for the sake of time in its creation, certain valuation procedures were omitted that could effect its final accuracy. Only one valuation methodology, the optimization method, was used in its creation. This method is more specifically defined in the “Standard of Value” paragraph contained within the Business Valuation Summary section of this report.
11. During the recasting of the financial statement, the only expenses reviewed for adjustment may have been depreciation, owner’s salary, employee bonuses/profit sharing, owner’s bonuses and interest. Although these five line items typically contain an estimated 90 - 95% of any company’s adjustments, since other line items may not have been reviewed, it can’t be represented that all adjustments were made.
12. Only one financial year may have been used for this analysis, which could effect the valuation results if substantial profitability variances existed in other years.

13. Although we believe this value to be within $\pm 10\%$ of the fair market value, the final calculated value may differ with the final opinion of value that would be determined had a full market valuation been performed.

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