

Confidential

Business Valuation Report

Prepared For:

Your Company Name Here

Prepared by:

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Notice to Recipients

This confidential Business Valuation Report (the “Report”) has been prepared solely for informational purposes and the information and data in this Report do not purport to be all-inclusive or to contain all of the information and data that is necessary to prepare a full appraisal report for the company.

While the information in this Report has been obtained from public sources or compiled from internal company data, no representation or warranty, express or implied, as to the accuracy or completeness of this Report has been made by Bridge Ventures, LLC (“Bridge”) and nothing contained in this Report is, or shall be relied upon as, a promise, warranty or representation.

This Report includes certain statements, estimates, and projections, which were prepared by Bridge based in information furnished by management of the company. No representations are made as to the accuracy of such statements, estimates or projections or with respect to any other materials herein.

Recipients should read the entire report including scope, limiting conditions, and assumptions which are integral in understanding the conclusions presented in this report.

Although this report presents an estimated business market value for the subject company, there are many other elements that need to be considered in private business transactions in order to ensure that the full value can be obtained. A comprehensive analysis of the business and market factors which could affect the owner’s ability to realize the market value presented in this report is beyond the scope of this engagement.

Report Summary

Bridge performed a valuation analysis of the company identified below for the purpose of determining the company's fair market value for sale to a third-party. As business and market conditions can change rapidly, the findings in this report are presented as of the effective date only. Bridge valued a 100% ownership interest in the subject business and performed its analyses under the premise that the business and its assets would be operated as a going concern after a change in control. Multiple, generally accepted valuation techniques were used in deriving the conclusion of value for the business.

Company Name: Your Company Name ("YC" or the "Client")

Purpose: Estimation of business value in a sale

Standard Used: Fair market value

Effective Date: This report is effective as of October 3, 2010

Interest valued: 100% Controlling interest with assumptions as stated in report

Estimated Fair Market Value: \$961,284

Scope and Purpose of Report

This is not a comprehensive report but rather a limited use valuation report, which is advisory in nature and is intended to be used for estimating the fair-market value of the business and pricing the subject business for sale to a third party.

This purpose of this report is solely to assist the owner of the business and as such, this report is intended for private and confidential use by the business owner only. Publication or distribution of the report is strictly prohibited without prior written consent from Bridge.

The report should be read inclusively with attention paid to both the assumptions and limiting conditions contained within the report. Conclusions in this report could vary substantially if business conditions or assumptions used in this report change.

Standard and Premise of Value

There are numerous techniques for valuing a business and multiple definitions of “value”. This report relies upon the use of fair market value, as defined below, and the following standards in estimating the value of the subject business:

Fair market value – is defined which is the price, in cash or equivalent, that a willing buyer could reasonably be expected to pay, and a willing seller could reasonably be expected to accept, if the business were promoted for sale on the open market for a reasonable period of time, and both buyer and seller having full knowledge of pertinent facts of the business and neither under the compulsion to conclude a transaction.

Bridge valued a 100% ownership interest in the subject business and performed its analyses under the premise that the business and its assets would be operated as a going concern after a change in control. In Bridge’s opinion, this premise of value represents the highest and best use of the subjects company’s assets.

Unlike public company stock, there is not an active market for buying and selling the stock and/or assets of private companies. As such, selling a private company can take between 6 and 12 months or longer and there is no guarantee that a suitable buyer can be identified or a transaction consummated during this time frame.

Assumptions

1. It is assumed that the business, unless otherwise stated, is in full compliance with all applicable local, state, and federal laws and regulations.
2. A fully marketable, 100% ownership interest in the business is valued; i.e. no minority interest.
3. Bridge has not audited or otherwise reviewed the financial statements and business information provided by the client and/or its advisors. It was assumed that this information was a true and accurate reflection of the company’s performance.
4. The business and its assets have been valued free and clear of any funded debt, long-term liabilities, liens, or other encumbrances unless other stated. This report assumes that the

owner would pay off all funded debt, long-term liabilities, and any encumbrances at the time of a sale.

5. It is assumed that the owner would retain all cash and that a purchaser would receive the accounts receivable balance.
6. This report does not take into consideration any real estate that the company owns. Real estate and improvements have not been valued and are not included in this report.

Company Overview

Business Summary

Name: Your Company Name (“YC” or the “Client”)

Date Founded: 2004

Structure: Subchapter “S” Corporation

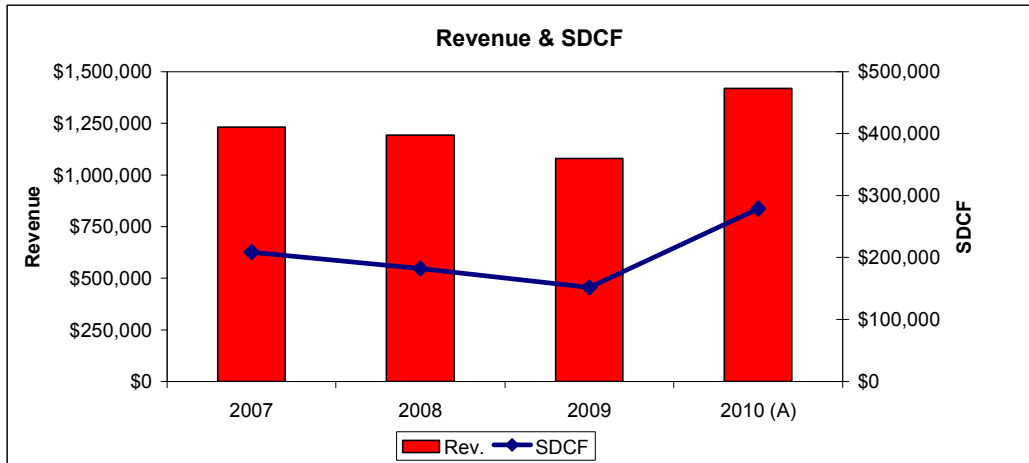
Number of Owners: One; John Business Owner

Location: 123 Main Street
Anytown, ST, 12345

Primary Business Line: Private Duty Non-Medical Home Care Agency

Financial Summary

For the year-to-date period ending September 30, 2010, the Company generated \$1.1 million in revenues and \$209 thousand in Seller’s Discretionary Cash Flow (SDCF). Based on annualizing the YTD data, it is estimated that for the full calendar year 2010 the company will generate \$1.4 million in revenues and \$279 thousand in SDCF. SDCF represents a recasting of the Company’s earnings to reflect expenses associated with the current ownership which may or may not be incurred under new ownership; a detail of each adjustment is provided in the Reconstructed Income Statement of this report.



	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010 (A)</u>
Revenue	\$1,231,972	\$1,193,068	\$1,079,466	\$1,419,118
SDCF	\$208,819	\$182,338	\$151,944	\$279,051
SDCF %	16.9%	15.3%	14.1%	19.7%

** 2010 based on YTD Jan - Sep 2010 annualized data*

Industry Overview

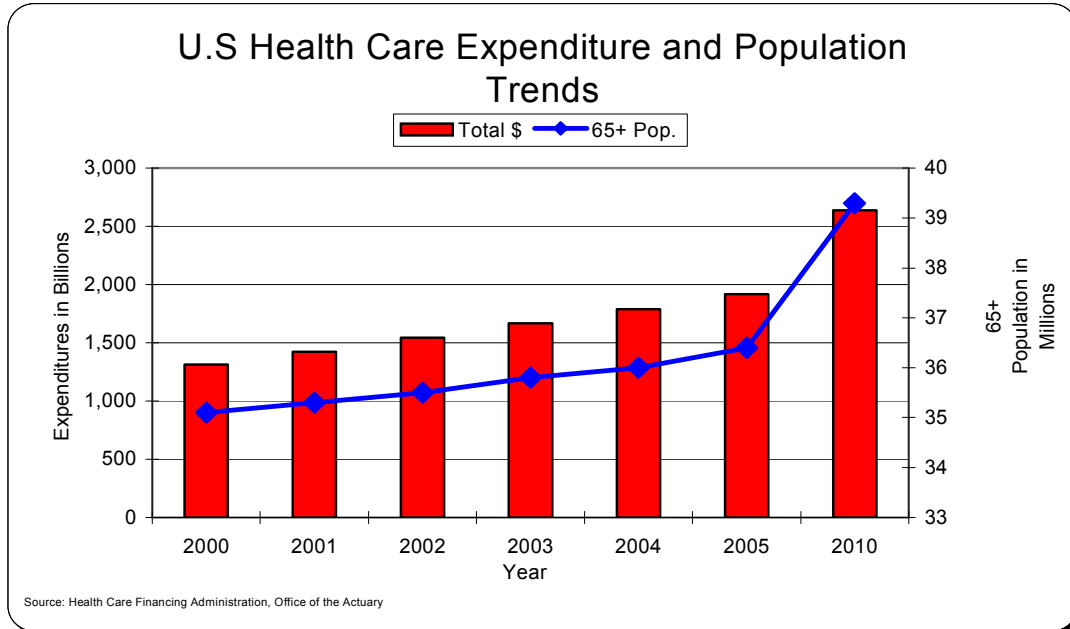
The Healthcare Industry

The Centers for Medicare and Medicaid Services (CMS) estimated fiscal 2007 National healthcare expenditures to be \$2.2 trillion. This represents approximately 16.2% of the U.S. Gross Domestic Product. CMS projects healthcare spending to exceed \$2.6 trillion by fiscal 2010, representing a 7.2% Compounded Annual Growth Rate (CAGR) over 2000 levels.

The healthcare industry represents a significant portion of the U.S. economy and is expected to experience tremendous growth as the U.S. population ages, life expectancy increases, medical technology improves and health-related information becomes more accessible. CMS estimates that annual growth in national health care expenditures will average 6.2% between 2008-2018.

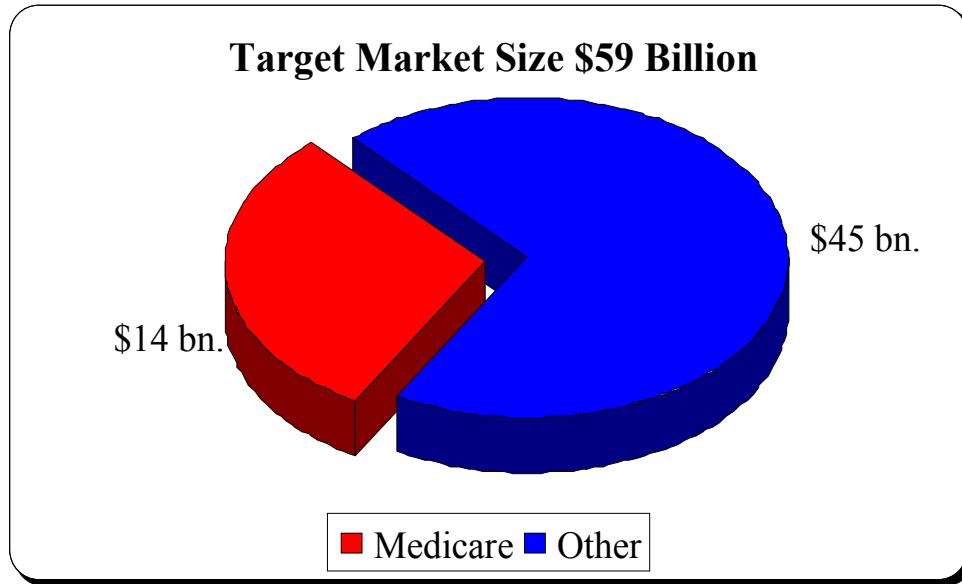
A key trend contributing to the increase in demand for healthcare services is the aging population. The U.S. Bureau of the Census estimates that, by 2030, the senior segment will double in size and represent approximately 20% of the U.S. population. The combined effects of

greater healthcare expenditures by seniors and the increased number of seniors are expected to result in significant growth in the healthcare industry.



Home Health Agencies

The home health care business involves agencies that provide skilled and unskilled nursing, speech and occupational therapy, drug therapy, rehabilitation, and selected other unskilled services such as non-medical personal care and supportive home care to over 3.5 million patients according to industry reports. As the name indicates, treatment and services are provided in the patient's home as an alternative to other traditional settings such as hospitals, outpatient clinics or nursing homes. Treatment in a patient's home leads to greater comfort and convenience for the patient and potentially substantial cost savings to the payors such as Medicare, Medicaid, and private insurance. Freestanding Home Health Agency ("HHA") spending totaled \$59 billion in 2007, an 11.2% increase over the prior year, making it the fastest growing segment of healthcare.



Financial Statement Analysis & Forecast

The primary consideration in valuing a business depends on its financial performance. Buyers review historical financial statements for trends and stability and use these numbers as a basis for determining the future earnings potential of the business. A company's value is generally based on its ability to generate future earnings and the risk associated with producing the cash flows.

Since the financial statements of many privately held companies are managed to minimize taxable income rather than maximize profits, an analysis of the financial statements is critical to understating the company's value. The company's financial statements generally require adjustments to reflect the earnings capacity of the business without consideration of an owner's personal tax strategy. These adjustments are made to reflect a more accurate earnings capacity of the company. The most commonly used methods to measure and value small business earnings are Seller's Discretionary Cash Flow (SDCF) and Free Cash Flow (FCF).

Sellers Discretionary Cash Flow

SDCF represents a recasting of the Company's earnings to reflect expenses associated with the current ownership which may or may not be incurred under new ownership. In this report, SDCF is calculated as follows:

1. Net Operating Income (income before taxes and interest, also known as EBIT)
2. Plus reported compensation for a single working owner
3. Plus above-market rate reported compensation for any other working owners
4. Plus depreciation
5. Plus amortization
6. Plus any non-recurring expenses
7. Plus expenses not related to operating the business

Since this business has two working owners, both owner wages were adjusted to an estimated market wage and only the wages from one owner were used to calculate SDCF.

Free Cash Flow

Free cash flow (also called Net Cash Flow) is the sum of net income plus non cash adjustments. FCF represents how much “cash” the business generates after taxes rather than accounting profits. This generally differs from accounting profits because some of the revenues and expenses listed on a typical income statement are not actual cash transactions during the year or are not reported on the income states; i.e. depreciation and capital expenditures. For private company’s, adjustments must also be made for non-business related expenses. In this report, Net Cash Flow is calculated as follows:

1. Net income (after taxes and adjustments for any non business expenses)
2. Plus depreciation
3. Plus amortization
4. Changes in working capital
5. Less capital expenditures

Although there is not specific “rule”, SDCF is generally more applicable for valuing small businesses and FCF is a better measure for larger companies.

Reconstructed Income Statement

Bridge was provided historical financial statements and future growth projections for the subject business. Bridge has not audited this information for accuracy and in preparing this report we have taken these financial statements and projections as true and accurate. Below is a summary

of the most recent annual Income Statements of the business adjusted to reflect the historical and current sustainable earnings capacity of the business.

Summary Reconstructed Income Statement										
	2007	2008	2009	2010 (YTD)	2010 (A)	% of Revenues				
	2007	2008	2009	2010 YTD	2010 (A)	2007	2008	2009	2010 YTD	2010 (A)
Sales	1,231,972	1,193,068	1,079,466	1,064,339	1,419,118	100.0%	100.0%	100.0%	100.0%	100.0%
Operating Expenses	1,103,950	1,091,527	992,091	894,523	1,192,697	89.6%	91.5%	91.9%	84.0%	84.0%
Reported Operating Income	128,022	101,541	87,375	169,816	226,422	10.4%	8.5%	8.1%	16.0%	16.0%
Adjustments										
(1) Owner Compensation Expense	124,800	124,800	129,600	91,200	121,600	10.1%	10.5%	12.0%	8.6%	8.6%
(2) Co-op Advertising Fee Increase (est.)	-	-	(15,636)	(12,632)	(16,842)	0.0%	0.0%	-1.4%	-1.2%	-1.2%
(3) Royalty Fee Increase (est.)	-	-	(5,392)	(5,346)	(7,128)	0.0%	0.0%	-0.5%	-0.5%	-0.5%
(4) Adjust Owner #1 to market	(45,000)	(45,000)	(45,000)	(33,750)	(45,000)	-3.7%	-3.8%	-4.2%	-3.2%	-3.2%
(5) Adjust Owner #2 to market	(45,000)	(45,000)	(45,000)	(33,750)	(45,000)	-3.7%	-3.8%	-4.2%	-3.2%	-3.2%
Total Adjustments	34,800	34,800	18,572	5,722	7,629	2.8%	2.9%	1.7%	0.5%	0.5%
Sustainable Net Operating Income	162,822	136,341	105,947	175,538	234,051	13.2%	11.4%	9.8%	16.5%	16.5%
Non-operating Income/Expenses										
- Interest expense	-	-	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%
+ Other/interest income	71	-	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%
- Income taxes (estimated)	35,805	29,995	23,308	38,618	51,491	2.9%	2.5%	2.2%	3.6%	3.6%
Net Income	127,088	106,346	82,639	136,920	182,560	10.3%	8.9%	7.7%	12.9%	12.9%
EBITDA										
+ Interest	(71)	-	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%
+ Taxes	35,805	29,995	23,308	38,618	51,491	2.9%	2.5%	2.2%	3.6%	3.6%
+ Depreciation	-	-	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%
+ Amortization	997	997	997	-	-	0.1%	0.1%	0.1%	0.0%	0.0%
Sustainable EBITDA	163,819	137,338	106,944	175,538	234,051	13.3%	11.5%	9.9%	16.5%	16.5%
+/- Change in WC	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%
- CAPEX	-	-	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%
Free Cash Flow	162,319	135,838	105,444	174,038	232,551	13.2%	11.4%	9.8%	16.4%	16.4%
SDCF										
EBITDA + Manager Wage	45,000	45,000	45,000	33,750	45,000	3.7%	3.8%	4.2%	3.2%	3.2%
SDCF	208,819	182,338	151,944	209,288	279,051	16.9%	15.3%	14.1%	19.7%	19.7%

As previously stated, adjustments to reported income have been made to reflect expenses associated with the current ownership which may or may not be incurred under new ownership to arrive at a sustainable net operating income for the business. Description of Adjustments:

1. Owner's wages paid through the company.
2. Co-op Advertising fees charged by the Franchisor will be higher for a new owner versus than those currently being paid. Based on monthly reported revenues, Bridge has estimated the higher fees and included the incremental increase as an additional expense in 2009 and 2010. An analysis of 2007 and 2008 was not conducted.
3. Royalty fees charged by the Franchisor will be higher for a new owner versus than those currently being paid. Based on monthly reported revenues, Bridge has estimated the higher fees and included the incremental increase as an additional expense in 2009 and 2010. An analysis of 2007 and 2008 was not conducted.

4. Adjustment to add in a market-based salary of an employee for the business to replace the owner.
5. Adjustment to add in a market-based salary of an employee for the business to replace the owner.

Tax Return data was used for 2007 through 2009. Internal financial statements provided by management were used for “2010 YTD” data which represents the year-to-date period January through September 2010. “2010 (A)” was calculated by Bridge by annualizing the YTD data; i.e. 2010 YTD data divided by twelve and then multiplied by 9. Annualizing data is not the same as forecasting data. A detailed comparative income statement review is provided in Appendix I. The Franchise Fee Analysis used to estimate the increased fees can be viewed in Appendix II.

Reconstructed Balance Sheet

The clients provided Bridge with the most recent Balance Sheet for the company. Based on our review of the data and discussion with management, we have made a number of adjustments to the Balance Sheet to reflect a “Base Balance Sheet” that a new owner would potential have. Each adjustment to the current balance sheet is noted with comments provided below:

Reconstructed Balance Sheet				
Assets	Current	Adjustment	Base	
Current Assets				
Cash	56,125	(56,125)	1	-
Accounts Receivables	54,000	-	2	54,000
Investments	-	-		-
Deposits	-	-		-
Inventory	-	-		-
Other Current Assets	-	-		-
Total Current Assets	110,125			54,000
Fixed Assets				
Furniture, Fixtures, & Equip.	-	20,000	3	20,000
Franchise License	14,950	(14,950)	4	-
Note Receivable from Shareholder	8,500	(8,500)	5	-
Total Fixed Assets	23,450			20,000
Less accumulated amortization	(5,980)	5,980	6	-
Net Fixed Assets	17,470			20,000
Other Assets	-			-
Total Assets	127,595	(53,595)		74,000
Liabilities				
Current Liabilities				
Accounts Payable	61	-	7	-
Accruals	-	-		-
Short term portion of LTD	-	-		-
Other current liab.	-	-		-
Total Current Liabilities	61			-
Long-Term Liabilities				
Long term debt	-	-		-
Shareholder loans	-	-		-
Mortgages	-	-		-
Total Long Term Liabilities	-			-
Total Liabilities	61	-		-
Equity	127,534			74,000
Total Liabilities + Equity	127,595			74,000
Working Capital	110,064			54,000
DSO	13.9			13.9

Description of Adjustments:

1. Cash on hand has been adjusted down to zero. In most small business transactions cash is excluded from the actual sales price/transactions since this amount can vary daily but the amount necessary to effectively run the business should still be included in the valuation analysis.
2. The September 30, 2010 balance sheet provided by the owner had an Accounts Receivable balance of negative \$1,043. The company prepares its financial statements on a cash basis which could effect the balance in this account. A separate Accounts Receivable (billing) report showed an outstanding balance of approximately \$54,000. According to the owner, the accounts receivable balance ranges from \$25,000 to

- \$55,000 depending on when bills are processed. Since most clients are cash based payers, the company has a very good AR turnover (or Days Sales Outstanding) and very little bad debt. Bridge adjusted the balance sheet to reflect this \$54,000 outstanding AR balance to provide a more accurate reflection of the businesses financial position. It is assumed that AR will be sold with the business.
3. Furniture, Fixtures, and Equipment are normally adjusted to and reported at fair-market value in a transaction. We have relied on information provided by management and made an estimate of the fair market value (replacement) cost for this adjustment.
 4. Franchise License represents the owner's initial investment in the franchise license. The amount has been removed since a new owner would have a new franchise license and corresponding amortization schedule.
 5. Note Receivable from shareholder – this would not transfer with a sale and hence was removed from the balance sheet.
 6. Accumulated amortization has been removed since a new owner would have a new amortization schedule.
 7. Accounts Payable has been reduced to zero. It is assumed that all preclosing liabilities will be paid by the seller.

For purposes of this report we have also included several balance sheet related items (working capital and DSO) that are used in certain valuation methods employed in our analyses.

Funded debt normally relates to how a business owner has elected to finance the growth and operations of the business. Much like a home mortgage, it has no impact on the fair market value of the company to a third party.

Valuation Methods Utilized

There are many ways to value a business but most techniques fall under three basic categories:

1. Asset approach
2. Income Approach

3. Market Approach

Under each approach there are multiple methods that are available. Each method has its own procedures, strengths, and weaknesses. No one business valuation technique is definitive and all are subject to variations depending on the person performing the calculations. It is common practice, and Bridge's practice, to employ several business valuation techniques and then reconcile the results from each method to determine the estimated value. We assign a weight to each of our calculated results and sum the individual weighted averages to derive at the estimated business value presented in this report.

Asset Approach

Asset based valuation approaches focus on the underlying business assets in order to calculate value. This approach relies on the principle of substitution and estimates the cost of replacing or replicating the assets of the business. Many of these approaches do not take into account the "goodwill" or intangible assets of the business and are not appropriate for valuing an on-going concern. Conversely, some businesses, especially manufacturing, might have more hard assets than the business is worth.

For this assignment, Bridge uses the Capitalized Excess Earnings method to estimate the value of the business. This method take into account a fair return on the company's assets employed in operations and the earnings power generated by these assets in the specific business.

Income Approach

Income based methods of valuation are based on the premise that the value of a business is based on its ability to generate earnings (income) and that buyers value this income stream versus other investment alternatives. Income approaches estimate the earnings potential of the business relative to the risk associated with receiving the earnings.

The risk of a business is typically quantified by risk-multipliers and/or capitalization rates (discussed later in this report). Earnings are generally estimated at a single point in time or forecasted over a future period. Direct capitalization valuation methods use a single earnings amount while discounted cash flow methods use a forecasted income stream.

In this report, Bridge utilizes three income approaches to value the business:

1. Income Capitalization
2. Multiple of earnings
3. Discounted cash flow

Market Approach

Market approach valuation methods are based on reviewing comparable sales data to see what other similar businesses sold for. This technique is very prevalent in residential real estate and in public company analyses. It relies on the premise of competition and values determined by the market. Private company data is harder to both gather and compare than both residential real estate and public company transactions as many times the information is not reported or the accuracy of the data can be questionable. Additionally, reported data often is not adjusted for transaction terms which can affect value substantially. Even with its shortcomings, this is still a very good technique since it reflects “what the market will bear” and ultimately, a business is only worth what someone is willing to pay.

Valuation Results

Bridge performed multiple valuation techniques on the subject business and then weighted the results accordingly. Both summary results and a detail of each method utilized are presented in this report.

Summary Valuation Results

Six different valuation methods were employed in this assignment. Bridge estimated the company’s value under each method. Weights were then assigned to the values for this particular business based on Bridge’s subjective judgment and experience. Based on the weighted average values calculated, Bridge estimates the fair market value of the business as follows:

Summary Valuation Results				
	Type	Weight	Value	Weighted Value
Capitalized Excess Earnings	Asset	15.0%	\$1,068,390	\$160,258
Multiple of EBITDA	Income	0.0%	\$0	\$0
Multiple of SDCF	Income	20.0%	\$894,254	\$178,851
Income Capitalization	Income	0.0%	\$0	\$0
Income Capitalization (SDCF)	Income	15.0%	\$901,989	\$135,298
Discounted Cash Flow	Income	30.0%	\$1,006,824	\$302,047
Market Comparable - Sales	Market	10.0%	\$1,002,360	\$100,236
Market Comparable - Cash Flow	Market	10.0%	\$845,930	\$84,593
		100.0%		\$961,284
Estimated Business Value				\$961,284

Asset Based

Capitalized Excess Earnings

To estimate the value of the company's value under the Asset Approach, Bridge selected the Capitalized Excess Earnings method as being the most appropriate. Bridge also considered the book value and asset value approached but did not believe they were appropriate for this assignment.

The capitalized excess earnings method determines the business value as the sum of:

1. Fair market value of the company's net tangible assets
2. Business goodwill

It separates the value of the company's operating assets from its goodwill. Net tangible assets are the difference between the total operating assets used to run the business less its current liabilities. The replacement cost or fair market value of the operating assets is used in the calculations. Bridge relied on the owner's estimate of FMV for the assets and liabilities and did not conduct a separate market analyses for these items which was beyond the scope of this report.

Business goodwill is derived from capitalizing the value of the "excess earnings" of the business. Excess earnings is the earnings over and above a fair rate of return on the company's net tangible