

Attorney or Party Name, Address, Telephone & FAX Nos., State Bar No. & Email Address Leonard M. Shulman – Bar No. 126349 Elyza P. Eshaghi – Bar No. 293395 SHULMAN HODGES & BASTIAN LLP 100 Spectrum Center Drive, Suite 600 Irvine, California 92618 Telephone: (949) 340-3400 Facsimile: (949) 340-3000 Email: lshulman@shbllp.com; eeshaghi@shbllp.com	FOR COURT USE ONLY
<input type="checkbox"/> Individual appearing without attorney <input checked="" type="checkbox"/> Attorney for: Arturo Cisneros, Chapter 7 Trustee	

**UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA - RIVERSIDE DIVISION**

In re: ANGELA M. ARENTS, Debtor(s).	CASE NO.: 6:16-bk-13620-SC CHAPTER: 7 <p style="text-align: center;">NOTICE OF SALE OF ESTATE PROPERTY</p>
---	---

Last Day to Submit Bids: 8/23/16 by 5:00 p.m. (PST)

Sale Date: Final Bidding Round/Court Hearing: 8/30/16	Time: 11:00 am
Location: United States Bankruptcy Court, 3420 Twelfth Street, Video Hearing Room 126, Riverside, CA 92501	

Type of Sale: Public Private **Last date to file objections:** 08/16/2016

Description of property to be sold: Assets of Sole Proprietorship, Synergy Workforce Solutions as follows:
comprehensive software platform licensed by SAASHR-Kronos, customer list of Synergy Workforce Solutions, and
goodwill of Synergy Workforce Solutions.

Terms and conditions of sale: Free and clear of liens, if any, pursuant to Bankruptcy Code §§ 363(b)(1) and (f)
Purchase price of \$300,000.00, subject to overbids. See attached Auction Motion for Bidding Procedures.

Proposed sale price: \$ 300,000.00

This form is mandatory. It has been approved for use in the United States Bankruptcy Court for the Central District of California.

Overbid procedure (if any): Potential overbidders must bid an initial amount of \$300,000.00 and pay an initial deposit of \$15,000.00. Minium bid increments after that shall be \$5,000.00. See Attached Auction Motion.

If property is to be sold free and clear of liens or other interests, list date, time and location of hearing:

August 30, 2016 at 11:00 a.m.

Video Hearing Room 126

U.S. Bankruptcy Court

3420 Twelfth Street

Riverside, CA 92501

Contact person for potential bidders (include name, address, telephone, fax and/or email address):

Elyza P. Eshaghi, Esq.

SHULMAN HODGES & BASTIAN LLP

100 Spectrum Center Drive, Suite 600

Irvine, CA 92618

Telephone: (949) 340-3400

Facsimile: (949) 340-3000

Email: eeshaghi@shbllp.com

Date: 07/29/2016

1 Leonard M. Shulman – Bar No. 126349
Elyza P. Eshaghi – Bar No. 293395
2 **SHULMAN HODGES & BASTIAN LLP**
100 Spectrum Center Drive, Suite 600
3 Irvine, California 92618
Telephone: (949) 340-3400
4 Facsimile: (949) 340-3000
Email: lshulman@shbllp.com;
5 eeshaghi@shbllp.com

6 Attorneys for Arturo Cisneros,
Chapter 7 Trustee
7

8 **UNITED STATES BANKRUPTCY COURT**
9 **CENTRAL DISTRICT OF CALIFORNIA, RIVERSIDE DIVISION**
10

11 In re
12 **ANGELA M. ARENTS,**
13 Debtor.
14

Case No. 6:16-bk-13620-SC

Chapter 7

**CHAPTER 7 TRUSTEE’S MOTION FOR
ORDER:**

(1) **APPROVING THE AUCTION OF
PERSONAL PROPERTY OF THE
ESTATE PURSUANT TO 11 U.S.C. §§
363(B)(1) AND (F); AND**

(2) **GRANTING RELATED RELIEF;**

**MEMORANDUM OF POINTS AND
AUTHORITIES AND DECLARATION OF
ARTURO CISNEROS IN SUPPORT
THEREOF**

Hearing

Date: August 30, 2016

Time: 11:00 a.m.

Place: Video Hearing Courtroom 126
United States Bankruptcy Court
3420 Twelfth Street
Riverside, CA 92501

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

TABLE OF CONTENTS

I. INTRODUCTION 4

II. RELEVANT FACTS 5

 A. Case Commencement..... 5

 B. Claims against the Estate 5

 C. Assets to be Sold at Auction 5

 D. Licensor’s Conditions on Sale of the License and Trustee’s Efforts to Comply..... 6

 E. Substantive Consolidation 7

 F. Proposed Auction Terms..... 7

 G. Bidding Procedures..... 8

III. ARGUMENT 10

 A. The Court May Authorize the Auction 10

 1. Sound Business Purpose 10

 2. The Auction Serves the Best Interest of Creditors..... 11

 3. Accurate and Reasonable Notice 11

 4. The Sale is Made in Good Faith 12

 B. The Court has the Authority to Approve the Bid Procedures..... 12

 C. The Trustee May Reserve the Estate’s Rights for Reimbursement of Costs Associated with Preservation and Disposal of Collateral 13

 D. Sale of Assets Free and Clear of Liens and Encumbrances Should be Permitted..... 13

 E. The Court has the Authority to Waive the Fourteen-Day Stay of Sale 14

IV. CONCLUSION..... 14

DECLARATION OF ARTURO CISNEROS 16

TABLE OF AUTHORITIES

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

CASES

In re Continental Air Lines, Inc.,
780 F.2d 1223 (5th Cir. 1986) 10

In re Crowthers McCall Pattner, Inc.,
114 B.R. 877, 885 (Bankr. S.D.N.Y. 1990)..... 10

In re Lionel Corp.,
722 F.2d 1063 (2d Cir. 1983)..... 10

In re Wilde Horse Enterprises, Inc.,
136 B.R. 830, 841 (Bankr. C.D. Cal. 1991)..... 10, 12

STATUTES

11 U.S.C. § 102(1) 11

11 U.S.C. § 105(a) 12

11 U.S.C. § 363(b) 10, 12, 16

11 U.S.C. § 363(f)..... 13

11 U.S.C. § 363(m)..... 12

11 U.S.C. § 506(c) 13

RULES

Federal Rule Bankruptcy Procedure 2002(c)(1) 11

Federal Rule Bankruptcy Procedure 6004 (h) 14

Federal Rule of Bankruptcy Procedure 2002 11

1 **II. RELEVANT FACTS**

2 **A. Case Commencement**

3 The Debtor filed a voluntary petition under Chapter 7 of the Bankruptcy Code on April
4 22, 2016 (“Petition Date”) in the United States Bankruptcy Court, Central District of California,
5 initiating Case No. 6:16-bk-13620-SC (“Bankruptcy Case”). (*See* Request for Judicial Notice
6 (“RJN”), Ex. 1).

7 Arturo Cisneros is the duly-appointed, qualified, and acting Chapter 7 Trustee for the
8 Debtor’s Estate. (*Id.*)

9 **B. Claims against the Estate**

10 The claims bar date has not been set in this case, however, Debtor’s Schedules indicate
11 that there is a total of \$822,385.00 in unsecured debt in this case, \$800,000.00 of which is owed to
12 Onepoint Human Capital Management (“Onepoint”). (RJN, Ex. 2.) In addition to being the
13 Debtor’s largest creditor, Onepoint is believed to be the Synergy’s (defined below) largest
14 creditor. (*See* Declaration of Arturo Cisneros (“Cisneros Decl.”), ¶ 3.)

15 **C. Assets to be Sold at Auction**

16 The Debtor lists her forty-nine-percent (49%) ownership interest in Synergy on her
17 Schedule A/B. (RJN, Ex. 3.) The Debtor’s husband, David Arents, holds the other forty-nine-
18 percent (49%) interest in Synergy. Colburn Insurance Service, Inc. (“Colburn”) holds the
19 remaining two-percent (2%) interest in Synergy. (Cisneros Decl., Ex. 5.) The Debtor is the sole
20 officer, director, and president of Synergy. (*Id.*)

21 Synergy Group Inc. (“Synergy”) is a human-resource management consulting business
22 with over 140 clients and is incorporated in California. (*Id.*) Synergy’s entire program is built
23 around a comprehensive software platform (“License”) licensed by SAASHR-Kronos
24 (“Licensor”). Without the License, Synergy could not operate. (*Id.*)

25 On or about April 21, 2016, one day prior to the Petition Date, Synergy ceased operating.
26 (*See* Question No. 27 of the Debtor’s Statement of Financial Affairs attached to the RJN, Ex. 4.)

27 Prior to ceasing operations, Synergy employed approximately five employees. (Cisneros
28 Decl., ¶ 6.)

1 On or about April 20, 2016, two days prior to the Petition Date, the Debtor began
2 operating her sole proprietorship, Synergy Workforce Solutions (“Synergy Workforce”). (*See*
3 Question No. 27 of the Debtor’s Statement of Financial Affairs attached to the RJN, Ex. 4.)

4 Synergy Workforce is a human-resource management consulting business that provides
5 the same services as Synergy. (Cisneros Decl., Ex. 5.) Synergy Workforce’s entire program is
6 built around the same License currently held by Synergy. (Cisneros Decl., ¶ 4.) Without the
7 tangential agreement to use the License held by Synergy, Synergy Workforce could not continue
8 to operate. (*Id.*) Synergy Workforce has approximately one-hundred and thirty (130) clients,
9 approximately five (5) of which were not clients of Synergy prior to it ceasing operations
10 (“Clients”). (Cisneros Decl., ¶ 6.) Synergy Workforce employs the same five (5) employees that
11 were previously employed by Synergy, plus approximately one additional employee that was not
12 previously employed by Synergy. (*Id.*)

13 Through this Motion, the Trustee seeks to administer the Estate’s interest in the License,
14 Clients, and the goodwill of Synergy Workforce (the License, Clients, and goodwill of Synergy
15 Workforce are collectively referred to herein as the “Assets”). (Cisneros Decl., ¶ 7.)

16 Based on the business brokerage appraisal prepared on May 24, 2016, the Trustee believes
17 the Assets are worth approximately \$350,000.00. (*Id.*) In order to solicit overbids, the Trustee
18 intends to set the initial auction price at \$300,000.00. (*Id.*)

19 **D. Licensor’s Conditions on Sale and Trustee’s Efforts to Comply**

20 In order to administer Synergy Workforce as a going concern, and prevent termination of
21 the License, the Trustee is required to work within the confines set by the Licensor. (Cisneros
22 Decl., ¶8.) The conditions placed by the Licensor, on assignment of the License, are that the
23 Successful Bidder be an existing licensee of the Licensor and that the Trustee move to administer
24 the License on or before July 29, 2016. (*Id.*) If the Trustee does not move to administer the
25 license by July 29, 2016, the Licensor will terminate the License and the Trustee will be
26 effectively estopped from administering the only Estate asset with equity to administer, Synergy
27 Workforce. (*Id.*)

28 ///

1 Since on or about June 16, 2016, the Trustee has solicited offers for the Assets from
2 interested parties, including but not limited, the Estate’s largest creditor, Onepoint. (*Id.*)
3 Unfortunately, while multiple parties have expressed significant interest in purchasing the Assets,
4 the parties have been unable to consummate a sale agreement by the July 29, 2016 deadline set in
5 place by the Licensor. (*Id.*) Accordingly, in efforts to preserve the Estate and administer the
6 Assets to the interested parties as a going concern, the Trustee hereby moves the Court for
7 authority to auction the Assets to interested parties. (*Id.*) The auction will allow the Trustee to
8 work within the Licensor’s conditions and enable the Trustee to procure the highest and best offer
9 for the Estate. (*Id.*)

10 **E. Substantive Consolidation**

11 On July, 7, 2016, given the entanglement of the assets and liabilities, creditor’s reliance,
12 and concerns regarding ownership of the Assets, the Trustee, the Debtor, and Synergy, filed a
13 Stipulation to Consolidate Synergy into the Estate (the “Stipulation”), Docket No. 28. (RJN, Ex.
14 1.)

15 On July 25, 2016, Onepoint filed its Objection to the Stipulation (the “Objection”), Docket
16 No. 36. (*Id.*) The primary basis for the Objection is potential dissolution of Onepoint’s claim
17 against the Estate.

18 On July 28, 2016, the Trustee filed his Notice of Hearing on the Stipulation, setting the
19 Stipulation for hearing on August 16, 2016. (*Id.*) The hearing on the Stipulation is set prior to the
20 hearing on the instant Motion, therefore, the Trustee believes that matters related to consolidation
21 of Synergy into the Estate will be resolved prior to auctioning the available Assets.

22 **F. Proposed Auction Terms**

23 The terms of the Asset auction are as follows (the Trustee is referred to at times as the
24 “Seller” in the following summary):

25 ///

26 ///

27 ///

28

1	Purchase Price:	\$300,000.00, subject to the Bid Procedures set forth below. \$15,000.00 initial deposit (5% of the purchase offer). Balance of purchase price to be paid to the Trustee in certified funds in a manner that ensures the Trustee receives payment within twenty (20) days of entry of a final order on the Motion.
2		
3	Eligible Bidders	In order to bid on the Assets, the bidder must be an existing licensee of the Licensor.
4		
5	Disclosure or Warranty	As the Seller is a federal bankruptcy trustee, there will be no warranties or disclosures made concerning the Assets.
6	“As-Is” Sale	The Successful Bidder is purchasing the Assets from the Seller “AS IS” without warranties of any kind, expressed or implied, being given by the Seller, concerning the condition of the property or the quality of the title thereto, or any other matters relating to the Assets. The Successful Bidder represents and warrants that he/she/it is purchasing the Assets as a result of his/her/its own investigations and is not buying the Assets pursuant to any representation made by any broker, auctioneer, agent, accountant, attorney or employee acting at the direction, or on the behalf of the Seller. Successful Bidder acknowledges that he/she/it has inspected the Assets, and upon closing of the sale, the Successful Bidder forever waives, for itself, its heirs, successors and assigns, all claims against the Debtor, her attorneys, agents and employees, the Estate, Arturo Cisneros as Trustee and individually, and his attorneys, the law firm of Shulman Hodges & Bastian, his agents and employees, arising or which might otherwise arise in the future concerning the Assets. Because the auction of the Assets is a bankruptcy sale, the sale shall be “as-is” and without any warranties (whatsoever), and any transfer shall be made by the Trustee assigning the Estate’s interest in the Assets to the Successful Bidder.
7		
8		
9		
10		
11		
12		
13		
14		
15	Bankruptcy Court Approval	The auction of the Assets is contingent upon Bankruptcy Court approval.
16		
17	Jurisdiction of the Bankruptcy Court	Any and all disputes in connection with the auction of the Assets are subject to the exclusive jurisdiction and venue of the United States Bankruptcy Court, Central District of California, Riverside Division.
18		
19	Auction Subject to Overbidding	The sale of the Assets is subject to the Bid Procedures defined below.

20 **G. Bidding Procedures**

21 In light of the time constraint, the Trustee has determined that it would benefit the Estate
22 to hold an auction to allow all interested parties to receive information and bid for the Assets
23 rather than sell the Assets on an exclusive basis. Accordingly, in order to obtain the highest and
24 best offer for the benefit of the creditors of this Estate, the Trustee is utilizing and also seeks
25 Court approval of the following bid procedures (“Bid Procedures”):

26 ///

27 ///

28

1 1. Potential bidders must bid an initial amount of at least \$300,000.00. Minimum
bid increments thereafter shall be \$5,000.00. The Trustee shall have sole discretion in
2 determining which overbid is the best for the Estate and will seek approval from the Court of the
same.

3 2. Bids must be in writing and be received by the Trustee and the Trustee's counsel,
Shulman Hodges & Bastian LLP to the attention of Elyza P. Eshaghi on or before **5:00 p.m.**
4 **(California time) on August 23, 2016.** Bids must be accompanied by certified funds in an
amount equal to five-percent (5%) of the overbid purchase price, or in other words, \$15,000.00
5 ("Deposit").

6 3. The bidder must also provide evidence of having sufficient specifically committed
funds to complete the transaction or a lending commitment for the bid amount and such other
7 documentation relevant to the bidder's ability to qualify as the purchaser of the Assets and ability
to close the sale and immediately and unconditionally pay the winning bid purchase price at
8 closing.

9 4. All competing bids must acknowledge that the Assets are being sold on an "AS
IS" basis without warranties of any kind, expressed or implied, being given by the Seller,
concerning the condition of the Assets or the quality of the title thereto, or any other matters
10 relating to the Assets. The competing bid buyer must represent and warrant that he/she/it is
purchasing the Assets as a result of their own investigations and are not buying the Assets
11 pursuant to any representation made by any broker, auctioneer, agent, accountant, attorney or
employee acting at the direction, or on the behalf of the Seller. The competing bidder must
12 acknowledge that he/she/it has inspected the Assets, and upon closing of the sale, the Successful
Bidder forever waives, for himself/herself/itself, their heirs, successors and assigns, all claims
13 against the Debtor, her attorneys, agents and employees, the Debtor's Estate, Arturo Cisneros as
Trustee and individually, and his attorneys, Shulman Hodges & Bastian LLP, his agents and
14 employees, arising or which might otherwise arise in the future concerning the Assets.

15 5. If overbids are received, the final bidding round shall be held at the hearing on the
Motion (**August 30, 2016 at 11:00 a.m., California Time, at the U.S. Bankruptcy Court,**
16 **Video Hearing Courtroom 126, 3420 Twelfth Street, Riverside, California 92501**), or if
rescheduled, upon telephonic notice to the parties having submitted overbids. At the final
17 bidding round, the Trustee or his counsel will, in the exercise of their business judgment and
subject to Court approval, accept the bidder who has made the highest and best offer to purchase
18 the Assets, consistent with the Bid Procedures ("Successful Bidder").

19 6. At the hearing on the Motion, the Trustee will seek entry of an order, *inter alia*,
authorizing and approving the sale of the Assets to the Successful Bidder. The hearing on the
20 Motion may be adjourned or rescheduled without notice other than by an announcement of the
adjourned date at the hearing on the Motion.
21

22 7. In the event the Successful Bidder fails to close on the sale of the Assets within
the time parameters approved by the Court, the Trustee shall retain the Successful Bidder's
23 Deposit and will be released from his obligation to sell the Assets to the Successful Bidder and
the Trustee may then sell the Assets to the First Back-Up Bidder approved by the Court.

24 8. In the event First Back-Up Bidder fails to close on the sale of the Assets within
the time parameters approved by the Court, the Trustee shall retain the First Back-Up Bidder's
25 Deposit and will be released from his obligation to sell the Assets to the First Back-Up Bidder
and the Trustee may then sell the Assets to the Second Back-Up Bidder approved by the Court.
26

27 ///

28 ///

1 **III. ARGUMENT**

2 **A. The Court May Authorize the Auction**

3 The Trustee may sell property of the estate outside of the ordinary course of business. 11
4 U.S.C. § 363(b). In order to do so, the Trustee must establish that: (1) there is a sound business
5 purpose for the sale, (2) that the sale is in the best interests of the estate, i.e., the sale is for a fair
6 and reasonable price, (3) that there is accurate and reasonable notice to creditors, and (4) that the
7 sale is made in good faith. *In re Wilde Horse Enterprises, Inc.*, 136 B.R. 830, 841 (Bankr. C.D.
8 Cal. 1991); *In re Lionel Corp.*, 722 F.2d 1063, 1069 (2d Cir. 1983). A sound business purpose
9 includes the need to close on a sale to one of very few serious bidders where an asset has been
10 shopped and a delay could jeopardize the transaction. *See, e.g., In re Crowthers McCall Pattner,*
11 *Inc.*, 114 B.R. 877, 885 (Bankr. S.D.N.Y. 1990) (extreme difficulty finding a buyer justified
12 merger when buyer found). One of the most of the most important factors to consider when
13 examining whether there is a sound business purpose for the sale is whether a major asset is
14 losing value. As set forth below, the Trustee's proposed sale of the Assets meets the foregoing
15 criteria.

16 **1. Sound Business Purpose**

17 The Ninth Circuit has adopted a flexible, case-by-case test to determine whether the
18 business purpose for a proposed sale justifies disposition of property of the estate under 11
19 U.S.C. § 363(b). *In re Walter*, 83 B.R. 14 (9th Cir. B.A.P. 1988). In *Walter*, the Ninth Circuit
20 Bankruptcy Appellate Panel adopted the reasoning of the Fifth Circuit Court of Appeals in *In re*
21 *Continental Air Lines, Inc.*, 780 F.2d 1223 (5th Cir. 1986), and the Second Circuit Court of
22 Appeals in *In re Lionel Corp.*, 722 F.2d 1063 (2d Cir. 1983), setting forth the following standard
23 to be applied under 11 U.S.C. § 363(b):

24 Whether the proffered business justification is sufficient depends on the case. As
25 the Second Circuit held in *Lionel*, the bankruptcy judge should consider all salient
26 factors pertaining to the proceeding and, accordingly, act to further the diverse
27 interests of the debtor, creditors and equity holders, alike. He might, for example,
28 look to such relevant factors as the proportionate value of the assets to the estate
as a whole, the amount of lapsed time since the filing, the likelihood that a plan of
reorganization will be proposed and confirmed in the near future, the effect of the
proposed disposition on future plans of reorganization, the proceeds to be
obtained from the disposition vis-a-vis any appraisals of the property, which of
the alternatives of use, sale or lease the proposal envisions and, most importantly

1 perhaps, whether the asset is increasingly or decreasing in value. This list is not
intended to be exclusive, but merely to provide guidance to the bankruptcy judge.

2 *Walter*, 83 B.R. at 19-20 (quoting *Continental*, 780 F.2d at 1226).

3 Here, the facts surrounding the sale support the Trustee's business decision that the
4 proposed auction is in the best interests of the Estate and its creditors. Through the auction, the
5 Trustee expects to generate net proceeds of no less than \$300,000.00. The estimated net
6 proceeds will benefit the Estate by providing funds for distribution to unsecured creditors. If the
7 Motion is not approved, then there will be a substantial loss to the Estate in that the Estate will
8 lose the ability to sell the only asset with equity to administer, and creditors will not receive any
9 benefit from the Assets.

10 2. The Auction Serves the Best Interest of Creditors

11 Through the competitive bidding of a public auction sale, it is anticipated that the Trustee
12 will receive the best and highest value for the Assets, and therefore, the auction serves the best
13 interests of the Estate and creditors. If the Motion is not approved, the Estate and its creditors
14 will not receive the anticipated net proceeds from the auction. As such, the proposed auction
15 sale serves the best interests of the Estate and its creditors.

16 3. Accurate and Reasonable Notice

17 It is expected that notice of this Motion will satisfy the requirements for accurate and
18 reasonable notice.

19 The notice requirements for sales are set forth in Federal Rules of Bankruptcy Procedure
20 ("FRBP") 6004 and 2002. The notice must include the time and place of any public sale and/or
21 the terms and conditions of any private sale, the time fixed for filing on objections and a general
22 description of the property. Fed. R. Bankr. P. 2002(c)(1).

23 In compliance with FRBP 2002 and 11 U.S.C. § 102(1), the Trustee shall provide notice
24 of the proposed sale of the Assets to creditors and parties in interest and parties are who have
25 expressed in interest in the Assets. The Notice of the Motion will include a summary of the
26 terms and conditions of the proposed private sale, the time fixed for filing objections, and a
27 general description of the Assets. The Trustee submits that the notice requirements will have
28

1 been satisfied, thereby allowing creditors and parties in interest an opportunity to object to the
2 sale. Hence, no further notice should be necessary.

3 **4. The Sale is Made in Good Faith**

4 The proposed sale has been brought in good faith and has been negotiated on an “arm’s
5 length” basis. The court, in *Wilde Horse Enterprises*, set forth the factors in considering whether
6 a transaction is in good faith. The court stated:

7 “Good faith” encompasses fair value, and further speaks to the integrity of the
8 transaction. Typical ‘bad faith’ or misconduct, would include collusion between
9 the seller and buyer, or any attempt to take unfair advantage of other potential
10 purchasers. . . . And, with respect to making such determinations, the court and
creditors must be provided with sufficient information to allow them to take a
position on the proposed sale.

11 *Id.* at 842 (citations omitted).

12 In the present case, the negotiation of the proposed auction sale was an arms-length
13 transaction. As set forth in the Notice of the Auction Motion, the creditors will have been
14 provided with sufficient notice of the sale. Accordingly, the sale is in good faith and should be
15 approved. The Trustee shall request such a finding pursuant to 11 U.S.C. § 363(m) at the
16 hearing on this Motion.

17 **B. The Court has the Authority to Approve the Bid Procedures**

18 After notice and hearing, the Trustee may use, sell or lease, other than in the ordinary
19 course of business, property of the estate. 11 U.S.C. § 363(b)(1). Furthermore, under 11 U.S.C.
20 § 105(a), “[t]he court may issue any order, process, or judgment that is necessary or appropriate
21 to carry out the provisions of this title.” 11 U.S.C. § 105(a). Thus, pursuant to 11 U.S.C. §§
22 363(b)(1) and 105(a), this Court may approve the Bid Procedures, which assist the Trustee to
23 obtain the best possible price on the best possible terms for the Assets.

24 ///

25 ///

26 ///

27

28

1 **C. The Trustee May Reserve the Estate's Rights for Reimbursement of Costs**
2 **Associated with Preservation and Disposal of Collateral**

3 11 U.S.C. § 506(c) provides that:

4 [t]he trustee may recover from property securing and allowed
5 secured claim the reasonable, necessary costs and expenses of
6 preserving, or disposing of, such property to the extent of any
benefit to the holder of such claim.

7 The Trustee specifically reserves any and all rights the Estate may have under 11 U.S.C.
8 § 506(c) to surcharge the collateral of any lienholder for the costs the Estate may have incurred
9 in the maintenance of their respective collateral as well as with the preservation and disposal of
10 their alleged collateral.

11 **D. Sale of Assets Free and Clear of Liens and Encumbrances Should be Permitted**

12 11 U.S.C. § 363(f) allows the Trustee to sell property of the bankruptcy estate “free and
13 clear of any interest in such property of an entity,” if any one of the following five conditions is
14 met:

15 (1) applicable non-bankruptcy law permits a sale of such property
free and clear of such interest;

16 (2) such entity consents;

17 (3) such interest is a lien and the price at which such property is to
18 be sold is greater than the aggregate value of all liens on such
property;

19 (4) such interest is in bona fide dispute; or

20 (5) such entity could be compelled, in a legal or equitable
proceeding, to accept money satisfaction of such interest.

21 11 U.S.C. § 363(f).

22 11 U.S.C. § 363(f) is written in the disjunctive and thus only one of the enumerated
23 conditions needs to be satisfied for Court approval to be appropriate.

24 In this case, the Assets are being sold for a starting bid price of \$300,000.00 and there are
25 no liens encumbering the Assets. Accordingly, the sales price in this case is for a sum that is
26 greater than the aggregate value of all non-disputed liens against the Assets and the sale should
27 be approved free and clear of any liens.

28 ///

1 **E. The Court has the Authority to Waive the Fourteen-Day Stay of Sale**

2 FRBP 6004(h) provides that “[a]n order authorizing the use, sale or lease of property
3 other than cash collateral is stayed until the expiration of 14 days after entry of the order, unless
4 the Court orders otherwise.” Fed. R. Bankr. Pro. 6004 (h).

5 The Trustee desires to close the auction of the Assets as soon as practicable after entry of
6 an order approving the auction. Accordingly, the Trustee requests that the Court, in the
7 discretion provided it under FRBP 6004 (h), waive the fourteen-day stay requirement.

8 **IV. CONCLUSION**

9 **WHEREFORE**, based upon the foregoing, the Trustee respectfully submits that good
10 cause exists for granting the Motion and requests the Court enter an order as follows:

11 1. Approving the auction sale of the Assets, to the highest bidder, free and clear of
12 all liens and encumbrances pursuant to 11 U.S.C. § 363 (b) and (f), with such liens and
13 encumbrances to attach to the proceeds of the auction sale in the same validity and priority as
14 prior to the Petition Date, subject to any agreement with the lienholder or further order of the
15 Court;

16 2. Approving the bid procedures set forth herein;

17 3. Authorizing the Trustee to sign any and all documents convenient and necessary
18 in pursuit of the auction of the Assets as set forth above, including, but not limited to, any and all
19 conveyances contemplated by the auction;

20 4. Reserving any and all rights the Estate may have under 11 U.S.C. § 506(c) to
21 surcharge the collateral of any possible lienholders, for the costs the Estate may have incurred in
22 the maintenance of their respective collateral as well as with the preservation and liquidation of
23 the lienholder’s collateral;

24 5. A determination by the Court that the successful overbidder is a good faith
25 purchaser pursuant to 11 U.S.C. § 363(m);

26 ///

27 ///

28 ///

DECLARATION

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

DECLARATION OF ARTURO CISNEROS

I, Arturo Cisneros, declare:

1. I am the duly-appointed, qualified, and acting Chapter 7 Trustee for the bankruptcy estate of In re Angela M. Arents (“Debtor”) Case No. 6:16-bk-13620-SC. I have personal knowledge of the facts set forth herein, and if called an sworn as a witness, I could and would competently testify thereto, except where matter are stated on information and belief, in which case I am informed and believe that the facts so stated are true and correct.

2. I make this declaration in support of my Motion for an Order: (1) Approving the Auction of Personal Property of the Estate Pursuant to Bankruptcy Code §§ 363(b)(1) and (f); and (2) Granting Related Relief (“Motion”). Unless otherwise stated, capitalized terms not otherwise defined herein shall have the same meaning as set forth in the Motion.

3. In addition to being the Debtor’s largest creditor, I am informed and believe that Onepoint is Synergy’s largest creditor.

4. A true and correct copy of the business brokerage appraisal report prepared on May 24, 2016, I received from Debtor’s counsel is attached hereto as **Exhibit 5**. Synergy and Synergy Workforce’s entire business is built around the comprehensive software License that is serviced by the Licensor. Without the License, they could not operate.

5. I am informed by the Debtor that prior to ceasing operations, Synergy employed approximately five employees.

6. I am informed by the Debtor that Synergy Workforce has approximately one hundred and thirty (130) clients, approximately five (5) of which were not clients of Synergy prior to it ceasing operations. I am informed by the Debtor that Synergy Workforce employs the same five (5) employees that were previously employed by Synergy, plus approximately one additional employee that was not previously employed by Synergy.

7. Through this Motion, I seek to administer the Estate’s interest in the Assets. Based on the business brokerage appraisal prepared on May 24, 2016, I believe that the Assets are worth approximately \$350,000.00. In order to solicit overbids, I intends to set the initial auction price at \$300,000.00.

EXHIBIT 5



Prepared For
Angela Arents

**Synergy Group HCM, Inc.
dba Synergy Workforce Solutions**

**1353 Old Temescal Road, Suite 102
Corona, CA 92881**

**Business Valuation
May 24, 2016**



Confidential

Balance Sheet Adjustments for Net Worth Value:

(See notes to the Balance Sheet on Page 8 for additional information on the assets and liabilities below.)

Balance Sheet as of March 31, 2016:

<u>Additional Assets</u>		<u>Liabilities</u>	
Cash	\$45,948	Accrued Liabilities	\$214
Total Additional Assets	<u>\$45,948</u>	Other Debt	\$0
		Vehicle Loans, Business Loans	\$68,583
		(1) Loans From Shareholder	\$0
		Total Liabilities	<u>\$68,797</u>

(1) Loans from Shareholder are included in Total Value of Net Worth

Reconciliation of Asset Sale Value to Net Worth Value:

Asset Sale Value (From Page 3)	\$350,000
Plus Additional Assets	45,948
Less Liabilities	<u>(68,797)</u>
Value of 100% Interest in Net Worth (Rounded)	<u>\$330,000</u>

Three Hundred Thirty Thousand Dollars

The above value is the Fair Market Value for a 100% interest in the Subject's Net Worth as of March 31, 2016.

If the value of the above assets or liabilities change as of the day of transfer of ownership, the resulting increase or decrease in the Total Net Adjustments must be added to or subtracted from the Total Value of Net Worth above.

The statistical analysis of the comparables used in this report can be found on Page 3. A summary table of the comparables can be found on Page 5 with a detailed write up of each one beginning on Page 35.

**VALUATION ANALYSIS
EXHIBIT X**

Company Data		Financial Data	
Date of This Report:	May 24, 2016	Date of Valuation:	For the Year 2016
Prepared For:	Angela Arents	Current Financial Statement Date:	March 31, 2016
Company Name:	Synergy Group HCM, Inc. dba Synergy Workforce Solutions	Annual Revenues =	\$746,383
Address:	1353 Old Temescal Road, Suite 102	Cash Flow (SDE%) =	\$150,570
City, State ZIP:	Corona, CA 92881	Current Inventory =	\$0
SIC Code:	8742 8721	Normalized Fixtures Value =	\$25,530 (Net)
Website Address:	www.synergyworkforcesolutions.com	Entity Type =	S-Corporation
			SDE% 20.2%

Statistical Analysis of Sold Comparables

Synergy Group HCM, Inc.'s SDE % is 20.2%

The Subject is in the Lower Range of SDE%.		Revenue Mult Range	Cash Flow Mult Range	Enterprise Mult Range
The Lowest 16% of Companies have an SDE% of Less Than	22.0%	0.49	2.32	2.29
The Mid Range of Companies have an SDE% of	35.5%	0.71	2.04	1.98
The Highest 16% of Companies have an SDE% of More Than	44.0%	0.84	1.86	1.78

(1) REVENUE MULTIPLIER:

Regression Formula: Multiplier = (SDE% x 1.595) + 0.142 = 0.46 R Sq. = 0.52

Multiplier	Revenue	Predicted Value	Weight
0.46	x \$746,383	= \$343,000	x 44.3%
			= \$152,024

(2) CASH FLOW MULTIPLIER:

Regression Formula: Multiplier = (SDE% x -2.063) + 2.771 = 2.35 R Sq. = 0.32

Multiplier	Cash Flow	Predicted Value	Weight
2.35	x \$150,570	= \$354,000	x 27.6%
			= \$97,779

(3) ENTERPRISE MULTIPLIER:

Regression Formula: Multiplier = (SDE% x -2.294) + 2.794 = 2.33 R Sq. = 0.33

Multiplier	Cash Flow	Inventory	Predicted Value	Weight
2.33	x \$150,570	+ \$0	= \$351,000	x 28.1%
			= \$98,480	

(4) FOUR VARIABLE REGRESSION ANALYSIS:

Regression Formula: $0.589 \times \text{Revenues} + 1.182 \times \text{Cash Flow} - 24.593 \times \text{Inventory} + 0.606 \times \text{Fixtures} + (\$165,995) =$

R Sq. = 0.83

Predicted Value	Weight
= \$467,000	x 0.0%
= Rejected	

Rejected: Too many comps did not report FF&E and Inventory values. Consequently the multiple regression will be inaccurate.

Asset Sale Price = \$350,000

Synergy Group HCM, Inc.

Observation	Sold Comparables Analysis EXHIBIT XI							See Page 35 for Detailed Write-up of Comparables		
	Listing Price (a)	Selling Price (b)	Gross Revenues (c)	Cash Flow (SDE) (d)	Inventory (e)	Fixtures (f)	SDE% d ÷ c	Revenue Multiplier b ÷ c	Cash Flow Multiplier b ÷ d	Enterprise Multiplier (b - e) ÷ d
1	160,000	150,000	429,000	60,000		125,000	14.0%	0.35	2.50	2.50
2	875,000	804,000	707,338	146,674			20.7%	1.14	5.48	5.48
3	440,000	405,000	657,000	146,000		6,000	22.2%	0.62	2.77	2.77
4	200,000	200,000	466,892	106,952	6,934	44,236	22.9%	0.43	1.87	1.81
5		412,000	807,000	187,000		30,000	23.2%	0.51	2.20	2.20
6	220,000	220,000	425,000	110,000			25.9%	0.52	2.00	2.00
7	882,000	882,000	602,557	161,234		40,000	26.8%	1.46	5.47	5.47
8	425,000	410,000	562,855	169,345			30.1%	0.73	2.42	2.42
9	995,000	995,000	980,000	310,000		200,000	31.6%	1.02	3.21	3.21
10	626,000	620,000	694,000	240,000			34.6%	0.89	2.58	2.58
11	388,000	388,000	625,000	228,000	3,000	75,000	36.5%	0.62	1.70	1.69
12	640,000	500,000	500,000	183,000		25,000	36.6%	1.00	2.73	2.73
13	335,000	335,000	702,000	265,500	11,000	121,000	37.8%	0.48	1.26	1.22
14	332,000	280,000	472,000	182,400		7,250	38.6%	0.59	1.54	1.54
15		825,000	935,513	368,004		61,294	39.3%	0.88	2.24	2.24
16	300,000	300,000	558,737	236,818	5,288	63,018	42.4%	0.54	1.27	1.24
17	650,000	650,000	460,430	201,283	5,000	50,000	43.7%	1.41	3.23	3.20
18	390,000	325,000	543,790	302,614			55.6%	0.60	1.07	1.07
19	900,000	675,000	560,000	325,000			58.0%	1.21	2.08	2.08
20										
21										
22										
23										
24										
25										
Average	515,176	493,474	615,216	206,833	6,244	65,215	SDE % Range	Revenue Mult Range	Cash Flow Mult Range	Enterprise Mult Range
= Outliers	Selling Price Listing Price = 93.8%				Lower Quartile		24.5%*	= 0.53	1.79	1.75
					Median		34.6%*	= 0.62	2.24	2.24
					Upper Quartile		39.0%*	= 1.01	2.75	2.75

* Companies with earnings that are negative or near zero, will have Cash Flow Multiples that are negative or extraordinarily high, causing data to be skewed inappropriately. Therefore, Companies with Cash Flow Multiples that are negative or greater than Asset are ignored in this calculation.

Rejected Comparables (highlighted in Red above):

A Four Variable Regression Analysis was done to identify the comparables that were considered "outliers." These outlier comparables had actual selling prices that were too far above or below the prices predicted by the regression to be considered reasonable.

	Predicted Price	Selling Price	Revenue	Cash Flow	Inventory	FF&E	SDE%	Rev Mult	Cash FI Mult	Enterpr Mult
#7	488,224	882,000	602,557	161,234		40,000	26.8%	1.46	5.47	5.47
#17	304,230	650,000	460,430	201,283	5,000	50,000	43.7%	1.41	3.23	3.20
#2	531,842	804,000	707,338	146,674			20.7%	1.14	5.48	5.48

Multipliers with Outliers Removed

Lower Quartile =	25.2%	0.52	1.66	1.65
Median =	35.5%	0.61	2.14	2.14
Upper Quartile =	38.8%	0.88	2.52	2.52

Synergy Group HCM, Inc. S-Corporation

C-Corporation Created on: 9-28-2012 S-Corporation Election Date: 10-1-2012	Cash Basis		Cash Basis		Cash Basis		Cash Basis		Cash Basis	
	Recasting the P&Ls History	Mar 31, 2016 12 Mos.	Dec 31, 2015 12 Mos.	Add Backs Per Taxes	Dec 31, 2014 12 Mos.	Add Backs Per Taxes	Dec 31, 2013 12 Mos.	Add Backs Per Taxes		
INCOME										
Service Fees-Hardware	17	4,994	9,920		79,772		48,266		17.9%	23.9%
Service Fees-Implementation	18	19,831	10,132		22,473		35,430		5.0%	17.5%
Service Fees-Other	19	719,591	661,180		344,557		118,352		77.1%	58.5%
Misc. Income		1,967					190		0.0%	0.1%
TOTAL REVENUE		746,383	681,232		446,802		202,238		100.0%	100.0%
COST OF GOODS SOLD										
Purchases		8,857	7,802		40,005		19,889		9.0%	9.8%
Other Costs									0.0%	0.0%
TOTAL COST OF GOODS SOLD		8,857	7,802		40,005		19,889		9.0%	9.8%
GROSS PROFITS		737,526	673,430		406,797		182,349			
Gross Profit Margin		98.8%	98.9%		91.0%		90.2%			
OTHER INCOME										
Reimbursed Expenses			2,141		2,581				0.1%	0.1%
Other									0.0%	0.0%
TOTAL OTHER INCOME		-	2,141		2,581		-		0.0%	0.2%
EXPENSES										
Compensation to Officers	125	40,114	38,500		4,000		15,680		0.9%	7.8%
Salaries and Wages	126	178,481	150,098		116,170		99,241		26.0%	49.1%
Repairs and Maintenance		3,573	4,761		6,921		27		0.0%	0.0%
Rent	128	19,696	9,469	(15,659)			13,779		1.5%	6.8%
Taxes, Licenses and Permits, Fees		7,449	6,788						0.0%	0.0%
Payroll Taxes	130	18,493	40,067		14,485		11,968		0.2%	0.4%
Income Tax		800	800		800		800		0.0%	0.0%
Interest, Finance Charges		51	51						0.0%	0.0%
Depreciation, Amortization			40,915		43,080		58,913		9.6%	29.1%
Advertising	135	5,054	5,916		768		596		0.2%	0.3%
Employee Benefits		17,780	18,429		17,398				3.9%	0.0%
Meals, Entertainment, Travel	136	4,878	2,376	(932)	2,577		3,517		0.6%	1.7%
Auto Expense, Parking, Insurance	137	1,872	3,047		15,661		3,428		3.5%	1.7%
Vendor Fees	138	270,928	247,583		87,526		51,527		19.6%	25.5%
Bank Charges, Merchant Card Fees		3,946	2,390		512		407		0.1%	0.2%
Insurance		5,381	5,113		5,576		18,100		1.2%	8.9%
Workmen's Compensation		1,817	1,801		1,426				0.3%	0.0%
Misc., Dues, Gifts, Continuing Ed, Comm. Awareness		2,451	3,922		2,673		180		0.6%	0.1%
Contributions	144	1,842							0.0%	0.0%
Professional, Legal, and Payroll Services		93,501	84,437		66,106		12,360		14.8%	6.1%
Office Expense, Printing, Supplies		15,250	16,652		13,298		7,460		3.0%	3.7%
Postage and Delivery		13,811	10,248		4,663		2,014		1.0%	1.0%
Internet and Computer Expense		6,379	9,543		4,838				1.1%	0.0%
Utilities		8,461	8,040		7,307				1.6%	3.2%
TOTAL EXPENSES / Total Add-Backs		722,008	135,052		415,785		310,802		93.1%	133.7%
TOTAL INCOME (per Tax Return/P&L) =		15,518	(35,375)		(6,407)		(128,453)		-1.4%	-63.5%
Total Add Backs =										
Seller's Discretionary Earnings =			150,570		126,024		(30,317)		18.9%	-15.0%

Balance Sheet		Synergy Group HCM, Inc.				Page 7	
		Accrual Basis	Adjustments	Accrual Basis	Accrual Basis	Accrual Basis	Accrual Basis
Cash	45,948		38,548	45,813	45,135		
Accounts Receivable	-		-	-	10,000		
Inventory	-		-	-	55,135	55,135	
Prepays, Deposits	-		-	-	81,176	(5,205)	
Total Current Assets / Total Adjusted	45,948	45,948	38,548	45,813	131,106	131,106	
Fixtures & Equipment, Software	191,659	(166,129)	189,346	163,705	163,705		
Depreciation	(107,831)	107,831	(107,831)	(107,831)	-		
Amortization	-	0	-	-	-		
Total Assets / Total Adjusted Assets	129,776	71,478	120,063	101,687	131,106	131,106	
Accrued Liabilities	214		214	214	25,009		
Accounts Payable							
Total Current Liabilities / Total Adjusted	214	214	214	214	25,009	25,009	
Vehicle Loans, Business Loans	68,583		70,987	31,435	52,360		
Loans From Shareholder	60,000	(60,000)	60,000	60,000	100,000		
Kevin Alden Investment	-		-	-	-		
Total Liabilities / Total Adjusted Liabilities	128,797	68,797	131,201	91,649	177,369	177,369	
Net Worth	979	2,681	(11,138)	10,038	(46,263)	(46,263)	
Total Liabilities + Net Worth	129,776	71,478	120,063	101,687	131,106	131,106	

Cell: E5

Comment: Recasting the Financial Statements

The “recasting” of a company’s earnings serves two purposes. First, since the databases we use for comparables are a collection of all forms of business entities, we need to strip away the differences in accounting methods used by those different entity types. For example, sole proprietorships (SP) report earnings on the Schedule C of the owner’s personal tax return. There is no owner’s salary expense in an SP; the “bottom line” represents his total income and payroll taxes for that income appears on his 1040. However, corporations and partnerships include a deduction for an owner’s salary expense including payroll taxes. Thus the bottom line for these entities is net of the owner’s salary and payroll taxes. Health benefits are a deduction in corporations but not in SP’s (benefits appear on the owner’s 1040). Donations are a deduction in C-corporations but not in S-corporations (donations appear on the owner’s K-1). Accelerated depreciation (IRC Section 179) and gains or losses from the sale of assets do not appear on an S-corporation tax return (they are on the owner’s K-1) but do on a C-corporation and on an SP. State income taxes do not appear on an SP but do on a Corporation. SPs by definition have one owner, whereas corporations and partnerships may have multiple owners all with salaries that are expensed, thereby reducing the bottom line. Finally, since interest expense can vary greatly between similar companies, making direct comparisons of earnings can be difficult. Thus, it is also common practice to remove interest expense from the recast financials.

In order to develop some measure of earnings for all these different entities that are directly comparable to each other, the databases have removed all those accounting differences from their income statements. Accordingly, each entity’s reported “earnings” is net of taxes, depreciation, health benefits, donations, capital gains, interest expense, and most importantly, net of just one owner’s salary.

If a company has multiple owners (including working spouses of owners), the salary of the one owner who would most likely be replaced by a hypothetical buyer is added back to discretionary earnings (SDE). It is also assumed that the hypothetical buyer would have to replace all the other owners with hired employees. As a result, if the replacement cost for those hired employees is less than the compensation paid to those other owners, the difference is also added back to SDE. Conversely, if the replacement cost for those hired employees is more than the compensation paid to those other owners, the difference is deducted from SDE.

If the present owner is an absentee owner, the salary of the general manager is added back to SDE along with the owner’s salary. The assumption here is that a hypothetical buyer will be an operating owner / manager, thereby replacing both the manager and the owner. In doing so he will earn the manager’s salary and the owner’s salary.

In developing SDE, interest, depreciation, and income taxes are also added back to cash flow. After applying all the appropriate adjustments, then we can directly compare the recast discretionary earnings of corporations to sole proprietorships etc. The resulting Seller’s Discretionary Earnings (SDE) is the total cash flow a hypothetical owner has at his disposal for his salary and perquisites, his loan payments, and his capital expenditures. (The terms “Seller’s Discretionary Earnings” and “Cash Flow” are used interchangeably in the following Market Approach discussion.)

The second purpose for recasting a company’s earnings is to attempt to present a normalized view of the subject company’s operations. The recast financials should serve as a proxy for the level of operations from which we may reasonably expect future revenues to evolve. Thus we select an earnings period that best represents the current level of operations (which may not be the current year’s P&Ls) and then we remove any non-operating income or

expenses and any non-recurring income or expenses. The result should be an income stream for the subject company that we can reasonably expect under normal circumstances. The normalized P&L of the subject has now been properly recast and can be compared to the database guideline companies.

Cell: E6

Comment: History

Synergy Workforce Solutions (Abbrev. SWS) was Founded on September 24, 2012 by three partners. Angela Arents owns 49% of the company, her husband, David, owns 49%, and Gordon Colburn owns 2%.

SWS is a human-resource management consulting business with over 140 clients. Approximately 80% of the clients are located in the Southern California region. The remaining 20% are scattered throughout the nation. The average client has over 80 employees which would suggests they have a range of revenues around \$10 million to \$20 million. SWS has one client with 1,500 employees which contributes 25% of its annual revenues. The company is in the elder care industry. Ms. Arents reports that relations with that company are good and prospects of future business are good. Ms. Arents notes that customer retention is moderately high as they only lost four clients in 2015.

SWS does very little marketing. Almost all of its clients were obtained through referrals from CPA's and insurance brokers who are familiar with SWS' program. Approximately 75% of services offered are timekeeping and payroll related. Hence, CPA's who do not wish to offer payroll processing to their clients refer them to SWS' services. SWS stores the essential employee information in a cloud-based database which is accessible by the business owners and their CPA's.

SWS' cloud-based database provides comprehensive employee tracking which includes initial background checking, discipline and attendance tracking, performance appraisals, workman's comp claims, and a variety of other government forms.

Although SWS does not sell health insurance, its health administration segment of its software gives owners the ability to monitor the benefits program along with the payroll data for each employee from a single user interface.

The owners or staff of SWS do not need any special certifications or governmental licensing to offer its services. The company's entire program is built around a comprehensive software platform licensed by SAASHR-Kronos. SWS purchased the license from SAASHR when it began operations in 2012. The licence plus training costs were \$53,700. The license is not transferable, and it cannot be terminated without due cause. SAASHR charges usage fees of 30 cents per paycheck that SWS writes and 55 cents to \$1.70 per employee per month for its time keeping program. SAASHT charges for the services immediately after each payroll is written and ACH debits SWS' bank account. SWS, in turn, charges its customers for the payroll and time keeping service immediately by ACH debit. SWS uses a third-party tax service company to charge its clients for the employer and withholding taxes and to make timely remittance to the state and federal governments.

Cell: G7

Comment: Service Fees - Hardware - 2016

As new clients sign up for the SAASHR time keeping services, SWS sells them specialized time clocks which cost \$1,000 to \$3,000 per clock. SWS' largest client, the elder care company, purchased a large number of clocks in 2013-4.

EXHIBIT 5

Cell: V7

Comment: Revenues - 2013

The P&Ls for 2013 only covered the period through September 21, 2013. The breakout of revenue items for the year were estimates based on the breakout observed for the 9-month period.

Cell: G8

Comment: Service Fees Implementation - 2016

SWS charges its clients up front to install software at the client's place of business and train their employees. These are one-time income charges.

Cell: G9

Comment: Service Fees are charged to most clients after each pay period. Fees are charged by ACH debit to the client's bank account.

Cell: G25

Comment: Compensation to Officers - 2016

Angela Arents - 49% Interest - \$24,006
David Arents - 49% Interest - \$6,000
Gordon Colburn - 2% Interest - \$10,108

Angela works 50 hours a week and is responsible for the day-to-day decision making and financial oversight of the business. Her salary is added back to normalized cash flow.

David Arents works less than five hours a week, usually in a consulting capacity. His duties would easily be absorbed by a hypothetical buyer. Therefore, there would be no cost to replace him. As such, his salary is added back to normalized cash flow.

Gordon Colburn owns a health benefits consulting and insurance brokerage firm. He consults with SWS clients on an as-needed basis. At present, the laws affecting employers under the Affordable Care Act (Obamacare) require a new level of reporting which Colburn is assisting SWS clients to implement. Colburn charges SWS for his services which SWS, in turn, charges the client. Colburn's consulting cost and SWS' related income will continue under a hypothetical new buyer. Therefore, no adjustment is made to his salary.

Cell: L25

Comment: Compensation to Officers - 2016

Angela Arents - 49% Interest - \$21,500
David Arents - 49% Interest - \$17,000
Gordon Colburn - 2% Interest - \$0

Cell: Q25

Comment: Compensation to Officers - 2014

Angela Arents - 49% Interest - \$4,000
David Arents - 49% Interest - \$0
Gordon Colburn - 2% Interest - \$0

Cell: V25

Comment: Compensation to Officers - 2013

Angela Arents - 49% Interest - \$15,680
David Arents - 49% Interest - \$0
Gordon Colburn - 2% Interest - \$0

Cell: G26

Comment: Salaries and Wages - 2016

SWS has five full-time employees and one part-time employee.

Four of the full-time staff are customer service representatives who earn between \$16 and \$19 per hour. The fifth staff member is the customer service manager who oversees the four service representatives. He earns \$24 per hour.

Cell: G28

Comment: Rent - 2015-16

Synergy moved to an adjacent office space in the same building on 3/1/2015. Monthly rent increased to \$2,094. However, the first 10 months' rent was not paid due to a bookkeeping error. Synergy began paying double rent in March 2016, but still owes 9 months' rent.

Normalized rent is \$25,128. Rent for 2015 and 2016 was adjusted to reflect current rent levels.

Cell: G30

Comment: Payroll Taxes - 2016

Payroll taxes were not broken out in the Total Payroll Expense category on the P&Ls. I estimated payroll taxes at 8.4% of total payroll.

Cell: G35

Comment: Employee Benefits - 2016

The company pays for the owners' health insurance. This amount is considered a part of an owner's total compensation and is added back to normalized cash flow. Owners' health insurance for 2013 was included in the Insurance category.

Cell: G36

Comment: Meals and Travel - 2016

The cost of meals was for employee meals. Although not entirely necessary as a business expense, it does build goodwill with the employees and is considered an appropriate on-going expense.

Cell: L36

Comment: Meals - 2015

The IRS only allows a 50% deduction for meals. The 50% portion that was disallowed (\$932) was DEDUCTED from normalized cash flow to reflect the full cost of the expense.

Cell: Q36

Comment: Meals - 2014

The IRS only allows a 50% deduction for meals. The 50% portion that was disallowed (\$1,196) was DEDUCTED from normalized cash flow to reflect the full cost of the expense.

Cell: V36

Comment: Meals - 2013

The IRS only allows a 50% deduction for meals. The 50% portion that was disallowed (\$413) was DEDUCTED from normalized cash flow to reflect the full cost of the expense.

Cell: G37

Comment: Auto Expense - 2016

The company paid \$2,736 in expenses for the owner's personal vehicle. This is considered a part of an owner's total compensation and is added back to normalized cash flow.

Cell: G38

Comment: Vendor Fees - 2016

Saashr-\$227,078

ACH-\$13,702

Paychecks are direct deposited to the employees' accounts and the cost is immediately debited to the clients' accounts. The ACH fees are charged to SWS for this service.

Tax Service-24,292

SWS uses a third party tax-service company to manage the collection and transmittal of employer and withholding taxes to the state and federal governments. Thus, SWS does not handle any client's money for this service.

Cell: L38

Comment: Vendor Fees - 2015

Breakout as per P&Ls:

ACH - \$13,138

HR Answerlink - \$875

Saashr-\$211,554

Tax Service - \$21,374

Other - \$42

Unidentified -\$600

Cell: Q38

Comment: Vendor Fees - 2014

Breakout per amended P&Ls:

ACH - \$7,423

HR Answerlink - \$312

Saashr - \$93,242

Tax Service - \$13,368

Other - \$5,049

\$31,868 in SAASHR fees were capitalized in error on the tax returns instead of being expensed. This amount is DEDUCTED from normalized cash flow to reflect the actual cost of SAASHR fees.

Cell: V38

Comment: Vendor Fees - 2013

Includes Royalties for \$14,909 that should have been classified as Vendor Fees. EXHIBIT 5

Cell: V40

Comment: Insurance - 2013

Health insurance was included in the total insurance expense and was not broken out.

The owner's health insurance was \$10,200 which is considered a part of an owner's compensation. This amount is added back to normalized cash flow.

Cell: G44

Comment: Legal and Professional - 2013 to 201

Legal fees relating to the lawsuit against Angela Arents and SWS were \$89,226. The expense is non-recurring and is added back to normalized cash flow. Prior years' recurring expenses are estimated at \$5,000 with the excess added back as non-recurring legal fees.

Cell: G60

Comment: Accounts Receivable - 2013 to 2016

SWS bills its clients by ACH debit immediately after services are provided. Therefore, the company usually does not have any accounts receivable.

Cell: G61

Comment: Inventory - 2015

The company does not carry any inventory. Merchandise is purchased to fill outstanding customer orders.

Cell: G64

Comment: Fixtures and Equipment - 2013 to 2016

Adjustments to Fixtures and Equipment
(Per Schedule L on Federal tax return and itemized on the State Tax return for 2015 - Form B(100S))

Total Fixtures 2015	-	\$181,949
Less:		
SAASHR software	-	(31,868)
Volvo	-	(22,000)
Mazda	-	(21, 321)
Ford Explorer	-	(37,794)
Ford Fusion	-	(9,788)
Plus:		
Fixtures for 2016	-	2,313
Total Fixtures and Equip	-	\$61,491

The SAASHR software for \$31,868 were vendor fees that should have been expensed in 2014 rather than capitalized. None of the four vehicles are being included in the proposed sale of the business.

Cell: V71

Comment: Accrued Liabilities - 2013

Sales Tax Payable - (\$2,098)
Trust Accounts-Liabilities - \$27,107

Cell: G76

Comment: Vehicle Loans- 2016

Mazda - \$8,566
Toyota - \$14,744
Ford Fusion - \$16,987
Ford Explorer - \$28,267

The vehicles are not included in the proposed sale of the business. Thus, the related loans will be removed from the books.

Cell: L76

Comment: Vehicle Loans- 2015

Mazda - \$9,594
Toyota - \$14,744
Ford Fusion - \$17,762
Ford Explorer - \$28,887

Cell: Q76

Comment: Vehicle Loans - 2014

Mazda - \$13,362
Toyota - \$18,073

Cell: G80

Comment: Net Worth - 2016

Arents Investment - \$100,000
Arents Shareholder Contribution - \$41,678
Capital Surplus \$1,000
Retained Earnings - (\$153,816)
Net Income - \$12,117

Cell: L80

Comment: Net Worth - 2015

Arents Investment - \$100,000
Arents Shareholder Contribution - \$41,678
Capital Surplus \$1,000
Retained Earnings - (\$164,509)
Net Income - \$10,692

Cell: Q80

Comment: Net Worth - 2014

Arents Investment - \$100,000
Arents Shareholder Contribution - \$41,678
Capital Surplus \$1,000
Retained Earnings - (\$122,898)
Net Income - (\$9,743)

Cell: V80

Comment: Net Worth - 2013

Arents Shareholder Contribution - \$70,045
Retained Earnings - (\$61,915)
Net Income (\$54,545)
Paid in Surplus - \$153

1.1 Databases Selected

The most commonly used databases in the Direct Market Data Method are Pratt's Stats, BIZCOMPS, BizBuySell, and the Institute of Business Appraisers (IBA) databases. For the most part, the data from these sources is obtained from business brokers who represented the buyer or the seller in the transaction. Very few of the transactions listed on the IBA database report the amounts of inventory or fixtures and equipment included in the sale. As such, this database will only be used if there are insufficient transactions in the other databases. BIZCOMPS reports the selling prices of a business *excluding* inventory. This database, however, does report the level of inventory separately, and therefore, we simply add inventory to the BIZCOMPS' reported selling price in order to be comparable to the other two databases. BIZCOMPS reports 17 data points for each transaction and claims to carefully review the quality of input to its database.

BIZCOMPS and IBA state that they calculate Seller's Discretionary Earnings slightly differently. (For example, IBA does not mention adding back depreciation into Discretionary Earnings.) However, this Appraiser has completed over 250 market approach analyses and has made a point of carefully reading the complete transaction reports for over 5,000 comparables from these databases. In instances where both databases reported the same transaction, the Appraiser has found that in a high percentage of the cases the selling price, gross revenues, and discretionary earnings were identical. One can attribute this to the fact that the same broker will report a transaction to all three databases, and will offer only one calculation for Seller's Discretionary Earnings (SDE). Brokers will typically follow the convention recommended by the IBBA (International Business Brokers Association) for calculating SDE, a convention that BIZCOMPS expressly follows and one that IBA appears to accept by default. Therefore, both databases will be considered similar enough in their respective construction to be grouped together. Shannon Pratt draws the same conclusion in *The Market Approach to Valuing Businesses*.^[1]

“One may combine the data from the three databases into a single table. [However,] the analyst must be aware of and make certain adjustments to reflect that the three databases do not define the underlying financial variables in exactly

Pratt's Stats collects 69 data points for each transaction including a summary of the P&L and balance sheet, a description of the terms of the deal, the type of consideration tendered, and whether it is a stock sale or an asset sale. Because of the extensive information available, reconciling Seller's Discretionary Cash flow or reconciling the actual selling price of the transaction is more reliable. Pratt's Stats calculates SDE similarly to BIZCOMPS and IBA; however, it is not uncommon to find discrepancies among all three. Careful analysis of all three databases will help avoid selecting incorrect transactional data. The greater detail offered by the Pratt's Stats database can help reduce errors in selecting the transactional data. Therefore, if there are any discrepancies arising among duplicate transactions reported by the three databases, the Pratt's Stats data will generally be used in the analysis.

^[1] Shannon Pratt, *The Market Approach to Valuing Businesses*, (John Wiley and Sons, Inc., 2001), p. 68

1.2 Timing of the Sale

The transactions used for business valuations are often several years old. Most of us exposed to real estate appraisals on private residences have been told that proximity to the subject house and timing of the comparable's sale are critical to the valuation. Business valuations, however, are not derived by looking at the actual selling price of the comparables. Instead, the Subject Company's financial ratios are compared with the ratios of the comparable businesses. Such financial ratios have a tendency to be fairly consistent over time.

Secondly, small-business investors base their investment decisions primarily on a long-term view of the market. Unlike purchasing stock, where the holding period may be weeks or months, buyers of small businesses expect to be invested for years. Therefore, when comparing businesses that sold several years ago, the effects of recessions or bull markets on the cash flow multiples of the business are somewhat minimized. Again, by using financial-ratio comparisons, the relationship between selling price and gross sales or selling price and cash flow tends to be fairly stable over time. The time element that is so critical in real estate appraisals is not nearly as significant a factor in business appraisals.

The following research was discussed in the book by Gary Trugman, *Understanding Business Valuation*:^[1]

Kaymona C. Mues, C.B.A., A.S.A., executive director of the Institute of Business Appraisers, published a paper entitled, "In Defense of Stale Comparables," in which Miles examined the almost 10,000 entries in the database, and demonstrated that most industries are unaffected by the date of the transaction when smaller businesses are involved. Miles performed a study that examined the multiples across various industries and time periods to see if, in fact, the multiples changed. The conclusion reached was that the multiples do not appear time-sensitive, since inflation affects not only the sales prices, but also the gross and net earnings of the business. Therefore, this information can be used to provide actual market data.

More recently, similar results were cited by Jack Sanders, the creator of BIZCOMPS database.

Recently, the author [Jack Sanders] compared current study data with the data over ten years old. First the Gross Sales to Sales Price ratio was compared. In the current National Database that ratio was available in 6,748 out of 6,851 transactions. The arithmetic mean of this ratio was .46, while the median was .38. A similar analysis of 879 transactions out of 954 transactions older than ten years was made. The arithmetic mean was .44 and the median was .37. The same analysis was made of the Seller's Discretionary Earnings (SDE) to Sale Price ratio. The arithmetic mean for the current study was 1.95 while the median was 1.8. In the over 10 year-old data, the arithmetic mean was 2.0 and the median was 1.8.³

⁽²⁾ Gary Trugman, *Understanding Business Valuations: A Practical Guide to Valuing Small to Medium Sized Businesses*, (New York: American Institute of Certified Public Accountants, 1988), p. 150

Recently, there have been some concerns raised within the appraisal community that the recession has produced a significant amount of volatility in transactional multipliers during the last five to seven years which may skew one's results when employing the market approach. To test that theory I assembled a sample of transactions obtained from the Pratt's Stats database. The sample was filtered for all transactions between 1999 through 2013 with revenues under \$2 million. Stock sale transactions were eliminated, as were companies with breakeven or negative cash flow.

The Revenue Multipliers and Cash Flow Multipliers were calculated from each transaction's revenues, seller's discretionary earnings (SDE, or cash flow), and selling price. The data was sorted by the year in which the sale took place and the resulting median value of the multipliers from each year was determined. The resulting sample of 9,723 transactions is listed on the table in Exhibit I below.

As we expected from our initial discussion of the effects of time on multipliers we find that the Revenue Multipliers have been relatively stable over time. From the top table in exhibit below we observe that the average Revenue Multiplier over the last fifteen years was .472. The lower quartile was .463 and the upper quartile was .482. Thus, Revenue Multipliers fluctuate within a very narrow range from year to year and using comparables that are several years old should not inappropriately skew our results.

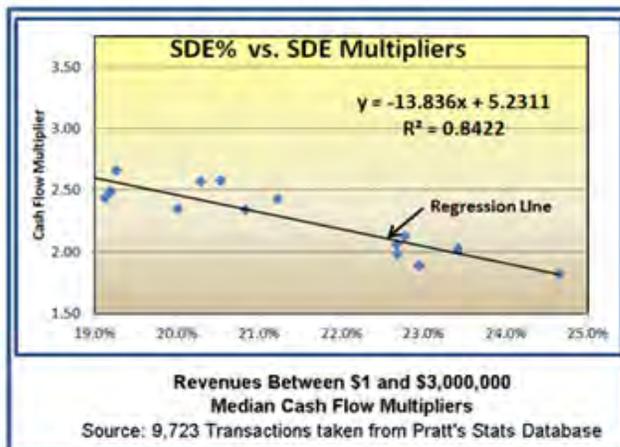
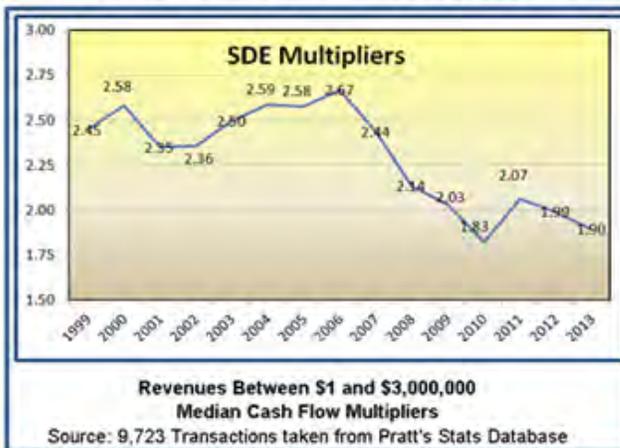
Cash Flow Multipliers, however, have fluctuated significantly over the years. The middle chart in Exhibit I is a visual presentation of the data from the table. The graph clearly shows that Cash Flow Multipliers (SDE) have declined significantly since the start of the recession. One's initial reaction is that appraisers should only use multipliers exhibited during the most recent years to account for this attrition. An alternative would be to create an index that reflects the current level of the multiplier with respect to its long-term average. The index would then be applied to the Subject's calculated multiplier to adjust it to the current trend. A third alternative involves the use of regression analysis which will allow us to use transactions over the last fifteen years regardless of the level of multipliers any one year.

As we will discuss in much greater detail in section 2.5 below, there is a moderate correlation between a company's Cash Flow Multiplier and its operating profit margin. [The operating profit margin (SDE%) is calculated by dividing a company's SDE (cash flow) by its total revenues.] By using regression analysis we can plot the above sample's median SDE% values against the corresponding Cash Flow Multipliers for each year. The lower chart in Exhibit I gives a visual presentation of the resulting regression analysis.

Exhibit I: Transactional Multipliers over the last 15 Years

Date Range		Count	Median Revenue Multipliers	Median Cash Flow Multipliers	Median SDE% (SDE/Rev)
From	To				
1-1-1999	12-31-1999	334	0.467	2.449	19.1%
1-1-2000	12-31-2000	320	0.482	2.584	18.6%
1-1-2001	12-31-2001	413	0.461	2.352	20.8%
1-1-2002	12-31-2002	533	0.469	2.359	20.0%
1-1-2003	12-31-2003	493	0.455	2.497	19.2%
1-1-2004	12-31-2004	662	0.488	2.587	20.5%
1-1-2005	12-31-2005	723	0.482	2.576	20.3%
1-1-2006	12-31-2006	711	0.496	2.668	19.2%
1-1-2007	12-31-2007	823	0.497	2.439	21.2%
1-1-2008	12-31-2008	1137	0.472	2.136	22.8%
1-1-2009	12-31-2009	791	0.469	2.032	23.4%
1-1-2010	12-31-2010	898	0.451	1.827	24.6%
1-1-2011	12-31-2011	812	0.472	2.066	22.7%
1-1-2012	12-31-2012	839	0.434	1.992	22.7%
1-1-2013	12-31-2013	265	0.455	1.898	22.9%
Average			0.470	2.297	21.2%
Lower Quartile			0.458	2.05	19.6%
Upper quartile			0.482	2.54	22.7%

Source: 9,723 Transactions taken from Pratt's Stats Database



The regression line shows that the level of a company's profitability, as measured by SDE%, closely tracks its Cash Flow Multiplier. This fact is underscored by the regression analysis' very high R squared factor of 0.872. An R squared of 1.0 would mean there is a perfect correlation between Cash Flow Multipliers and SDE% whereas an R squared of 0.0 would mean there is no correlation.

The regression analysis also gives us a formula for the regression line which can be used to predict the median multiplier in any given year regardless of whether or not it is a recession year or a boom year. For example, from the top table on the preceding page we find that the median SDE% for the recession year 2010 was 25.1%. From the bottom chart, the regression formula of $y = -13.12x + 5.11$ can solve for the 2010 multiplier by inputting the year's SDE%: $y = -13.12 \times .251 + 5.11 = 1.82$, the predicted Cash Flow Multiplier for 2010. The actual multiplier for that year was a very close 1.799. The multiplier for the boom year 2006 is also predicted using that year's SDE% of 19.4%: $y = -13.12 \times .194 + 5.11 = 2.56$. Again, by using SDE%, the predicted Cash Flow Multiplier for the boom year of 2006 was very close to the actual value of 2.673.

Analysis: The search criteria used by the Appraiser when selecting guideline companies from the various transactional databases, therefore, will not exclude comparables based

on the timing of the sale and each comparable's SDE% will be used to estimate the Subject's Cash Flow Multiplier.

1.3 Location

The location of a business can certainly have a significant impact on its value. For example, we often hear comments from business owners such as, "my restaurant has the best location in town and, therefore, deserves a much higher valuation." That observation would be true if that business were more profitable than its competitor. When applying the *same* Cash Flow Multiplier to the two different locations, the restaurant with the higher profits (and superior location) would earn a higher calculated value than the other. The superior location undoubtedly contributed to the company's higher profitability, and hence, its higher value. If the company at the supposed superior location generated the same level of profits as its competitor, one would have to seriously question the contention that the location is superior.

Selecting Guideline Companies from different states for comparison with the subject frequently raises challenges. The Appraiser researched the BIZCOMPS database to determine if there were compelling differences in the Market Value Multiples earned by companies from different states. The exhibit below shows the Cash Flow Margins (SDE %) and Revenue and Cash Flow Multiples of companies sold in the major states throughout the country.

Tests were performed on the database to determine if various economic factors influenced the level of Market Value Multiples earned by companies throughout the country. A regression analysis was performed comparing the population growth rate of a given state with the Gross Revenue Multiples earned by companies within that state. The hypothesis here is that high-growth areas must assuredly attract business buyers who are willing to pay a premium for access to that market. The regression produced an R-Square of 0.30. The value, although not compelling, suggests that there is a modest tendency for high-growth areas to produce higher Gross Revenues Multiples than low-growth areas. (An R-Square of 1.0 means a perfect correlation between variables, whereas 0.0 means no correlation at all.) The table below was sorted by states with the lowest population growth on top and the highest population growth on the bottom. We can visually see that states with the lowest population growth typically have lower Median Revenue Multiples.

A second test was run comparing the growth rate of household income within a state with the Gross Revenue Multiples earned by companies sold in that state. The percentage change in median household income from 2000 to 2007 for each state was regressed against the median Gross Revenue Multiples earned by companies sold in that state. The hypothesis here is that communities enjoying surging income levels will attract buyers of businesses who perceive investment opportunities. The regression only produced an R-Square of 0.0006; i.e., there was virtually no correlation between rising incomes and the Gross Revenue Multiples earned in a given region. Therefore, that hypothesis is rejected.

However, a *multiple* regression analysis was performed combining the population growth rate *and* the income growth rate of a region and comparing them with the Gross Revenue Multiples. The combination produced an R-Square of 0.35. The value suggests that communities enjoying

higher population growth *and* a higher growth in household income may produce transactions with higher Market Value Multiples

Exhibit II Market Value Multipliers by State

State	Median Revenue	Median Cash Flow Margin	Median Cash Flow Multiple	Median Rev Multiple	Population Growth	Income Growth	# of Sales
OH	703,000	13.6%	2.22	0.31	1.0%	17.3%	58
PA	497,000	18.8%	2.31	0.42	1.2%	25.3%	44
MA	650,000	17.4%	2.33	0.37	1.5%	28.1%	139
WA	465,000	14.1%	2.49	0.36	1.7%	25.0%	58
IA	538,000	17.2%	2.25	0.33	2.0%	23.1%	43
NC	695,000	15.8%	2.46	0.36	3.3%	20.2%	81
UT	354,000	21.0%	2.17	0.49	4.0%	23.5%	95
MN	500,000	12.6%	3.57	0.49	5.7%	22.7%	124
CA	600,000	18.2%	2.33	0.40	7.9%	28.8%	911
ID	577,000	16.0%	2.57	0.39	9.8%	26.0%	150
CO	703,000	18.0%	2.42	0.43	13.0%	19.9%	472
FL	586,000	21.7%	2.01	0.42	14.2%	17.2%	2617
TX	580,000	19.9%	2.08	0.40	14.6%	22.9%	335
GA	742,000	18.8%	2.34	0.43	16.7%	19.1%	424
AZ	535,000	22.2%	2.34	0.50	23.5%	26.1%	436
Median		18.0%	2.33	0.40			2,237
Average		17.7%	2.39	0.41	* 7.0%	* 24.2%	
Standard Deviation		2.9%	0.358	0.056	(* Total US Growth Rates)		
Coefficient of Variation		0.163	0.150	0.138			
Comparables were selected from BIZCOMPS Database of 10,065 transactions.							
Transactions of \$250,000 and higher were selected							
Only States with more than 40 transactions were included in the analysis.							
Population growth is the annual growth rate of the state from 2000 to 2007.							

Given that population growth may have a positive effect on the Gross Revenue Multiples at the state level, we can draw the conclusion that high-growth communities within the state should also enjoy higher multiples than low-growth communities. Therefore, this report will research the growth rates of the community or market area that the Subject serves and compare it to the growth rate of the entire state or country.

From Exhibit II we can see that the population growth and growth in household income for California are about at the median level of other states. The research would then suggest that California businesses should also sell at Gross Revenue and Cash Flow Multiples that are near the median values found in other states, and in fact, the data bears this out. Both the Gross Revenue Multiples and Cash Flow Multiples of companies sold in California were exactly equal to the median values found in all major states.

The search criteria used for selecting comparables from the various databases, therefore, will include all transactions regardless of their location. However, an adjustment to the Gross Revenue Multiple will be made if the community or region that the Subject serves has a population

For example, all companies in the table above generated a Median Cash Flow Multiplier of 2.50, whereas, those companies with revenues under \$500,000 earned only 2.11. Thus, the smallest companies earned multiples of $2.11 \div 2.50$ or 84.4% of what the average sized companies earned when sold. Similarly, companies with revenues between \$1,000,000 and \$2,000,000 exhibited a median Cash Flow Multiple of 2.77 which was 10.8% higher than the average sized company.

The Subject Company generates Gross Revenues in the \$0 range. Accordingly, the “size criteria” used to select Guideline Companies were those businesses whose revenues fell roughly in the \$400,000 to \$750,000 range. Often it is difficult to find enough comparables within a given revenue range similar to the Subject. Therefore, in order to get a sample of reasonable size, it may be necessary to select somewhat larger or smaller Guideline Companies. In this case, it is important that the average revenue size of the whole sample be fairly close to the Subject’s revenue history.

1.6 Other Filtering Criteria

The last filter criteria applied to the remaining database was to eliminate any transaction with negative or near zero earnings. Companies with earnings that are negative or near zero will produce Cash Flow Multiples that are negative or extraordinarily high, causing averages and Standard Deviations to be skewed inappropriately. By way of example: Selling price = \$400,000, Revenues = \$1,000,000, and Cash Flow = \$25,000. The resulting Cash Flow Multiple = 16 ($\$400,000 \div \$25,000$). One would normally draw the conclusion from a Cash Flow multiple of 16, that the company sold for an extraordinarily high price. In this case, it was just the result of a very small denominator – Cash Flow.

Of the 6,279 transactions matching the initial search criteria in the Pratt’s Stats database, 843 were found to have Cash Flow multiples that were greater than 10.0 or less than zero. The median Cash Flow Profit Margin (SDE %) ($\text{Cash Flow} \div \text{Total Revenue}$) for this group was only 4.4%, whereas, the median for the entire Pratt’s Stats database was 19.3%. Thus, companies with Cash Flow multiples greater than ten are more than likely unprofitable companies. Since Cash Flow is the denominator in the Cash Flow Multiples equation, the high multiples earned for this group are clearly a function of a very low earnings level rather than a high price level. In addition, this group also yielded a very high Coefficient of Variation of 127.2%. The 843 transactions in this group are, therefore, loaded with outliers with distorted multiples.

Thus, companies with Cash Flow Multiples that are negative or greater than ten will be rejected from the analysis.

1.7 Selection of Appropriate Comparable Data

The above six sections have set up the filtering process that will be applied when selecting comparable transactional data. These selected Guideline Companies are considered to possess a higher degree of similarity to the Subject’s characteristics and, therefore, are directly comparable.

The Subject Company is classified under SIC Code 8742, 8721: Engineering and management services - . Administrative and General Management Consulting, and Engineering and management services - . Auditing Accountants. Companies listed under these classifications may not be identical to the subject; however, they may possess

many similar characteristics. From a buyer’s perspective, then, most of the companies within this group would be equally desirable choices.

The search criteria used for selecting comparables from the three databases, therefore, began by searching SIC Code #8742, 8721. A total of Total filtered by Source = comparables were found in the Pratt's Stats database, and, were found in the BIZCOMPS database. The selection was further filtered to include just those companies whose revenues were between \$400,000 and \$750,000 with the transactions occurring after 1900 and whose description of operations was similar to the Subject (i.e. Engineering and management services - . Administrative and General Management Consulting). A total of Total Filtered after 'X' = comparables were found in the Pratt's Stats database, and were found in the BIZCOMPS database.

Specific details on all of these companies can be found beginning on Page 35.

1.8 Identifying Outliers in the Selected Sample of Comparables

1.8.1 Coefficient of Variation

After taking into consideration the filters described in the above six paragraphs we may find that the sample of comparables that we have selected may be as few as ten to twenty-five transactions. The risk in using a smaller sample of comparables is that one or more “outlying” comparables can significantly distort the ratio analysis of the entire sample. By “outlying” we mean that the Market Value Multipliers produced by the single Guideline Company are so far above or below the other observations that it caused the group’s overall averages to be skewed. Thus, it is accepted practice when trying to measure where the market is to use the *Median* of a sample rather than its *Average*. The *Average* of a sample will be affected more by a single outlier than the *Median*. Regardless, both measures are at risk of sampling error due to small sample size. For that reason, standard deviation and coefficient of variation tests will be run on the sample which will then be compared to the entire Pratt’s Stats database of 11,500 companies.

Standard Deviation is a statistical tool that measures the spread between the multipliers of each individual comparable and the corresponding average for the entire sample of comparables. In other

words, the Standard Deviation measures the degree of variability or dispersion within a sample. However, when comparing our small selection of comparables to the entire Pratt’s Stats database, the Standard Deviations of the two samples, by itself, does not tell us which sample is more accurate. For that determination we use the Coefficient of Variation (CV). CV equals the Standard Deviation of the sample divided by its Average. The *degree of dispersion* within the sample is measured as a percentage of that sample’s average. Thus, if a sample’s average Cash Flow Multiplier were 5.0 and the standard

Exhibit IV Example Coefficient of Variation

Cash Flow Multipliers		
	Sample #1	Sample #2
Transaction #1	4.6	7.7
#2	4.0	2.0
#3	4.4	3.0
#4	4.7	9.0
#5	5.7	1.0
#6	4.0	5.0
Median	4.5	4.0
Average	4.6	4.6
Stand Deviation	0.63	3.2
Coef of Variation	14%	69%

deviation is 1.5, statistically the majority of all comparables would have a Multiplier that fell between 3.5 and 6.5 (5.0 ± 1.5). The CV would indicate that the majority of comparables would lie within 30% of the average ($1.5 \div 5.0$). Thus, the coefficient gives us a tool to compare different samples in terms of their respective variability. If one sample has a much lower CV than the second, we can assume that the second sample has one or two outlying observations that may be distorting its overall average and, thereby, giving us a false read of the market.

The best way of defining CV is through an example. Sample #1 in Exhibit IV contains the Cash Flow Multipliers of six sales transactions. The sample's median is 4.5 and the average is 4.6. Sample #2 also contains the Cash Flow Multipliers of six transactions. This sample has an average of 4.6, the same that was found in Sample #1. However, the median was a moderately lower 4.0. In choosing which sample is a more accurate measure of the market, we could simply look at the six observations in Sample #1, and intuitively we know that 4.5 is a good guess of where that market is. When looking at Sample #2, we have no clue as to what a good guess would be. Sample #2's observations are all over the map and any guess may be way off the mark. The CVs for these two samples statistically tell us what we already gleaned from visual inspection. The CV for Sample #1 was only 14%, whereas #2 was 63%. Given the choice between the two samples, Sample #1 produces, by far, a better indication of where the market is as evidenced by its much lower CV value.

As noted by Shannon Pratt in his *Market Approach to Valuing Businesses*, "All else being equal, multiples [derived from a sample database] exhibiting low Coefficients of Variation tend to more accurately reflect market consensus with respect to value."⁽⁴⁾ Mr. Pratt also notes, "When Market Value Multiples among companies are tightly clustered, this suggests that these are the multiples that the market pays most attention to in pricing companies ... in that industry."⁽⁵⁾

The appraiser might have occasion to adjust a Market Value Multiple up or down given the presence of other extenuating circumstances. Since the median value for a particular multiple describes where the general market is, there may be circumstances where the appraisal subject does not "fit the mold." According to Pratt, "Keep in mind that the two factors that influence the selection of multiples of operating variables the most are the growth prospects of the Subject Company relative to the Guideline Companies and the risk of the Subject Company relative to the Guideline Companies."⁽⁶⁾

Thus, if the growth rate of the subject or its profitability is greater than or less than the Guideline Companies as a whole, there would be justification to move the observed multiple upward or downward by a percentage, or, even go to the upper or lower quartile of the sample's range.

Three different Market Value Multipliers will be used in this report. Standard Deviations and Coefficients of Variation will be calculated for each sample which will then be compared to the entire Pratt's Stats database of 11,501 transactions. If either sample produces significantly higher

⁽⁴⁾ Shannon Pratt, *The Market Approach to Valuing Businesses*, (John Wiley and Sons, Inc., 2001), p. 212

⁽⁵⁾ *Ibid.*, p. 134

⁽⁶⁾ *Ibid.*, p.134

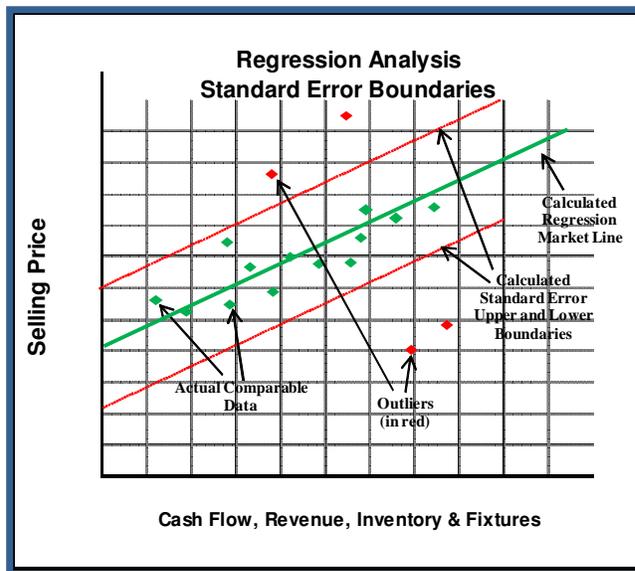
coefficients we will reduce its weighting, or eliminate it altogether when reconciling all the calculated values to obtain a single value conclusion.

1.8.2 Regression Analysis

We have now completed round one of the process of selecting a suitable sample of comparables. The second step is to try to identify if there *are individual observations* within that sample that might be so far out of alignment with the rest of the sample that it is distorting our view of where the market is.

Regression Analysis is a statistical tool that we will use that compares various key characteristics of each Guideline Company (Gross Revenues, Cash Flow, Inventory, Fixtures, and Cash Flow Profit Margin (SDE %)) with its selling price. If each of these key characteristics are plotted on a graph, the regression calculation produces a line that will be the "best fit" between those points versus the selling prices. The regression line, therefore, is the measurement representing the closest relationship between these key variables and the selling prices of all the observed companies in the sample.

Exhibit V Outliers Identified by Standard Error



Those Guideline Companies whose actual selling price is radically different from the price calculated by the regression line (i.e. they are significantly out of alignment with the rest of the market) can now be easily identified. The Regression Analysis not only plots a line that best represents where the market is, but also calculates what is referred to as Standard Error lines. The Standard Error is a statistical measurement similar to Standard Deviation in that it calculates the upper and lower boundaries between which most of the comparables should theoretically fall. Those comparables that fall outside these boundaries are companies whose selling prices were so far above or below the rest of the market that the transactional data must be considered flawed. These "Outliers," as they are referred to, will be removed from our sample of comparables.

The example in Exhibit V graphed the points of 17 comparables on a chart (15 green and 4 red). The regression analysis calculated a line (in green) that is the closest fit to all those points. The regression also calculated a Standard Error which indicates theoretical boundaries (in red) in which approximately 16% of all companies should fall above the upper boundary line and 16% should fall below the lower boundary line. Four observations (in red) fell outside these boundaries, and therefore are not considered representative.

of the market. The observations that fall outside the Standard Error boundaries will be considered “Outliers.”

After the Outliers have been removed from our initial sample of comparables, we end up with a sample that is even smaller. As noted above, smaller samples carry a greater risk that one or two observations may still skew the results and present a false read of the market. Therefore, we will apply the CV test described in Paragraph 1.8.1 above to the second, smaller sample. If the new smaller sample produces CV ratios that are lower than those observed in the original sample, we will conclude that the smaller sample is a more accurate read of the market.

2.0 Procedures Used in the Direct Market Data Method

Once a sample of comparables that statistically represents the market has been selected, we can now apply various procedures to it that will ultimately determine the value of our Subject.

The following are the four procedures that will be used in the Market Approach:

2.1 Gross Revenue Multiplier – (Selling Price ÷ Gross Revenues)

This method is a simple ratio of a company’s Selling Price divided by its total Gross Revenues. Companies within a specific industry classification have a tendency to exhibit similar relationships between their revenues and selling price. Selling Price and Gross Revenues of a company are readily obtainable, making this method easy to apply. However, it does not consider the company’s profitability or asset valuation in the equation. Therefore, this method, if used by itself, may produce a misread of a company’s potential value.

2.2 Cash Flow Multiplier – (Selling Price ÷ Cash Flow)

This method is the ratio of a company’s Selling Price divided by its Discretionary Cash Flow. It should be noted that the database sources used in the Direct Market Data Method calculate earnings differently than the way we calculated Net Cash Flow in the Income Approach. Earnings or “Owner’s Discretionary Earnings” are calculated by removing all Owner’s salaries and perquisites (such as health benefits, personal autos, etc.) from expenses. Interest, depreciation, income taxes, any one-time expense or income, and any non-operating expense or income are also removed from the income statement. The resulting Owner’s Discretionary Earnings (also referred to as Owner’s Discretionary Cash Flow) is that cash flow which the Owner has at his disposal for his salary and perquisites, his loan payments, and his Capital Expenditures.

However, the same problem with the Gross Revenue Multiplier exists with the Cash Flow Multiplier. That is, the ratio only focuses on one aspect of the company’s operations, its Cash Flow. Therefore, if used by itself, this ratio may produce a misread of the company’s value. For that reason the Market Approach typically includes both ratios to estimate the value of a business.

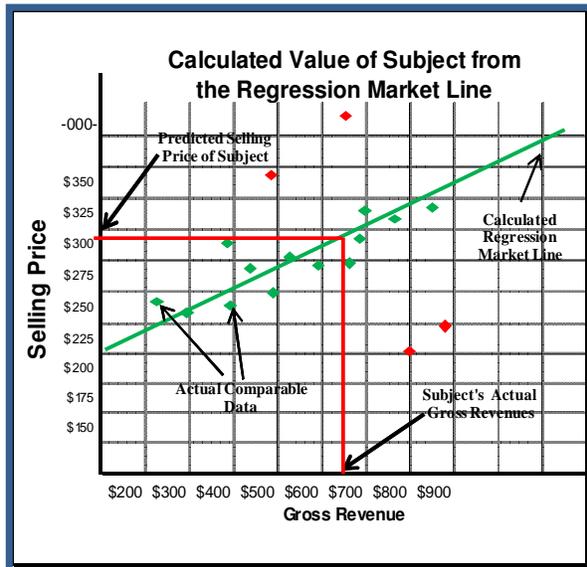
2.3 Enterprise Value + Inventory – (Selling Price – Inventory ÷ Cash Flow)

Under certain circumstances, however, using the above two methodologies can still produce inaccurate results when valuing businesses that derive the bulk of their revenues from the sale of inventory. For example: it was determined that the average hardware store sells for .45 times its Gross Revenue and 3.30 times its Discretionary Cash Flow. In our search, we find two Guideline Companies, each doing \$900,000 in Gross Revenues and \$125,000 in Cash Flow; yet, one sold for \$400,000 and the second for \$600,000. The apparent anomaly can probably be explained by the fact that the first store had \$200,000 in Inventory while the second had \$400,000.

The “Enterprise Value + Inventory” methodology deducts the volatile Inventory component from the selling price of the business. The difference is then divided by the company’s Discretionary Cash Flow. The resulting ratio can be used to determine what is referred to as the “Enterprise Value” of the business; that is, the value of a business *excluding* its Inventory. By using this methodology in the two above examples, we find that Enterprise Value for both businesses was 1.60 [Store #1 = (\$400,000 - 200,000) ÷ \$125,000; Store #2 = (\$600,000 - 400,000) ÷ \$125,000]. We can then use this ratio to estimate the value of a third hardware store which generated, say, \$1,450,000 in Gross Revenues, \$200,000 in Cash Flow, and had \$375,000 in Inventory. Store #3’s Enterprise Value is \$320,000 (\$200,000 x 1.60); its total value *including* inventory is, therefore, \$320,000 + \$375,000, or \$695,000. The Cash Flow Multiplier by itself would have predicted only \$660,000 (3.30 x \$200,000) and the Gross Revenue Multiplier would have predicted \$652,500 (.45 x \$1,450,000). When reconciling these three Market Value Multipliers to estimate the value of this third hardware store, we might consider giving additional weighting to the Enterprise Valuation because this store primarily generates its revenue from the sale of Inventory.

Exhibit VI Example Regression Analysis

2.4 Four Regression Calculations to Be Used



We have discussed above how Regression Analysis helped us identify Outliers within our initial sample of comparables. The resulting smaller sample has now been “sanitized” and, therefore, should give us a more accurate read of the market. As was also noted, the Regression Analysis calculates a formula from which a line can be graphed that best represents that specific market. By plotting our Subject’s actual variables on the chart, the Market Line will then enable us to determine the probable value of the Subject Company.

Our Market Approach will employ four different

Regression calculations. The first is referred to as a “*Multiple Variable Regression Analysis*.” This statistical tool simultaneously compares four key variables of each comparable (Gross Revenues, Cash Flow, Inventory, and Fixtures) with its respective selling price. The regression produces a formula, then, in which we can input our subject’s four actual variables and calculate its probable selling price. For demonstration purposes a simplified Regression Analysis is graphed in Exhibit VI. The values for the Selling Price and the Gross Revenues of 17 comparables were plotted on the chart and a regression line was then calculated. The subject company’s Gross Revenues of \$700,000 is then located on the horizontal X-Axis. By moving vertically from that point to the Regression Line we can then identify the probable selling price of \$300,000 from the vertical Y-Axis on the left side of the chart.

The remaining three Regression calculations to be used in this report will compare the Cash Flow Profit Margins (SDE %) of the comparables against their respective Cash Flow Multipliers, Revenue Multipliers, and Enterprise Multipliers. These three tests are discussed in greater detail below.

Each of the four regression tests that will be undertaken will produce an R Squared factor which measures how close all the comparables fit to their respective Market Lines. An R Squared of 0.0 means that the calculated Market Line had no predictive value whatsoever. An R Squared of 1.0 means that the Market Line exactly predicted the selling price for each of the comparables. Thus, R Squared gives us a means to compare how good each regression was at predicting the Subject’s value in much the same manner as the CV ratio did in the sampling tests done earlier in the report. Thus, in the final reconciliation at the end of this report, the predicted selling prices calculated by each of the four regression tests will be weighted using their respective R Squared factors as guidelines

2.5 Cash Flow Profit Margin (SDE %) – (Discretionary Earnings ÷ Revenues)

IRS Ruling 59-60 instructs business appraisers to give considerable weighting to a company’s profitability when determining its value. As such, we observe the Subject’s Cash Flow growth over the previous several years and identify all the drivers that created that growth. We also look at the Subject’s market and how it affects the Subject’s Cash Flow and consider the prospects for its continued growth in the future. We then compared the Subject’s Balance Sheet and P&L ratios to a database of thousands of similar companies to determine the Subject’s relative strength compared to its peer group. **The questions is, then, once we have determined that our Subject is better than its peer group, what is the market willing to pay for that?**

When trying to make a direct comparison of the Subject with companies that have recently sold, the available databases of sold comparables do not provide us with much financial information. The only effective tool available is to compare each company’s Cash Flow Profit Margins (SDE %). This simple ratio, Discretionary Earnings divided by Gross Revenues, gives us the means to directly compare the relative performance of companies in terms of their profitability and how it

affects the selling price of the business. Generally speaking, when comparing companies of similar size and SIC classification, those which have higher SDE % tend to be the more dominant players within their markets. They can command higher prices for their products and services, and, they control expenses more efficiently than their competition.

Since this one measure of a company’s profitability will be used extensively in the following Market Approach, it is important to understand all the subtleties behind it.

Exhibit VII Cash Flow Profit Margin by Size of Company

Total Transactions	Sales Range	Median Cash Flow Profit Margin (SDE%)
5,002	\$0-\$500,000	24.7%
897	\$500,000-\$1,000,000	18.4%
309	\$1,000,001-\$2,000,000	15.6%
231	\$2,000,001-\$5,000,000	14.7%
143	\$5,000,001-\$8,000,000	13.3%
242	\$8,000,001-\$25,000,000	14.6%
284	\$25,000,001+	11.4%
Overall Totals		
7144	All Transactions	20.2%

The following transactions were eliminated from the above analysis to avoid potential distortions:

- 1) Corporate Stock Sales
- 2) Assets Sales where liabilities were assumed.
- 3) Companies with negative cash flow
- 4) Companies with Cash Flow Multipliers over 10.0

Pratts Stats Database of 13998 transactions, 8/10/09.

2.5.1 Size of a Company vs. its Cash Flow Profit Margin (SDE %)

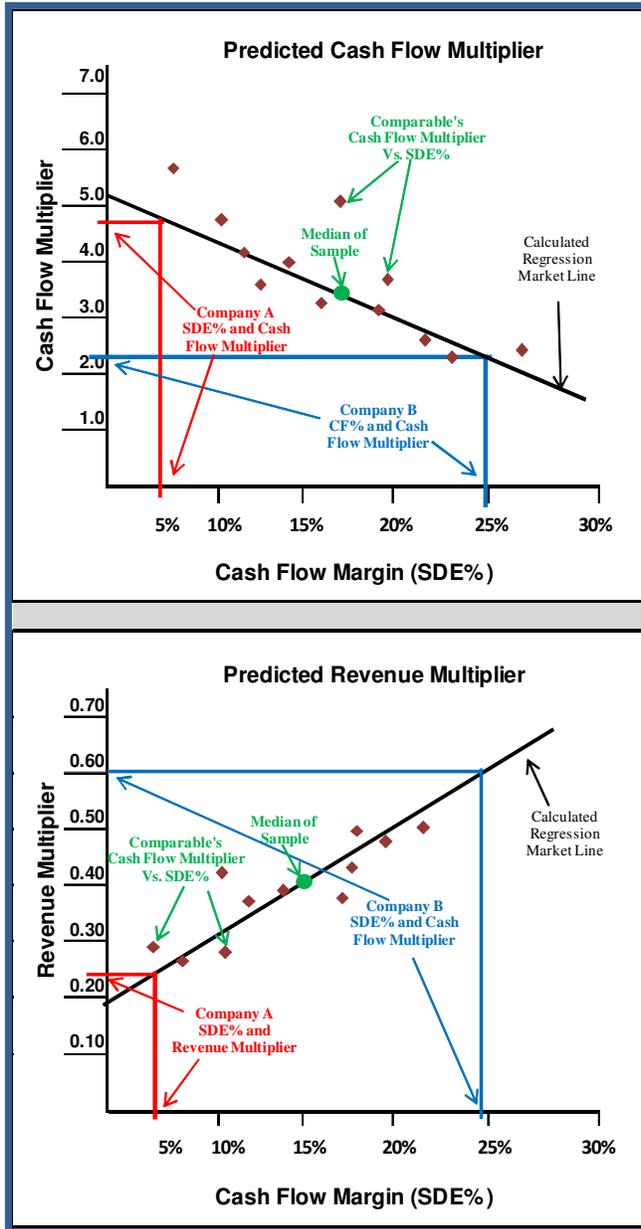
First, from Exhibit VII we can see that *the larger the company is, the lower its SDE %*. This appears to be a direct contradiction to what we observed in the previous section above, i.e., *the larger the company the higher its Cash Flow Multiplier*. This apparent anomaly can be explained as follows:

In smaller companies under \$500,000 in revenue, the owner typically “wears all the hats.” He is the salesman, marketing manager, HR manager, and bookkeeper. All the profits flow to the owner to compensate him for all these jobs. As we see from Exhibit II, companies that size generate cash flow at an average of 24.7% of every dollar of Revenue.

For a \$500,000 company, then, that would translate to \$123,500 in Discretionary Earnings (\$500,000 x 24.7%). From Exhibit III we saw that a \$500,000 company would sell for 2.11 times its earnings, which in our example would be \$260,585 (\$123,500 x 2.11). For this company to grow to \$2 million, however, the owner must now hire a bookkeeper, and HR manager and possibly a CFO. The company is now too big for the owner to do everything himself. A \$2 million company typically earns \$312,000 in Discretionary Earnings (\$2 million x 15.6% (from Exhibit VI)). Thus, when a company grows from \$500,000 to \$2 million, the *additional* \$1.5 million in sales added \$188,500 in earnings which only yields a 12.6% SDE % (\$188,500 ÷ \$1,500,000).

Thus, the second company in the above example produced a *higher* level of Gross revenues yet earned a *lower* SDE %. The importance of this peculiarity is that in using SDE % to predict the value of a business, it becomes increasingly essential to select a sample of comparables that are as close in revenue size to the Subject as possible, and that are from similar SIC classifications. Otherwise, we might look at the 24.7% SDE % of a \$500,000 company and draw the false conclusion that it deserves better Market Value Multipliers than the \$2 million which only produced an SDE % of 15.6%.

Exhibit VIII Predicting Multipliers Using SDE%



2.5.2 The level of a Company's SDE % vs. its Cash Flow Multiplier

A second oddity that one must be aware of when comparing the companies of similar size and SIC classification is that: *the higher their Cash Flow Profit Margins (SDE %), the lower their Cash Flow Multipliers tend to be*. This seemingly contradicts everything we know about Market Approach science! We just presumed that highly profitable companies that enjoyed higher profit margins would also earn higher Cash Flow Multipliers than their underperforming counterparts. This is not the case!

From Exhibit III we observed that larger companies generally earned higher Cash Flow Multipliers and Revenue Multipliers. Clearly, the size of a company is a major driver to the size of its Cash Flow Multiplier. However, if we look at companies within a narrow range of Sales we can see that there is a considerable range in their respective Multipliers. For example, companies with revenues in the \$1 million to \$2 million range earned a median 2.77 Cash Flow Multiplier which, on the average, was considerably higher than the 2.11 earned by \$500,000 companies. Yet, when we look at *the range of multipliers* for the \$1 to \$2 million group we find that the lower quartile only earned a 1.86 multiplier whereas, the upper quartile earned 4.07. **This range of multipliers within a specific size grouping can largely be explained by the level of a company's SDE %.**

A statistical analysis of the Pratt's Stats database clearly shows this relationship.

A regression analysis was performed on the entire Pratt's Stats database of 11,500 sold transactions comparing each company's SDE % with its corresponding Cash Flow Multiplier.⁽⁷⁾

⁽⁷⁾ The database was first filtered by removing all transactions where Cash Flow Multipliers were greater than 10 or less than 0, and all corporate stock transfers. There were 4811 transactions in this filtered sample.

The R Squared of the regression was only .18. Since this factor is low (0 means no correlation and 1.0 means perfect correlation), one could not conclude that SDE % is a good indicator of a company's Cash Flow Multiplier. However, when we filter the Pratt's Stats Database further by including only companies near the same revenue level as the Subject and that are in similar SIC Classification, the resulting regression produces an R Squared significantly higher, usually from .40 to .70 or more. *In other words, when we select a small sample of companies that have a similar revenue level and SIC Classification as the Subject, the Subject's SDE % becomes a reasonably good predictor of its potential Cash Flow Multiplier.* However, from the upper graph in Exhibit VIII we note that the regression line is in a downward slope. This means that as a company's SDE % increases, we move to the right on the horizontal X-Axis. However, the Regression Market Line shows that we will also be moving downward on the vertical Y-Axis, indicating a decreasing Cash Flow Multiplier. *Thus, for a given level of Revenue, those companies that are more profitable and therefore, have a higher SDE %, will earn a lower Cash Flow Multiplier.*

This oddity is easily explained by the example diagrammed in the upper half of Exhibit VIII. Company A (diagrammed in red lines), with revenues of \$500,000 and Cash Flow of \$24,000, sold for \$110,000. Therefore, its SDE % is $\$24,000 \div \$500,000 = 4.8\%$, and, its Cash Flow Multiplier is $\$110,000 \div \$24,000 = 4.6$. (Observe where the red lines cross the horizontal axis at 4.8% and vertical axis at 4.6.) Company B (diagrammed in blue), also with \$500,000 in revenues, but with \$125,000 in cash flow, sold for \$300,000. As we would expect, Company B sold for more money because it had higher earnings (in absolute dollar terms). However, Company B only produced a Cash Flow Multiplier of 2.4 ($\$300,000 \div 125,000$), but had a high SDE % of 25% ($\$125,000 \div \$500,000$). (Observe where the blue lines cross the horizontal axis at 25% and vertical axis at 2.4.) *Company A's high Cash Flow Multiplier was not a function of a high selling price, but rather the function of a very low level of Cash Flow, the denominator of the equation.*

Appraisers typically use the Median Cash Flow Multiplier for the whole sample of comparables to value a business. In the above example, the Median was 3.5. If we merely used the Median Multiplier to estimate Company A and B's probable selling prices we would have priced A at \$84,000 ($3.5 \times \$24,000$) and B at \$437,500 ($3.5 \times \$125,000$). We would have been way low on the first valuation and way high on the second. However, by using the regression formula and Subject's SDE % to calculate its Cash Flow Multiplier, we would have determined that the company with a low SDE % would have had a high multiplier (4.6), and the company with the high SDE % would have had a low Multiplier (2.4). Thus, by using regression analysis the resulting predicted values of the two companies would be much more accurate.

When regressing the SDE % against the Revenue Multipliers of a sample of comparables, the resulting R Squared factor is even more compelling than we found above when regressing SDE % against the Cash Flow Multiplier. The R Squared factor typically rises as high as .80 or more, indicating that there is a very strong correlation between a company's SDE % and its Revenue Multiplier. In addition, Revenue Multipliers follow a more logical pattern. From the graph at the bottom half of Exhibit VIII we can see that companies with a higher SDE % also earn higher Revenue Multipliers. Multiplier. In addition, Revenue Multipliers follow a more logical pattern. From the graph at the bottom half of Exhibit VIII we can see that companies with a higher SDE % also earn higher Revenue Multipliers.

By applying the data from the example above to the graph in the bottom half of Exhibit VIII, we see that Company A only had a SDE% of 4.8% and, as a result, the Regression Equation predicted a weak Revenue Multiplier of .22. Company B, however, had a strong SDE% of 25% and, accordingly, earned an equally strong Revenue Multiplier of .60. Again, if we only decided to use the sample's Median Revenue Multiplier of 0.40, *the calculated value for both companies would have been the same* - \$200,000 (.40 x \$500,000). Simple logic would tell us that both companies are not worth the same; the second company earns five times as much cash flow! The Regression properly accounts for the difference in a company's profitability when calculating the Gross Revenue Multiplier, whereas, the Median of the sample does not.

From all the above statistical testing we can conclude that comparables within a narrow revenue range and in the same SIC classification behave in similar and predictable ways, a point appraisers have always contended. By using Regression Analysis we can tap into that similarity by using a company's SDE% to predict its Revenue Multiplier, Cash Flow Multiplier, and Enterprise Multiplier.

Exhibit IX Sold Comparables Analysis

Sold Comparables Analysis May 2, 2011										
	Listing Price (a)	Selling Price (b)	Gross Revenues (c)	Cash Flow (SDE) (d)	Inventory (e)	Fixtures (f)	SDE% d ÷ c	Revenue Multiplier b ÷ c	Cash Flow Multiplier b ÷ d	Enterprise Multiplier (b - e) ÷ d
1	275,000	235,000	744,000	43,000	50,000	65,000	5.8%	0.32	5.43	4.27
2	585,000	250,000	1,035,000	105,000	252,000	10,000	10.1%	0.24	2.39	-0.02
3	250,000	200,000	641,000	73,000	10,000	35,000	11.4%	0.31	2.74	2.60
4	350,000	350,000	823,000	106,000	20,000	36,000	12.9%	0.43	3.30	3.11
5	400,000	280,000	766,000	108,000	25,000	100,000	14.1%	0.37	2.59	2.36
6	195,000	170,000	602,000	95,000	5,000	125,000	15.8%	0.28	1.79	1.74
7	300,000	250,000	648,000	118,000		58,000	18.2%	0.39	2.12	2.12
8	375,000	375,000	650,000	139,000	8,000	55,000	21.4%	0.58	2.70	2.64
9	250,000	250,000	640,000	140,000	68,000	35,000	21.9%	0.39	1.79	1.30
10	250,000	225,000	650,000	170,000	5,000	35,000	26.2%	0.35	1.32	1.29
11	450,000	400,000	750,000	230,000	20,000	35,000	30.7%	0.53	1.74	1.65
12	450,000	400,000	730,000	225,000	5,000	35,000	30.8%	0.55	1.78	1.76
13	425,000	425,000	800,000	250,000		125,000	31.3%	0.53	1.70	1.70
14	425,000	425,000	800,000	250,000		125,000	31.3%	0.53	1.70	1.70
15	335,000	335,000	646,000	203,000	143,000	110,000	31.4%	0.52	1.65	0.95
16	700,000	665,000	1,087,000	392,000	130,000	75,000	36.1%	0.61	1.70	1.36
17										
18										
19										
20										
21										
22										
23										
24										
25										
Average	376,000	327,000	751,000	165,000	57,000	66,000	SDE % Range	Revenue Mult Range	Cash Flow Mult Range	Enterprise Mult Range

The above sample of typical auto repair companies illustrates what we have been discussing. The sample was sorted by each company's SDE% from the lowest to the highest. As you can see, when the SDE% is lower the Revenue Multipliers also tend to be lower, whereas, the Cash Flow Multipliers tend to be higher.

3.0 Building the Sample to be Used in the Analysis

The Pratt's Stats, BIZCOMPS, databases were searched for transactions in same Standard Industry Classification code. The Comparables Analysis Table in the EXHIBIT XI on Page 5 shows the operating ratios of all the businesses that were selected by using the filtering criteria discussed above.

All the transactions in the databases are presumed to be "Asset Sales," or, transactions that can be reconciled to Asset Sale Pricing; that is, their selling prices are comprised of Inventory, Fixtures, and Intangibles only. Those companies exhibiting very high Revenue Multiples often have either real estate, accounts receivable, or other non-operating assets included in their reported selling price, and, the transactional data neglected to disclose this fact. Many of the comparables with low Revenue Multiples may have reported their selling prices net of inventory, or, the buyer assumed some of the liabilities of the company, thereby reducing the price. Again, the transactional data may not have disclosed this fact. It only takes one or two comparables in a small sample with improper sales data to distort the Market Value Multiples.

A Multiple Regression Analysis was performed on the sample to pinpoint those outliers. The outliers were, then, removed leaving a smaller, more accurate sample. A second Multiple Regression was run on the second sample which calculated the value of the Subject Company (See Formula #4 in Exhibit X on Page 2) based on its gross revenues, cash flow (SDE), inventory, and fixtures and equipment. Formulas #1 to #3 in Exhibit X calculate the Revenue Multiplier, Cash Flow Multiplier, and the Enterprise Multiplier based on the Subject's SDE%. Each of these three multipliers is then applied to the Subject's revenues and cash flow to calculate values for the business.

When all four methodologies produce their respective values for the Company, each value is weighted by the size of its R Squared factor. Thus, the methodology with the highest R Squared will be given the highest weighting when determining the final value for the Subject.

The final calculated value is an Asset Sale value which includes the Subject's Inventory, Fixtures and Equipment, and its Goodwill.

Comparable Listing Analysis

Please read the Appendix B following this comparables listing for detailed information on how the various databases present their information. In order to make the transactional data from each database directly comparable to each other, the following adjustments were made:

I. PRATTS STATS DATABASE

Selling Price:

<u>Sample Stock Sale to Asset Sale Price**</u>		<u>Sample Asset Sale Price</u>	
Market Value of Invested Capital*	\$850,000	Market Value of Invested Capital*	\$850,000
Plus Employment Agreement Value	\$50,000	Plus Employment Agreement Value	<u>\$50,000</u>
Less any acquired Cash	(\$30,000)	Adjusted Asset Sale Price	<u>\$900,000</u>
Less acquired Accounts Receivable	(\$220,000)		
Less Other Cur, Non-Cur Assets acquired	(\$5,000)		
Less interest-bearing Debt Assumed	(\$50,000)		
Plus Total Liabilities Assumed	<u>\$125,000</u>		
Adjusted Asset Sale Price	<u>\$720,000</u>		

* MVIC (Market Value of Invested Capital) equals Total Consideration paid (in the form of cash, notes, or stocks), plus any assumed interest-bearing debt less any value allocated to Earnouts and Employment Agreements

** Asset Data field must indicate "Asset Data = **Allocation**" or NOTES field lists actual allocation breakout.

Seller's Discretionary Earnings (SDE):

Pratt's Stats usually calculates SDE similarly to Bizcomps and IBA databases. However, they typically obtain more data from submitting brokers and therefore their calculated value for SDE may differ. However, in most cases, Pratt's Stats' transactional data when applied to following formula yields the same or nearly the same value as Bizcomps and IBA.

<u>Sample SDE Calculation</u>	
Owner's Compensation	\$75,000
Non-Cash Charges	\$22,000
Operating Profit	<u>\$57,000</u>
Cash Flow (SDE)	<u>\$154,000</u>

II. BIZCOMPS DATABASE

Selling Price:

BIZCOMPS Database separates Inventory value from the Selling Price and Listing Price. To make BIZCOMPS' Selling Price and Listing Prices comparable to Pratt's Stats and IBA adjusted data, inventory must be added to the BIZCOMP selling price.

<u>Sample Selling Price Calculation</u>	<u>SDE</u>	<u>Revenue</u>
BIZCOMP Sale Price	4/6/58	No adjustment necessary
Inventory	<u>\$175,000</u>	No adjustment necessary
Adjusted Asset Sale Price	<u>\$525,000</u>	
(= Inventory, Fixed Assets, and Goodwill)		

III. IBA DATABASE

Selling Price:

<u>Sample Selling Price Calculation</u>	<u>SDE</u>	<u>Revenue</u>
Sale Price	\$950,000	No adjustment necessary
Real Estate	<u>(\$500,000)</u>	No adjustment necessary
Adjusted Asset Sale Price	<u>\$450,000</u>	
(= Inventory, Fixed Assets, and Goodwill)		

Transaction Details		Comp # 1	Page 36		
SIC Code: 7389 Business services		NOTES:			
Business Description: Business Services		No Additional Comments were Submitted			
Source: Bizcomps					
Transaction Type: asset Sale					
Location: Phoenix, AZ					
Number of Employees: 0					
Entity Type: N/A					
Transaction Data		<u>Adjusted Asset Sale Price:</u>			
Date of Sale	6/30/08	Sale Price	\$150,000		
Days on the Market	0	Inventory	\$0		
Asking Price	\$160,000				
Adjusted Asset Sale Price	\$150,000	Adjusted Asset Sale Price	\$150,000		
Percent Down Payment	50%				
Terms of Deal:					
No Terms were Submitted					
Income Data	Asset Data	Liability Data			
Annual Gross Sales	\$429,000	Cash	\$0	Assumed Int-Bear Debt	\$0
Cash Flow (SDE)	\$60,000	Accounts Receivable	\$0	L-T Liabilities	\$0
		Other Current & Non-Current Assets	\$0	Total Liabilities	\$0
		Inventory	\$0		
		Furniture Fixtures, and Equipment	\$125,000	Value of Real Estate	\$0
		Intangibles	\$0		
		Employment Agreement Value	\$0		
Operating Ratios	Valuation Multiples				
Cash Flow Margin (SDE%):	13.99%	Revenue Multiplier	0.35		
Rent/Annual Sales	0.0%	Cash Flow Multiplier	2.50		
		Enterprise Multiplier	2.50		

Transaction Details		Comp # 2	Page 1		
SIC Code: 8721 Engineering and management services - . Auditing Accountants		NOTES:			
Business Description: Bookkeeping		Transaction was submitted by the BBF (3/2009).			
Source: Pratts Stats					
Transaction Type: Asset Sale					
Location: FL					
Number of Employees: 6					
Entity Type: S Corporation					
Transaction Data					
Date of Sale	3/12/08				
Days on the Market	292				
Asking Price	\$875,000				
MVIC*	\$804,000				
Percent Down Payment	100%				
Terms of Deal: * Market Value of Invested Capital					
No Terms were Submitted					
Income Data	Asset Data	Liability Data			
Annual Gross Sales	\$707,338	Cash	N/A	Assumed Int-Bear Debt	N/A
SDE Calculation		Accounts Receivable	N/A	L-T Liabilities	N/A
Owner's Compensation	\$135,485	Other Current & Non-Current Assets	N/A	Total Liabilities	N/A
Non-Cash Charges	\$394	Inventory	\$0		
Operating Profit	<u>\$10,795</u>	Furniture Fixtures, and Equipment	\$0	Value of Real Estate	N/A
Cash Flow (SDE)	\$146,674	Intangibles	\$0		
		Employment Agreement Value	N/A		
Operating Ratios	Valuation Multiples				
Cash Flow Margin (SDE%):	20.74%	Revenue Multiplier	1.14		
Rent/Annual Sales	0.0%	Cash Flow Multiplier	5.48		
		Enterprise Multiplier	5.48		

Transaction Details		Comp # 3	Page 37		
SIC Code: 7389 Business services		NOTES:			
Business Description: Business Services		No Additional Comments were Submitted			
Source: Bizcomps					
Transaction Type: asset Sale					
Location: Florida					
Number of Employees: 15					
Entity Type: N/A					
Transaction Data		<u>Adjusted Asset Sale Price:</u>			
Date of Sale	9/1/10	Sale Price	\$405,000		
Days on the Market	662	Inventory	\$0		
Asking Price	\$440,000				
Adjusted Asset Sale Price	\$405,000	Adjusted Asset Sale Price	\$405,000		
Percent Down Payment	100%				
Terms of Deal:					
No Terms were Submitted					
Income Data		Asset Data		Liability Data	
Annual Gross Sales	\$657,000	Cash	\$0	Assumed Int-Bear Debt	\$0
Cash Flow (SDE)	\$146,000	Accounts Receivable	\$0	L-T Liabilities	\$0
		Other Current & Non-Current Assets	\$0	Total Liabilities	\$0
		Inventory	\$0		
		Furniture Fixtures, and Equipment	\$6,000	Value of Real Estate	\$0
		Intangibles	\$0		
		Employment Agreement Value	\$0		
Operating Ratios		Valuation Multiples			
Cash Flow Margin (SDE%):	22.22%	Revenue Multiplier	0.62		
Rent/Annual Sales	1.0%	Cash Flow Multiplier	2.77		
		Enterprise Multiplier	2.77		

Transaction Details		Comp # 4	Page 37		
SIC Code: 8021 Health services - Offices and Clinics of Dentists		NOTES:			
Business Description: Health Care Consultant		1 Doctor - Allocation of the Purchase Price (allocates cash paid, holdback, and acquisition costs): Tangible assets \$51,170, Intangible assets \$148,830, Total assets acquired \$200,000.			
Source: Pratts Stats					
Transaction Type: Asset Sale					
Location: PA					
Number of Employees: 5					
Entity Type: S Corporation					
Transaction Data					
Date of Sale	3/1/13				
Days on the Market	151				
Asking Price	\$200,000				
Adjusted Asset Sale Price	\$200,000 **From Allocation Asset Data				
Percent Down Payment	100%				
Terms of Deal:					
Consideration: Cash in the amount of \$200,000, which is 100% Bank financed for 10 years at 4.8%.					
Income Data		Asset Data is **Allocation**		Liability Data	
Annual Gross Sales	\$466,892	Cash	\$0	Assumed Int-Bear Debt	\$0
SDE Calculation		Accounts Receivable	\$0	L-T Liabilities	N/A
Owner's Compensation	\$106,952	Other Current & Non-Current Assets	\$0	Total Liabilities	N/A
Non-Cash Charges	\$0	Inventory	\$6,934		
Operating Profit	\$0	Furniture Fixtures, and Equipment	\$44,236	Value of Real Estate	N/A
Cash Flow (SDE)	\$106,952	Intangibles	\$148,830		
		Employment Agreement Value	N/A		
Operating Ratios		Valuation Multiples			
Cash Flow Margin (SDE%):	22.91%	Revenue Multiplier	0.43		
Rent/Annual Sales	10.0%	Cash Flow Multiplier	1.87		
		Enterprise Multiplier	1.81		

Transaction Details		Comp # 5	Page 38
SIC Code: 7361 Business services - . Except Executive Placing Services		NOTES:	
Business Description: HR Consulting, Training & Executive Recruiting Firm			
Source: Pratts Stats	Strategic buyer. Allocation of the Purchase Price: Fixed assets \$30,000, Noncompete \$5,000, Goodwill \$377,000, Total assets acquired \$412,000.		
Transaction Type: Asset Sale			
Location: CA			
Number of Employees: 11			
Entity Type: LLC			

Transaction Data	
Date of Sale	9/15/14
Days on the Market	0
Asking Price	\$0
Adjusted Asset Sale Price	\$412,000 **From Allocation Asset Data
Percent Down Payment	100%
Terms of Deal:	
Consideration: Cash in the amount of \$412,000.	

Income Data		Asset Data is **Allocation**		Liability Data	
Annual Gross Sales	\$807,000	Cash	\$0	Assumed Int-Bear Debt	\$0
SDE Calculation		Accounts Receivable	\$0	L-T Liabilities	N/A
Owner's Compensation	\$180,000	Other Current & Non-Current Assets	\$0	Total Liabilities	N/A
Non-Cash Charges	\$7,000	Inventory	\$0		
Operating Profit	\$0	Furniture Fixtures, and Equipment	\$30,000	Value of Real Estate	N/A
Cash Flow (SDE)	\$187,000	Intangibles	\$382,000		
		Employment Agreement Value	N/A		

Operating Ratios		Valuation Multiples	
Cash Flow Margin (SDE%):	23.17%	Revenue Multiplier	0.51
Rent/Annual Sales	4.0%	Cash Flow Multiplier	2.20
		Enterprise Multiplier	2.20

Transaction Details		Comp # 6	
SIC Code: 7389 Business services		NOTES:	
Business Description: Consulting Service			
Source: Bizcomps	No Additional Comments were Submitted		
Transaction Type: asset Sale			
Location: Florida			
Number of Employees: 0			
Entity Type: N/A			

Transaction Data		<u>Adjusted Asset Sale Price:</u>	
Date of Sale	7/16/14	Sale Price	\$220,000
Days on the Market	0	Inventory	\$0
Asking Price	\$220,000		
Adjusted Asset Sale Price	\$220,000	Adjusted Asset Sale Price	\$220,000
Percent Down Payment	100%		
Terms of Deal:			
No Terms were Submitted			

Income Data		Asset Data		Liability Data	
Annual Gross Sales	\$425,000	Cash	\$0	Assumed Int-Bear Debt	\$0
Cash Flow (SDE)	\$110,000	Accounts Receivable	\$0	L-T Liabilities	\$0
		Other Current & Non-Current Assets	\$0	Total Liabilities	\$0
		Inventory	\$0		
		Furniture Fixtures, and Equipment	\$0	Value of Real Estate	\$0
		Intangibles	\$0		
		Employment Agreement Value	\$0		

Operating Ratios		Valuation Multiples	
Cash Flow Margin (SDE%):	25.88%	Revenue Multiplier	0.52
Rent/Annual Sales	0.0%	Cash Flow Multiplier	2.00
		Enterprise Multiplier	2.00

Transaction Details		Comp # 7	Page 39
SIC Code:	8721	Engineering and management services - . Auditing Accountants	
Business Description:	Payroll Company	NOTES:	
Source:	Pratts Stats	This transaction was submitted by the Business Brokers of Florida.	
Transaction Type:	Asset Sale		
Location:	FL		
Number of Employees:	8		
Entity Type:	Limited Corporation		

Transaction Data	
Date of Sale	1/7/10
Days on the Market	107
Asking Price	\$882,000
Adjusted Asset Sale Price	\$882,000 **From Allocation Asset Data
Percent Down Payment	100%
Terms of Deal:	
No Terms were Submitted	

Income Data	Asset Data is **Allocation**	Liability Data
Annual Gross Sales	Cash	Assumed Int-Bear Debt
\$602,557	\$0	\$0
SDE Calculation	Accounts Receivable	L-T Liabilities
Owner's Compensation	\$0	N/A
\$207,145	Other Current & Non-Current Assets	Total Liabilities
Non-Cash Charges	\$0	N/A
\$14,037	Inventory	
Operating Profit	\$0	
(\$59,948)	Furniture Fixtures, and Equipment	Value of Real Estate
Cash Flow (SDE)	\$40,000	N/A
\$161,234	Intangibles	
	\$842,000	
	Employment Agreement Value	
	N/A	

Operating Ratios	Valuation Multiples
Cash Flow Margin (SDE%):	Revenue Multiplier
26.76%	1.46
Rent/Annual Sales	Cash Flow Multiplier
0.0%	5.47
	Enterprise Multiplier
	5.47

Transaction Details		Comp # 8
SIC Code:	7389	Business services
Business Description:	Business Services Consulting/Training	NOTES:
Source:	IBA	Indus. leader, sales steady in \$500k range, net profits up 19.3% past 3 yrs. Expertise includes Talent Mgt, Organ Dev & Design and Sr Level Career Consulting. In 2002 they became a partner firm with one of the top 5 Talent Mgt. Organ. in the world which p
Transaction Type:	Asset Sale	
Location:	FL	
Number of Employees:		
Entity Type:	N/A	

Transaction Data	
Date of Sale	4/2/08
Days on the Market	0
Asking Price	\$425,000
Sale Price	\$410,000
Percent Down Payment	100%
Terms of Deal:	
\$200,000, 60 months, 8%, \$4,055.28 per month	

Income Data	Asset Data	Liability Data
Annual Gross Sales	Cash	Assumed Int-Bear Debt
\$562,855	\$0	\$0
Cash Flow (SDE)	Accounts Receivable	L-T Liabilities
\$169,345	\$0	\$0
	Other Current & Non-Current Assets	Total Liabilities
	\$0	\$0
	Inventory	
	\$0	
	Furniture Fixtures, and Equipment	Value of Real Estate
	\$0	\$0
	Intangibles	
	\$0	
	Employment Agreement Value	
	\$0	

Operating Ratios	Valuation Multiples
Cash Flow Margin (SDE%):	Revenue Multiplier
30.09%	0.73
Rent/Annual Sales	Cash Flow Multiplier
0.0%	2.42
	Enterprise Multiplier
	2.42

Transaction Details		Comp # 9	Page 40		
SIC Code: 7389 Business services		NOTES:			
Business Description: Business Services		No Additional Comments were Submitted			
Source: Bizcomps					
Transaction Type: asset Sale					
Location: Florida					
Number of Employees: 14					
Entity Type: N/A					
Transaction Data		<u>Adjusted Asset Sale Price:</u>			
Date of Sale	5/1/06	Sale Price	\$995,000		
Days on the Market	192	Inventory	\$0		
Asking Price	\$995,000				
Adjusted Asset Sale Price	\$995,000	Adjusted Asset Sale Price	\$995,000		
Percent Down Payment	0%				
Terms of Deal:					
No Terms were Submitted					
Income Data	Asset Data	Liability Data			
Annual Gross Sales	\$980,000	Cash	\$0	Assumed Int-Bear Debt	\$0
Cash Flow (SDE)	\$310,000	Accounts Receivable	\$0	L-T Liabilities	\$0
		Other Current & Non-Current Assets	\$0	Total Liabilities	\$0
		Inventory	\$0		
		Furniture Fixtures, and Equipment	\$200,000	Value of Real Estate	\$0
		Intangibles	\$0		
		Employment Agreement Value	\$0		
Operating Ratios	Valuation Multiples				
Cash Flow Margin (SDE%):	31.63%	Revenue Multiplier	1.02		
Rent/Annual Sales	2.0%	Cash Flow Multiplier	3.21		
		Enterprise Multiplier	3.21		

Transaction Details		Comp # 10	Page 40		
SIC Code: 8742 Engineering and management services - . Administrative and General Manage		NOTES:			
Business Description: Consult-Human Resources		No Additional Comments were Submitted			
Source: Bizcomps					
Transaction Type: asset Sale					
Location: Orange County, CA					
Number of Employees: 2					
Entity Type: N/A					
Transaction Data		<u>Adjusted Asset Sale Price:</u>			
Date of Sale	11/14/08	Sale Price	\$620,000		
Days on the Market	256	Inventory	\$0		
Asking Price	\$626,000				
Adjusted Asset Sale Price	\$620,000	Adjusted Asset Sale Price	\$620,000		
Percent Down Payment	97%				
Terms of Deal:					
2 Yrs					
Income Data	Asset Data	Liability Data			
Annual Gross Sales	\$694,000	Cash	\$0	Assumed Int-Bear Debt	\$0
Cash Flow (SDE)	\$240,000	Accounts Receivable	\$0	L-T Liabilities	\$0
		Other Current & Non-Current Assets	\$0	Total Liabilities	\$0
		Inventory	\$0		
		Furniture Fixtures, and Equipment	\$0	Value of Real Estate	\$0
		Intangibles	\$0		
		Employment Agreement Value	\$0		
Operating Ratios	Valuation Multiples				
Cash Flow Margin (SDE%):	34.58%	Revenue Multiplier	0.89		
Rent/Annual Sales	0.0%	Cash Flow Multiplier	2.58		
		Enterprise Multiplier	2.58		

Transaction Details		Comp # 11	Page 41		
SIC Code: 7389 Business services		NOTES:			
Business Description: Business Services		No Additional Comments were Submitted			
Source: Bizcomps					
Transaction Type: asset Sale					
Location: Phoenix, AZ					
Number of Employees: 0					
Entity Type: N/A					
Transaction Data		<u>Adjusted Asset Sale Price:</u>			
Date of Sale	3/31/10	Sale Price	\$385,000		
Days on the Market	0	Inventory	\$3,000		
Asking Price	\$388,000				
Adjusted Asset Sale Price	\$388,000	Adjusted Asset Sale Price	\$388,000		
Percent Down Payment	22%				
Terms of Deal:					
No Terms were Submitted					
Income Data		Asset Data		Liability Data	
Annual Gross Sales	\$625,000	Cash	\$0	Assumed Int-Bear Debt	\$0
Cash Flow (SDE)	\$228,000	Accounts Receivable	\$0	L-T Liabilities	\$0
		Other Current & Non-Current Assets	\$0	Total Liabilities	\$0
		Inventory	\$3,000		
		Furniture Fixtures, and Equipment	\$75,000	Value of Real Estate	\$0
		Intangibles	\$0		
		Employment Agreement Value	\$0		
Operating Ratios		Valuation Multiples			
Cash Flow Margin (SDE%):	36.48%	Revenue Multiplier	0.62		
Rent/Annual Sales	0.0%	Cash Flow Multiplier	1.70		
		Enterprise Multiplier	1.69		

Transaction Details		Comp # 12	Page 41		
SIC Code: 8721 Engineering and management services - . Auditing Accountants		NOTES:			
Business Description: Accounting/Bookkeeping		No Additional Comments were Submitted			
Source: Bizcomps					
Transaction Type: asset Sale					
Location: Oregon					
Number of Employees: 3					
Entity Type: N/A					
Transaction Data		<u>Adjusted Asset Sale Price:</u>			
Date of Sale	8/13/14	Sale Price	\$500,000		
Days on the Market	0	Inventory	\$0		
Asking Price	\$640,000				
Adjusted Asset Sale Price	\$500,000	Adjusted Asset Sale Price	\$500,000		
Percent Down Payment	57%				
Terms of Deal:					
2 Yrs @ 5%					
Income Data		Asset Data		Liability Data	
Annual Gross Sales	\$500,000	Cash	\$0	Assumed Int-Bear Debt	\$0
Cash Flow (SDE)	\$183,000	Accounts Receivable	\$0	L-T Liabilities	\$0
		Other Current & Non-Current Assets	\$0	Total Liabilities	\$0
		Inventory	\$0		
		Furniture Fixtures, and Equipment	\$25,000	Value of Real Estate	\$0
		Intangibles	\$0		
		Employment Agreement Value	\$0		
Operating Ratios		Valuation Multiples			
Cash Flow Margin (SDE%):	36.6%	Revenue Multiplier	1.00		
Rent/Annual Sales	0.0%	Cash Flow Multiplier	2.73		
		Enterprise Multiplier	2.73		

Transaction Details		Comp # 13		Page 42	
SIC Code: 8021 Health services - Offices and Clinics of Dentists					
Business Description: Health Care Consultants		NOTES:			
Source: Pratts Stats					
Transaction Type: Asset Sale					
Location: PA				Number of doctors: 1	
Number of Employees: 7					
Entity Type: S Corporation					
Transaction Data					
Date of Sale	9/1/12				
Days on the Market	244				
Asking Price	\$335,000				
MVIC*	\$335,000				
Percent Down Payment	100%				
Terms of Deal:	* Market Value of Invested Capital				
Consideration: \$335,000					
Purchaser self financed transaction through their own bank					
Income Data		Asset Data		Liability Data	
Annual Gross Sales	\$702,000	Cash	\$0	Assumed Int-Bear Debt	N/A
SDE Calculation		Accounts Receivable	\$0	L-T Liabilities	\$0
Owner's Compensation	\$0	Other Current & Non-Current Assets	\$0	Total Liabilities	\$0
Non-Cash Charges	\$6,500	Inventory	\$11,000		
Operating Profit	<u>\$259,000</u>	Furniture Fixtures, and Equipment	\$121,000		
Cash Flow (SDE)	\$265,500	Intangibles	\$25,000	Value of Real Estate	\$0
		Employment Agreement Value	\$0		
Operating Ratios		Valuation Multiples			
Cash Flow Margin (SDE%):	37.82%	Revenue Multiplier	0.48		
Rent/Annual Sales	8.0%	Cash Flow Multiplier	1.26		
		Enterprise Multiplier	1.22		

Transaction Details		Comp # 14		Page 43	
SIC Code: 8721 Engineering and management services - . Auditing Accountants					
Business Description: Bookkeeping and Business Services Business		NOTES:			
Source: Pratts Stats					
Transaction Type: Asset Sale					
Location: ON				In Canadian Dollars	
Number of Employees: 5					
Entity Type: C Corporation					
Transaction Data					
Date of Sale	5/15/13				
Days on the Market	3809				
Asking Price	\$332,000				
MVIC*	\$280,000				
Percent Down Payment	71%				
Terms of Deal:	* Market Value of Invested Capital				
Consideration: Cash in the amount of \$200,000 with a Vender note in the amount of \$80,000 for 2 years. Part of the cash down was \$40,000 cash paid for accounts receivables.					
Income Data		Asset Data		Liability Data	
Annual Gross Sales	\$472,000	Cash	N/A	Assumed Int-Bear Debt	\$0
SDE Calculation		Accounts Receivable	\$87,500	L-T Liabilities	N/A
Owner's Compensation	\$122,000	Other Current & Non-Current Assets	N/A	Total Liabilities	N/A
Non-Cash Charges	\$825	Inventory	\$0		
Operating Profit	<u>\$59,575</u>	Furniture Fixtures, and Equipment	\$7,250		
Cash Flow (SDE)	\$182,400	Intangibles	\$5,000	Value of Real Estate	N/A
		Employment Agreement Value	\$0		
Operating Ratios		Valuation Multiples			
Cash Flow Margin (SDE%):	38.64%	Revenue Multiplier	0.59		
Rent/Annual Sales	6.0%	Cash Flow Multiplier	1.54		
		Enterprise Multiplier	1.54		

Transaction Details		Comp # 15		Page 43	
SIC Code: 8742 Engineering and management services - . Administrative and General Manage					
Business Description: Compensation and Benefits Consulting Firm with a Niche Focus in NOTES:					
Source: Pratts Stats		No Additional Comments were Submitted			
Transaction Type: Asset Sale					
Location: NY					
Number of Employees: 4					
Entity Type: S Corporation					
Transaction Data					
Date of Sale	7/1/14				
Days on the Market	26				
Asking Price	\$0				
MVIC*	\$825,000				
Percent Down Payment	64%				
Terms of Deal:	* Market Value of Invested Capital				
Consideration: Cash in the amount of \$525,000 and a Seller note in the amount of \$300,000 for two years, \$150,000 due at the end of year 1 and year 2.					
Income Data		Asset Data		Liability Data	
Annual Gross Sales	\$935,513	Cash	\$151,350	Assumed Int-Bear Debt	\$0
SDE Calculation		Accounts Receivable	\$0	L-T Liabilities	\$0
Owner's Compensation	\$200,000	Other Current & Non-Current Assets	\$138,804	Total Liabilities	\$0
Non-Cash Charges	\$0	Inventory	\$0		
Operating Profit	<u>\$168,004</u>	Furniture Fixtures, and Equipment	\$61,294	Value of Real Estate	\$0
Cash Flow (SDE)	\$368,004	Intangibles	\$0		
		Employment Agreement Value	N/A		
Operating Ratios		Valuation Multiples			
Cash Flow Margin (SDE%):	39.34%	Revenue Multiplier	0.88		
Rent/Annual Sales	8.0%	Cash Flow Multiplier	2.24		
		Enterprise Multiplier	2.24		

Transaction Details		Comp # 16			
SIC Code: 8021 Health services - Offices and Clinics of Dentists					
Business Description: Health Care Consultants NOTES:					
Source: Pratts Stats		Allocation of the Purchase Price (allocates cash paid, holdback, and acquisition costs): Tangible assets \$68,306, Intangible assets \$231,694, Total assets acquired \$300,000.			
Transaction Type: Asset Sale					
Location: NC					
Number of Employees: 5					
Entity Type: S Corporation					
Transaction Data					
Date of Sale	3/1/13				
Days on the Market	59				
Asking Price	\$300,000				
Adjusted Asset Sale Price	\$300,000 **From Allocation Asset Data				
Percent Down Payment	100%				
Terms of Deal:					
Consideration: Cash in the amount of \$300,000 which is 100% Bank financed for 7 years at 5%.					
Income Data		Asset Data is **Allocation**		Liability Data	
Annual Gross Sales	\$558,737	Cash	\$0	Assumed Int-Bear Debt	\$0
SDE Calculation		Accounts Receivable	\$0	L-T Liabilities	N/A
Owner's Compensation	\$223,500	Other Current & Non-Current Assets	\$0	Total Liabilities	N/A
Non-Cash Charges	\$11,631	Inventory	\$5,288		
Operating Profit	<u>\$1,687</u>	Furniture Fixtures, and Equipment	\$63,018	Value of Real Estate	N/A
Cash Flow (SDE)	\$236,818	Intangibles	\$231,694		
		Employment Agreement Value	\$0		
Operating Ratios		Valuation Multiples			
Cash Flow Margin (SDE%):	42.38%	Revenue Multiplier	0.54		
Rent/Annual Sales	8.0%	Cash Flow Multiplier	1.27		
		Enterprise Multiplier	1.24		

Transaction Details		Comp # 17		Page 44							
SIC Code: 7389 Business services		Business Description: Business Services Consulting/Training		NOTES:							
Source: IBA		Well established consulting business focused on helping Chambers of Commerce in their fund raising efforts. Very few competitors. Constant need for company services. Residual income is created from these efforts. Owners ready for retirement, but will stay for an extended period for transition and training. Buyer with good people skills and sales and/or marketing experience is a great fit. Owner financing available!									
Transaction Type: Asset Sale											
Location: GA											
Number of Employees:											
Entity Type: N/A											
Transaction Data											
Date of Sale		12/9/09									
Days on the Market		0									
Asking Price		\$650,000									
Sale Price		\$650,000									
Percent Down Payment		100%									
Terms of Deal:											
<table border="1"> <tr> <td colspan="6">\$400,000, 60 months, 6%, \$7,733.12 per month</td> </tr> </table>						\$400,000, 60 months, 6%, \$7,733.12 per month					
\$400,000, 60 months, 6%, \$7,733.12 per month											
Income Data		Asset Data		Liability Data							
Annual Gross Sales		\$460,430		Cash		\$0		Assumed Int-Bear Debt		\$0	
Cash Flow (SDE)		\$201,283		Accounts Receivable		\$0		L-T Liabilities		\$0	
				Other Current & Non-Current Assets		\$0		Total Liabilities		\$0	
				Inventory		\$5,000					
				Furniture Fixtures, and Equipment		\$50,000		Value of Real Estate		\$0	
				Intangibles		\$0					
				Employment Agreement Value		\$0					
Operating Ratios			Valuation Multiples								
Cash Flow Margin (SDE%): 43.72%			Revenue Multiplier 1.41								
Rent/Annual Sales 0.0%			Cash Flow Multiplier 3.23								
			Enterprise Multiplier 3.20								

Transaction Details		Comp # 18		Page 44							
SIC Code: 8742 Engineering and management services - . Administrative and General Manage		Business Description: Human Resources Consulting		NOTES:							
Source: Pratts Stats		Transaction was submitted by the BBF (3/2009).									
Transaction Type: Asset Sale											
Location: FL											
Number of Employees: 1											
Entity Type: S Corporation											
Transaction Data											
Date of Sale		5/22/08									
Days on the Market		125									
Asking Price		\$390,000									
MVIC*		\$325,000									
Percent Down Payment		100%									
Terms of Deal:		* Market Value of Invested Capital									
<table border="1"> <tr> <td colspan="6">No Terms were Submitted</td> </tr> </table>						No Terms were Submitted					
No Terms were Submitted											
Income Data		Asset Data		Liability Data							
Annual Gross Sales		\$543,790		Cash		N/A		Assumed Int-Bear Debt		N/A	
SDE Calculation				Accounts Receivable		N/A		L-T Liabilities		N/A	
Owner's Compensation		\$179,500		Other Current & Non-Current Assets		N/A		Total Liabilities		N/A	
Non-Cash Charges		\$123		Inventory		\$0					
Operating Profit		\$122,991		Furniture Fixtures, and Equipment		\$0		Value of Real Estate		N/A	
Cash Flow (SDE)		\$302,614		Intangibles		\$0					
				Employment Agreement Value		N/A					
Operating Ratios			Valuation Multiples								
Cash Flow Margin (SDE%): 55.65%			Revenue Multiplier 0.60								
Rent/Annual Sales 0.0%			Cash Flow Multiplier 1.07								
			Enterprise Multiplier 1.07								

Transaction Details		Comp # 19	Page 45		
SIC Code: 7389 Business services		NOTES:			
Business Description: Payroll Services		No Additional Comments were Submitted			
Source: Bizcomps					
Transaction Type: asset Sale					
Location: Florida					
Number of Employees: 1					
Entity Type: N/A					
Transaction Data		<u>Adjusted Asset Sale Price:</u>			
Date of Sale	5/31/12	Sale Price	\$675,000		
Days on the Market	598	Inventory	\$0		
Asking Price	\$900,000				
Adjusted Asset Sale Price	\$675,000	Adjusted Asset Sale Price	\$675,000		
Percent Down Payment	37%				
Terms of Deal:					
No Terms were Submitted					
Income Data	Asset Data	Liability Data			
Annual Gross Sales	\$560,000	Cash	\$0	Assumed Int-Bear Debt	\$0
Cash Flow (SDE)	\$325,000	Accounts Receivable	\$0	L-T Liabilities	\$0
		Other Current & Non-Current Assets	\$0	Total Liabilities	\$0
		Inventory	\$0		
		Furniture Fixtures, and Equipment	\$0	Value of Real Estate	\$0
		Intangibles	\$0		
		Employment Agreement Value	\$0		
Operating Ratios	Valuation Multiples				
Cash Flow Margin (SDE%):	58.04%	Revenue Multiplier	1.21		
Rent/Annual Sales	0.0%	Cash Flow Multiplier	2.08		
		Enterprise Multiplier	2.08		

Transaction Details		Comp # 20	Page 1		
#N/A		NOTES:			
Business Description: 0		No Additional Comments were Submitted			
Source: \$0					
Transaction Type: 0 Sale					
Location: 0					
Number of Employees: 0					
Entity Type: 0					
Transaction Data					
Date of Sale	1/0/00				
Days on the Market	0				
Asking Price	\$0				
Sale Price	\$0				
Percent Down Payment	0%				
Terms of Deal:					
No Terms were Submitted					
Income Data	Asset Data	Liability Data			
Annual Gross Sales	\$0	Cash	\$0	Assumed Int-Bear Debt	\$0
Cash Flow (SDE)	\$0	Accounts Receivable	\$0	L-T Liabilities	\$0
		Other Current & Non-Current Assets	\$0	Total Liabilities	\$0
		Inventory	\$0		
		Furniture Fixtures, and Equipment	\$0	Value of Real Estate	\$0
		Intangibles	\$0		
		Employment Agreement Value	\$0		
Operating Ratios	Valuation Multiples				
#DIV/0!		Revenue Multiplier	#DIV/0!		
Rent/Annual Sales	0.0%	Cash Flow Multiplier	#DIV/0!		
		Enterprise Multiplier	#DIV/0!		

**Resume of
C. Frederick Hall, III, MBA, CBA, CVA
10300 Argonaut Drive
Jackson, CA 95642
209-256-1371**

Education: B.S. in Business Administration from U.C. Berkeley
MBA degree in Business Finance and Computers from San Diego State University

Completed the following course work with the IBA and received the designation of CBA
(Certified Business Appraiser)

8001 A & B	Appraisal Skills Workshop	64 Hours
1060	Appraisal Writing	16 Hours
	Annual CPE Appraisal Workshops	<u>65 Hours</u>
		145 Hours

Completed Requirements for CVA certification (Certified Valuation Analyst) with the
National Association of Certified Valuation Analysts (NACVA)

Experience:

1971 to 1975 - Business Analyst and Commercial Loan Officer at Union Bank in th San Francisco and Los Angeles headquarters offices. The first year involved a management training program that included nine months (at 40 hours per week) of financial analysis and legal environment of business lending, followed by three months of in-the-field appraisal training.

1975 to 1978 - Purchased and operated a retail hardware company in Portola Valley, California.

1977 to 1981 - Served on the Board of Directors and functioned as the CFO for Bay Cities Wholesale Hardware Company, a dealer-owned co-operative comprised of 350 stores in Northern California. Dealt with many union problems, a warehouse relocation from San Francisco to Manteca, and a complete computerization of operations.

1978 to 2002 - Built a ground up retail hardware and lumber company in Pine Grove, California. The company went through four major expansions during this period. By 2002 the store grew to \$5,000,000 in annual revenues and 30 employees. From 1987 to 2002 I completely automated the company at all levels and networked together a dozen workstations. I personally wrote scores of computer programs that involved every aspect of the operations, including inventory control, general ledger bookkeeping, accounts receivable, accounts payable control, and a complex payroll program.

2002 to 2005 - Business Broker and Business Analyst for Sunbelt Business Advisors of Sacramento and Reno. During this period successfully completed the course work for business appraisals offered by the IBA (Institute of Business Appraisers) and received the designation of CBA.

2005 to 2009 - Managing partner of Compass Point Capital, specializing in mergers and acquisitions of smaller mid-sized companies ranging in revenues from \$5 to \$25 million.

2003 to Present - Wrote business valuations for over 400 companies. During this time I regularly presented lectures on business valuation techniques to a number of professional organizations in Northern California. I presented classes on valuations, accounting, and taxes at the Annual Murphy Business and Financial Convention in Florida. Attendees included brokers, bankers, and accountants.

I have written approximately 50 appraisals involving marriage dissolutions and partnership breakups which often required presenting and defending the findings to both parties and their attorneys. Approximately 50 appraisals were done at the request of several SBA Banks for the loan applicants. Those banks include Bank of the West, Plumas Bank, Northern Nevada Bank, Temecula Bank, Comerica, Bridge Bank, River City Bank, Five Star Bank, First Community Bank, and Cornerstone Community Bank.

C. Frederick Hall, III, MBA, CBA, CVA

10300 Argonaut Drive
 Jackson, CA 95642

Recent Clients:

Bank of the West Scott VanderLohe Sacramento, CA	Northern Nevada Bank Bryan Wallace Reno, NV	ProSource Sales and Mkt Gail Sievers Sparks, NV	Wright Outdoor Center Jim Wright Sparks, NV
ScareCrow Lath & Plaster Steve Crow Reno, NV	Lake Bar & Grill Robert Treanur Sparks, NV	Nelson Logistics Jeffery Ting So.San Francisco, CA	Chase Western Cabinets Brett Zunino Reno, NV
North Valley Athletic Club Scott Schofield Chico, CA	Mueller Fitness Center Vance Mueller El Dorado, CA	MAACO Art Alvi North Highlands, CA	Consign-It Bonnie Grisel Rancho Cordova, CA
Liquor Cabinet Manjeet Sandhu Corning, CA	Lighting Unlimited Dean Osborn El Dorado, CA	LA Pines Building Supply Pat Lawrence Portland, OR	Kidz Love Soccer Chris Trevisan Cupertino, CA
Holiday Grocery Jim Lumley Marysville, CA	Golden Years Retirement Jace Schmitz, Coldwell Banker Port Angeles, WA	GHH, Inc. Environ.Eng. Gary Hall Auburn, CA	Doyle's Steel Terry Henry Modesto, CA
DEA- Bathroom Machinery Tom Scheller Murphys, CA	Cal Inc. Environmental Training Mike McCalmont Vacaville, CA	B & J Unical Gas John Rockwood Grass Valley, CA	Putnam HVAC John Putnam Rancho Cordova, CA
Tom's Ace Chris Doyle San Leandro, CA	Teresa's Place Restaurant Phil Giurlani Jackson, CA	Pine Cone Pharmacy Paul Wesseler Pine Grove, CA	Sierra X-Ray Services Pete Kohler Reno, NV
Oak's Hardware Dave Hill Fair Oaks, CA	Dixon Lumber Bryan Bock Dixon, CA	Davenport Lumber Doug Allen Davenport, WA	Tender Touches Spa Barbara Brown Sequim, WA
Meineke Auto Care Dave Sparks Gladstone, OR	Foothill Ace John Norris Oregon House, CA	Columbia Nursery & Florist Janet Ofstad Columbia, CA	Twin Cities Bike and Repair Rick Elia Yuba City, CA
A & J Paving Allen & Joan Ashby Reno, NV	Tony Don Michael MD Bakersfield, CA	Applied Control Electronics Terrence Burke Placerville, CA	Mark Bailey Plumbing Lisa Bailey Susanville, CA
Garden Valley Feed Manuel Vieira Garden Valley, CA	Great Shape of America Steve Lubarsky Los Angeles, CA	Imperial Steel & Tube Rick Stamper Perris, CA	Wood Rat Productions Dennis McKee Murrietta, CA
Hayward Ace Hardware Andrew Lee Hayward, CA	Rossi Building Materials Richard Nelepovitz Fort Bragg, CA	Thrillworks Extreme Eng. Jeff Wilson Newcastle, CA	Outhouse Collection Jeanette Skaff Arnold, CA
Cameron Ace Hardware Barry Pino Cameron Park, CA	Divide Supply Jerry Hoyt Greenwood, CA	Ameritech Propeller Kerry Dawes Redding, CA	Auction City Flea Market Emil Magovac Sacramento, CA.
Mark Bailey Plumbing Lisa Bailey Susanville, CA	Big O Tires Scott Davis Sparks, NV	Bill-Rite Mgmt Services Lorrie Bosick Newcastle, CA	California Movers Express Michael Szura Hayward, CA
Capital Towing Carson City, NV	Carpets of America Ray Crandell Sparks, NV	Chamois Car Wash Mark Gambardella Danville, CA	Claypool's Market Fred Claypool Pine Grove, CA
Cypress Systems Robert Crocitto Reno, NV	Dangermond & Assoc. Engineering Peter Dangermond Sacramento, CA	Empire Stores Kim Deol San Leandro, CA	Great Shape of America Steve Lubarsky Los Angeles, CA

I certify that, to the best of my knowledge and belief:

1. The statements of fact contained in this report are true and correct to the best of my knowledge and belief, subject to the assumptions and conditions stated.
2. The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, unbiased, and professional analyses, opinions, and conclusions.
3. I have no present or prospective interest in the property that is the subject of this report, nor is my compensation dependent upon the value of this report or contingent upon producing a value that is favorable to the client.
4. I have no personal bias with respect to the parties involved or have made a full disclosure of any such bias.
5. This appraisal is a Calculation Valuation only and is not prepared in conformity with USPAP, the Uniform Standards of Professional Appraisal Practice. This Report is not to be used as an exhibit or supporting document in any legal action.
6. No person except the undersigned participated in the preparation of this report.



C. Frederick Hall III, MBA, CBA, CVA

May 24, 2016

Date

By accepting this report, the client agrees to the following terms and conditions:

1. The appraisal report will not be given to any other party other than the owners of the company and their respective consultants without the Appraiser's permission. The report is not to be submitted to the IRS or any other governmental agency, or any financing institution. The recipients of this report are prohibited from using it in a court of law.
2. You agree to indemnify and hold the Appraiser, Amador Appraisals and Acquisitions, and their officers and employees harmless against and from any and all losses, claims, actions, damages, expenses, or liabilities, including reasonable attorney's fees, to which we may become subject in connection with this engagement. You will not be liable for our negligence.
3. You agree that, in the event we are judicially determined to have acted negligently in the execution of this engagement, damages shall be limited to an amount not to exceed the fee received by us for this engagement.
4. Our liability for injury or loss, if any, arising from the services we provide to you shall not exceed \$5,000 or our fee, whichever is greater. There shall be no punitive damages. Increased liability limits may be negotiated upon your written request, prior to commencement of our services, and your agreement to pay an additional fee.
5. Your obligation for indemnification and reimbursement shall extend to any controlling person of Amador Appraisal and Acquisitions, Inc., including any director, officer, employee, subcontractor, affiliate or agent.
6. If in the future the Appraiser is called upon to testify in court or at deposition regarding the written report, the Appraiser will be paid \$150.00 per hour to cover professional time, the gathering of materials, reviewing the case, and preparing for testimony along with other expenses incurred.
7. If called upon to defend this report to any other party, the Appraiser's expenses and hourly rate will be billed on a monthly basis or as incurred.
8. The client will shoulder the responsibility of legal costs incurred by the Appraiser when defending this appraisal.
9. Client agrees that the Limiting Conditions as stated in the report will be acceptable with the level of work and detail of work to be performed.
10. In the unlikely event of a dispute, the parties under the terms of this agreement shall be subject to arbitration. Arbitration shall be conducted in Amador County, California.

EXHIBIT 5