

Summary Valuation
Of
Sample Software Company
as of
12/31/2007

Prepared by:





March 28, 2008

Jim Jones.
Sample Software Company
755 Research Parkway, Suite 500
Boardman, OH 44512

Shareholders:

We are pleased to present this estimate of *fair market value* of Sample Software Company as of 12/31/2007.

The suggested price is divided between tangible assets and goodwill. The tangible asset value represents the current estimated value of the furniture, fixtures, equipment, vehicles, leasehold improvements, supplies for internal consumption. The intangible asset price or *goodwill* represents the current estimated value of the established customer base, management systems, operating systems, technology systems, physical location, proprietary rights such as patents and trademarks, training upon sale. Sellable inventory is not included in the value below.

Estimated Current Market Value

The enclosed report with supporting documents offers a range of suggested values based on multiple valuation methodologies. Our single price conclusion is a weighted average of the maximum and minimum value ranges for all methodologies reviewed.

The fair market value of the company is: **\$2,193,000.**

Background Information

Client Data

Jim Jones of Software Systems, Inc. has authorized BizByOwner to analyze Sample Software Company and complete this report. Sample Software Company is located at 755 Research Parkway, Suite 500, Boardman, OH 44512.

Purpose of Valuation

This report provides the client with an opinion of the company's fair market value. *Fair market value* is the price, in cash or equivalent, that a buyer could reasonably be expected to pay, and a seller could reasonably be expected to accept, if the business were exposed for sale on the open market for a reasonable period of time, both buyer and seller being in possession of the pertinent facts and neither being under compulsion to act.

Form of Valuation

This valuation DOES NOT establish of value of the stock for the subject company. The analysis assumes that Jim Jones of Software Systems, Inc. will sell the business rights and tangible assets of Sample Software Company to another corporation. Balance sheet adjustments have not been made with this form of valuation. To convert market value of the business to stock value of the corporation, the reviewer will need to add cash assets, accounts receivables, notes receivable, etc, and subtract accounts payable, notes payable, etc.

Review of Internal and External Factors

Our approach has been to determine a value which would provide a fair and reasonable return on investment to an investor or owner, in view of the facts available to us at the time. Both internal and external factors which influence the value of the Company were reviewed, analyzed and interpreted. Internal factors include the Company's financial position, results of operations and the size and marketability of the interest being valued. External factors include, among other things, the status of the industry and the position of the Company relative to the industry.

Documents Reviewed

Documents listed below have been reviewed and any assumptions made from such documents or reports may be included in this report. BizByOwner has relied on the expertise of the company's financial advisors supplying this information for its accuracy.

- Profit and Loss Statements Y/E 2004, 2005, 2006, 2007
- Balance Sheets Y/E 2004, 2005, 2006, 2007
- Client Questionnaire.

Valuation Effective Date

Values stated are effective as of 12/31/2007 (the most current date of provided financial information). Any difference between the date this report is presented and the effective date could have a bearing on the value opinion stated.

Disclaimer and Contingencies

This is a summary report and *not* a certified appraisal. A summary report is not nearly as rigorous as a formal appraisal, and is designed to give a guideline or benchmark value rather than a formal determination of value. This valuation does not conform to all IRS and USPAP requirements, but is still guided by the most recognized standards of the business valuation industry.

This report is only to be used in its entirety, and for the purpose for which it was prepared. No third parties should rely on the information contained in this report without the advice of their attorney or accountant, and without confirming for themselves the information contained herein.

BizByOwner has no present or contemplated financial interest in the Company. Our fees for this valuation are based upon our normal valuation rates based on the product ordered, and in no way are contingent upon the results of our findings.

BizByOwner has no responsibility to update this report for events and circumstances occurring after the date of this report.

The analysts and appraisers, by reason of preparing this report, are not required to give testimony nor be in attendance in court or any other governmental hearing with reference to matters herein, unless prior arrangements have been made with the evaluator relative to such additional employment.

BizByOwner assumes no responsibility for matters of a legal nature affecting the property valued or the title thereto, nor do we render any opinion as to the title, which is assumed to be good and marketable. The property is valued as though under responsible legal ownership.

BizByOwner assumes no responsibility for any environmental problems and has not inspected the property.

This valuation was based on a specific period of time. Data for this period of time has been collected from several sources. The particular business environment and market may not continue in the future, therefore, the evaluator is not making any claims regarding future performance of this business. The evaluator assumes no responsibility for errors in data available from external sources.

Readers of this business valuation report should be aware that business valuations are based on future earnings potential that may or may not materialize. Any financial projections presented in this report are included solely to assist in the development of the value conclusion presented in this report. The actual results may vary from the projections, and the variations may be material.

BizByOwner was retained by its client, who is thoroughly familiar with the business, and all past and future performance information used in this report has been based on information provided by the client and other sources deemed to be reliable. The analysts and appraisers disclaim any ability of any potential purchaser to generate any future income, cost and expense potential, or expectations as may be stated in this report.

All information in this report has been provided by our client and is assumed to be reliable. No verification of the information has been done by BizByOwner, nor have we made an inspection or on-site visits of the business premises or facilities.

Possession of this report or a copy thereof does not carry with it the right of publication. It may not be used for any other purpose, in whole or in part, by anyone except the client for whom the valuation was prepared without the prior written consent of BizByOwner.

It is assumed that the reader of this report has at least a basic understanding of the subject business's industry, terminology and operations.

Other assumptions and limiting conditions are as may be stated in various other sections of this report.

Correlation of Methods

It is important to note that under guidelines set by the "The Uniform Standards of Professional Valuation Practice" (Standards Rule 9-5), the Internal Revenue Service (Revenue Ruling 59-60), as well as most valuation societies, the evaluator is required to use all approaches for which reliable data is available and applicable. The use of as many approaches and methods within these approaches is useful to the extent that it will establish a range of values for the entity being appraised.

Revenue Ruling 59-60 (in Section 3, "Approach to Valuation") recognizes the fact that appraising is not an exact science: "[a] sound valuation will be based upon all the relevant facts, but the element of common sense, informed judgment and reasonableness must enter into the process of weighing those facts and determining their aggregate significance."

Sometimes it will be obvious that the analyst should rely on a single approach, such as methods under the cost approach whereby earnings are insignificant to the value of the assets. An example of this would be a new enterprise with little or no longevity or profits, where projections would be meaningless. Another example would be a company that has longevity, but insignificant profits, and would be a candidate for liquidation. In other cases, it may be apparent that several methods would be appropriate for the final value conclusion. When this is the case, the evaluator must look to the real world to determine which method or methods should receive the most weighting.

SDE Recast Worksheet

The most accepted measurement of earnings for small and mid-sized businesses is Seller Discretionary Earnings (SDE) because it is the only measure of earnings that removes the discretionary treatment of taxes, interest, depreciation, amortization, owner salary, health/life insurance, and any other non-salary perks, and extraordinary items. Also called Adjusted Net Profit, SDE provides the true debt-free, discretionary earnings available to the owner(s) of the business.

The following worksheet shows the analysis of how the business income statements were recasted to reflect SDE.

	2005	2006	2007
GROSS SALES:	\$ 2,893,837	\$ 3,439,388	\$4,074,739
FROM P&L SUMMARY:			
Salary, (one working owner or manager)	+ \$167,666	223,229	\$244,544
Discretionary expenses, if included in expenses			
Auto Expense	+ \$23,343	\$29,383	\$32,291
Travel	+ \$12,029	\$14,229	\$7,866
Health Insurance	+ \$6,555	\$6,555	\$6,555
Dental Insurance			
Life Insurance	+ \$2,332	\$3,221	\$3,022
Interest	+ \$54,453	\$65,585	\$54,449
Meals & Entertainment	+	\$5,094	\$3,509
Depreciation	+ \$43,902	\$39,887	\$65,599
Amortization	+		
Other: Uncollected Debt.....	+		
	+		
Expenses not included on P&L (Explain)	+		
<hr/>			
Total Adjustments (from above)	\$310,280	\$387,183	\$417,835
Net Profit (loss) from P&L	+ \$89,383	167,262	\$193,542
Seller's Discretionary Cash/Recast Net Profit	<u>\$399,663</u>	<u>\$554,445</u>	<u>\$611,377</u>

Weighted Averages

The revenues and earnings of each year are usually weighted to reflect the expected relevance of each year toward the future sustainable results of the company. A commonly used pattern is to weight the oldest year least, and the most recent year highest, in the belief that the near-term future will most closely resemble the company's most recent past performance. The weights are used to calculate a set of averages of earnings and/or revenues, shown above, which are used in all of the valuation methods which follow.

WEIGHTED EARNINGS

Year	Adjusted Net	% Weight	Total
2005	\$399,663	10%	\$39,966
2006	\$554,445	30%	\$166,334
2007	\$611,377	60%	\$366,826
		100%	\$573,126

To be used as Adjusted Net figure

Valuation Methods

A business's value can actually be divided into five components:

1. Market value of tangible assets.
2. Historical trends of revenues expense and cash flow.
3. The value of rights, systems, technology, clientele.
4. Estimated stability in the future.
5. Esthetic appeal.

Internal formulas have been used to calculate each of the results of valuation method. Each of the methodologies were then reviewed to determine which apply most in this case to justify the suggested price. Not every method will necessarily be used to calculate the final suggested price.

All of the valuation methods below are calculated and displayed in price ranges with a maximum value and a minimum value. A value range is used in lieu of a fixed value for many reasons including: 1) a variable of error in the client provided data, 2) false assumptions on behalf of the appraiser, 3) multiple rules of thumb and formulas for a similar industry, 4) the data used to calculate these values are often based on estimates.

The methods reviewed in this report are described below:

Asset Value

The asset value (or Cost Approach) method is used to determine a minimum value range for a business. This amount represents the estimated market value of all tangible assets. This method does not include the value for sellable inventory.

Asset value must not be determined solely on the basis of book value or an asset's worth in its current application but also must consider replacement value including all installation and testing costs. The upper and lower asset values are determined based on the accuracy of the asset data that was provided by the client to the appraiser.

Upper range: \$166,100.

Lower range: \$135,900.

Basic Method

This method is a *rule of thumb* multiplier that is calculated by adding one year's net cash flow to the business's tangible assets, valued at current market value.

Upper range: \$604,126.

Lower range: \$427,917.

Capitalization Of Earnings Method

This method calculates return on investment. It is based on a simple mathematical model, which calculates a total investment based on discretionary cash flow divided by a rate of return associated with the cost of money and the level of risk associated with the valued business.

Capitalization of earning capacity is considered by some to be the most important factor in the valuation of closely held companies.

Upper range: \$1,992,822.

Lower range: \$1,689,920.

Comparison Factors Method

This method takes into account the critical factors, which will encourage or discourage a potential buyer in investigating and/or purchasing this business. Internal formulas are used to compare subject company to other companies of similar size, in the same industry. Each factor is briefly explained below:

Industry

This factor weighs the possibility of market saturation, volatility of the industry, predicted survival for an established business, and the future stability of profits.

Desire

This factor quantifies the buyer's motivation to buy based on status, visual appeal, profitability, risk and skills required.

Clientele

This factor places value on the size and consistency of the client/customer base.

Systems

This factor places value on the company's systems and processes that are in place to generate income and control expenses.

Size and Age

This factor places value on the size of the company and the age of the company compared to other companies in the same industry.

Upper range: \$2,004,502.

Lower range: \$1,855,444.

Debt Capacity

This method of valuation is purely a financial model. Expenses are deducted from revenues to determine cash flow. Deductions are then made for an operator's salary and the real depreciation cost of assets. The result is discretionary cash for debt service.

The maximum debt service this business could handle, given the current level of discretionary cash, is calculated based on an assumption of the number of years financed and an interest rate.

Most appraisers agree that any future increases in revenues, while under the management of a new owner, belong to the new owner. If the previous owner had generated more revenue, the suggested price would reflect this.

Upper range: \$2,219,322.

Lower range: \$1,844,938.

Industry Method

This method is based on pricing formulas and rules of thumb that have been developed for a specific industry. Most of these industry rules of thumb are based on multiples of revenues or multiples of earnings. Others are based purely on formulas niche that that industry.

Upper range: \$2,250,000.

Lower range: \$1,500,000.

Discounted Cash Flow

This method is based on discounting the forecasted earnings or cash flow stream at a risk-adjusted rate of return. The earnings stream is forecasted for ten years and a terminal value is calculated at the end of ten years. Capitalizing the last period's earnings and then discounting the

result to its present value calculate the terminal value. The following table shows how this was calculated:

<p>Upper range: \$2,751,583.</p> <p>Lower range: \$2,251,478.</p>

Comparable Sales Method

This method is based on comparing the business being valued with similar businesses that have been previously sold. Since revenue numbers are usually more accurate than net income numbers, we have calculated a weighted intangible price to revenue ratio, based on previous business sales, and then calculated an intangible value to which we added back this company's assets to arrive at a total value. See Appendix A for details on the Comparable Sales Methodology and resources used.

<p>Upper range: \$1,772,023.</p> <p>Lower range: \$1,449,837.</p>

Multiple or Averaged Value Method

This method is the average of all of the previously described formulas based on the theory that a diligent buyer would rely on more than one of the previous formulas. An average value derived from all of the formulas should represent the actions of a *reasonable* buyer.

<p>Upper range: \$2,338,233.</p> <p>Lower range: \$1,952,199.</p>

Conclusions

Upper Range Value

The *upper range value* represents the average of all of the upper range values for each methodology above. This is the most optimistic view of the business given current market constraints.

Upper Range Conclusion: \$2,338,233.

Lower Range Value

The *lower range value* represents the average of all of the lower range values for each methodology above. This is most conservative opinion of the business value. This would be the opinion of a buyer who is primarily concerned with financial rewards including return on investment and return on equity, and will buy a business based on conservative financial estimates.

Lower Range Conclusion: \$1,952,199.



Suggested Price

Our single price conclusion is a weighted average of the maximum and minimum value ranges for all methodologies reviewed. Based on the final opinion of the appraiser, it is common for the Suggested Price to be much closer to either the Upper Range Conclusion or to the Lower Range Conclusion.

The fair market value of the company is: **\$2,193,000.**

Statistical Summary

For summary purposes we have itemized the breakdown for *asset value* and *business value* and a final *suggested price*.

We estimate the asset value of this company to be: \$151,000.

We estimate the intangible value (goodwill) of this company to be: \$2,042,000.

We estimate the total market value of this company to be: \$2,193,000.

Our analysis generates a price range representing the highest price a seller could expect and the lowest price a seller should accept. The *suggested price* is calculated based on the information generated by the various formulas, but will account for special situations and inconsistencies. The summary of each methodology used is listed below:

Suggested Pricing	Upper Range Value	Lower Range Value
Asset Method	\$166,100	\$135,900
Basic Method	\$604,126	\$427,917
Capitalization	\$1,992,822	\$1,689,920
Comparison Factor	\$2,004,502	\$1,855,444
Debt Capacity	\$2,219,322	\$1,844,938
Industry Method	\$2,250,000	\$1,500,000
Discounted Cash Flow	\$2,751,583	\$2,251,478
Comparable Sales	\$1,772,023	\$1,449,837
Averaged Values	\$2,338,233	\$1,952,199
Suggested Range	\$2,338,233	\$1,952,199
Suggested Price	\$2,193,470	

Special Conditions

If a particular valuation method is extremely high or extremely low, do not be alarmed. Extreme deviations are the product of formulas, which consider only one or two business factors, and are not representative of the total business. If a certain valuation method produced erroneous results, it was not included in the weighting of the final suggested price.

If potential buyers used only one method for valuation and that formula produced one extreme value there would be reason for concern. However, very few buyers consider only one formula; most buyers base their decision on the cash flow, debt capacity, and assets of a business and become generous or conservative based on their beliefs for all the other factors.

