

BUSINESS VALUATION REPORT

Tentex Corp.

(A fictitious company)

As of September 30, 2012

TABLE OF CONTENTS

Important Notices

Section 1: Valuation Summary

Section 2: The Valuation Assignment

Section 3: The U.S. Economic Outlook

Section 4: The Industry Outlook

Section 5: Other Key Valuation Factors:

Cost of Capital, Liquidity Discount, & Minority Discount

Section 6: Valuation Findings

Appendices

Appendix A: About Ross & Company

Appendix B: Professional Qualifications

Appendix C: Firm Financial Data

Appendix D: Detailed Valuation Calculations

Appendix E: Certification and Conditions

Appendix F: Internal Revenue Service Revenue Ruling 59-60

DETAILED TABLE OF CONTENTS

TABLE OF CONTENTS	2
DETAILED TABLE OF CONTENTS.....	3
INDEX OF CHARTS AND TABLES.....	5
IMPORTANT NOTICES	6
COPYRIGHT.....	6
LIMITED COPYRIGHT LICENSE.....	6
TERMS AND CONDITIONS.....	6
SECTION 1: VALUATION SUMMARY	7
DESCRIPTION OF VALUATION ASSIGNMENT.....	7
VALUATION FINDINGS.....	7
VALUATION ASSIGNMENT TERMS AND CONDITIONS.....	8
SECTION 2: THE VALUATION ASSIGNMENT	9
DESCRIPTION OF THE ENTITY BEING VALUED.....	9
<i>Industry Classification</i>	9
<i>Information Sources</i>	10
<i>Valuation Purpose</i>	10
<i>Valuation Key Assumption</i>	10
<i>Ownership and Management</i>	11
REVENUE AND PROFIT.....	11
BALANCE SHEET.....	12
<i>Assets</i>	12
<i>Liabilities</i>	13
FINANCIAL ANALYSIS.....	14
<i>Overview</i>	14
<i>Historic Revenue and Gross Profit</i>	15
<i>Historic Profitability</i>	15
<i>Liquidity Ratios</i>	17
<i>Activity Ratios</i>	17
<i>Summary of Financial Analysis</i>	18
<i>Determining the Valuation Base Year</i>	18
<i>Balance Sheet Adjustments for Valuation Purposes</i>	20
ADJUSTMENTS FOR VALUATION PURPOSES.....	20
<i>Reviews of Non-recurring Events and Technical Accounting Issues</i>	20
<i>Owner Compensation</i>	20
<i>Owner Compensation Review</i>	21
<i>Other Owner Discretionary Adjustments for Valuation Purposes</i>	22
SUMMARY.....	22
SECTION 3: THE U.S. ECONOMIC OUTLOOK	24
BVR ECONOMIC OUTLOOK UPDATE: Q3 2012.....	24
GROSS DOMESTIC PRODUCT.....	25
CONSUMER SPENDING.....	26
GOVERNMENT SPENDING.....	29
FIXED INVESTMENTS.....	30
BUSINESS INVENTORIES.....	30
EXPORTS AND IMPORTS.....	30
CONSUMER PRICES AND INFLATION RATES.....	31
ENERGY PRICES.....	32
INTEREST RATES.....	32
UNEMPLOYMENT AND PERSONAL INCOME.....	33
CONSUMER CONFIDENCE AND SENTIMENT.....	34
STOCK MARKETS AND VOLATILITY.....	35
BOND MARKETS.....	38
CONSTRUCTION.....	40
MANUFACTURING.....	40
SERVICES.....	42
REAL ESTATE.....	42
ECONOMIC OUTLOOK.....	43
SUMMARY.....	46
SECTION 4: THE INDUSTRY OUTLOOK	47

Business Valuation Report For Tentex Corp.

INDUSTRY OVERVIEW	47
<i>Executive Summary</i>	47
<i>Key External Drivers</i>	48
<i>Current Performance</i>	49
<i>Industry Outlook</i>	51
DETERMINING THE FUTURE GROWTH ASSUMPTIONS FOR TENTEX	53
DETERMINING FREE CASH FLOWS	55
<i>Net Fixed Asset Review</i>	55
<i>Working Capital Review</i>	55
<i>Summary of Free Cash Flows</i>	56
SECTION 5: OTHER KEY VALUATION FACTORS	58
COST OF CAPITAL: THE EXPECTED RATE OF RETURN FOR THIS FIRM	58
<i>Risk versus Return</i>	58
<i>Calculating the Firm-Specific Cost of Capital</i>	58
TWO KEY VALUATION ADJUSTMENTS FOR THIS FIRM	60
<i>The Liquidity Discount</i>	60
<i>The Control Premium or Minority Discount</i>	61
THE CONTROL PREMIUM OR MINORITY ADJUSTMENT FOR THIS FIRM	62
<i>The Minority Discount for this Firm</i>	63
SECTION 6: VALUATION FINDINGS	64
APPROACH TO VALUATION OF THIS FIRM	64
<i>Defining Fair Market Value</i>	64
VALUATION FUNDAMENTALS	65
<i>Value as an On-going Concern</i>	65
<i>Valuation Methods: Market and Income</i>	65
ROSS & COMPANY'S APPROACH TO VALUATION OF THIS FIRM	68
<i>The Discounted Free Cash Flow Forecasting Valuation Method</i>	68
<i>Valuation of Tentex</i>	68
<i>Valuation of Tax Pass-through</i>	70
<i>Valuation of a Minority Interest in Tentex</i>	71
<i>The Factors Impacting the Valuation of this Firm</i>	72
VALUATION REVIEW: PRIVATE AND PUBLIC COMPANY MARKET MULTIPLES	73
WEIGHTING THE VALUATION METHODS	73
APPENDIX A: ABOUT ROSS & COMPANY CPA, PLLC	75
APPENDIX B: PROFESSIONAL QUALIFICATIONS	76
GLEN A. ROSS, CPA CVA	76
APPENDIX C: FIRM FINANCIAL DATA	78
APPENDIX D: DETAILED VALUATION CALCULATIONS	83
APPENDIX E: CERTIFICATION AND CONDITIONS	87
APPRAISAL CERTIFICATION	87
STATEMENT OF CONTINGENT AND LIMITING CONDITIONS	88
APPENDIX F: IRS REVENUE RULING 59-60	89

INDEX OF CHARTS AND TABLES

TABLE 1-1: VALUATION OF TENTEX	7
TABLE 2-1: OWNERSHIP OF TENTEX	11
TABLE 2-2: INCOME STATEMENT HISTORY.....	12
TABLE 2-3: BALANCE SHEET HISTORY FOR TENTEX (FYE 2008-FYE 2011).....	13
TABLE 2-4: FYE 2012 BALANCE SHEET FOR TENTEX.....	14
CHART 2-5: HISTORICAL REVENUE & GROSS PROFIT FOR TENTEX	15
CHART 2-6: HISTORICAL EBITDA AND PRE-TAX PROFIT FOR TENTEX	16
TABLE 2-7: PROFIT MARGINS AND RETURN MEASURES COMPARISON TO RMA.....	17
TABLE 2-8: LIQUIDITY RATIO COMPARISON TO RMA.....	17
TABLE 2-9: ACTIVITY RATIO COMPARISON TO RMA.....	18
TABLE 2-10: BASE YEAR INCOME STATEMENT SUMMARY.....	20
TABLE 2-11: REVIEW OF THE OWNERSHIP COMPENSATION.....	21
TABLE 2-12: FINANCIALS FOR TENTEX CORP ADJUSTED FOR VALUATION PURPOSES.....	23
EXHIBIT 3-1: REAL GDP 2Q 2008 – 3Q 2012.....	26
EXHIBIT 3-2: HISTORICAL ECONOMIC DATA 2005-2011 AND FORECASTS 2012-2021.....	27
EXHIBIT 3-3: KEY ECONOMIC VARIABLES ACTUAL 2005-2011 AND FORECASTS 2012-2021.....	28
EXHIBIT 3-4: ECONOMIC INDICATORS HISTORICAL DATA.....	29
EXHIBIT 3-5: CONSUMER CONFIDENCE AND CONSUMER SENTIMENT.....	35
EXHIBIT 3-6: STOCK MARKET HISTORICAL DATA	37
EXHIBIT 3-7: BOND MARKET HISTORICAL DATA	39
EXHIBIT 3-8: TREASURY HISTORICAL DATA.....	39
EXHIBIT 3-9: MORTGAGE BANKERS ASSOCIATION MARKET FORECAST	43
TABLE 4-1: FIRM-SPECIFIC FORECAST FOR TENTEX	54
TABLE 4-2: NET FIXED ASSET DETAIL.....	55
TABLE 4-3: WORKING CAPITAL DETAIL.....	56
TABLE 4-4: FREE CASH FLOWS- CONTROL.....	57
TABLE 5-1: CALCULATING THE COST OF CAPITAL FOR TENTEX	59
TABLE 5-2: FIRM-SPECIFIC NON-FINANCIAL RISKS FOR TENTEX	59
TABLE 5-3: REPRESENTATIVE STUDIES THAT ATTEMPT TO MEASURE THE LIQUIDITY DISCOUNT	61
TABLE 5-4: CALCULATION IN MINORITY INTEREST REDUCTION IN EARNINGS.....	63
TABLE 5-5: THE MINORITY DISCOUNT FOR TENTEX.....	63
TABLE 6-1: VALUATION OF OPERATING BUSINESS BEFORE LIQUIDITY ADJUSTMENT – CONTROL.....	69
TABLE 6-2: VALUATION OF TAX PASS-THROUGH – CONTROL.....	70
TABLE 6-3: TOTAL VALUE OF TENTEX WITH CONTROL.....	71
TABLE 6-4: TOTAL VALUE OF TENTEX ON A MINORITY INTEREST BASIS.....	72
TABLE 6-5: WEIGHTING OF DIFFERENT VALUATION RESULTS	74
TABLE 6-6: VALUATION RESULTS	74
TABLE C-1: FYE 2008 TO FYE 2011 INCOME STATEMENT HISTORY AND COMMON SIZE ANALYSIS FOR TENTEX.....	78
TABLE C-2: TAX RETURN INCOME STATEMENT DETAILS & COMMON SIZE ANALYSIS TENTEX	79
TABLE C-3: FYE 2008 TO FYE 2011 BALANCE SHEET & COMMON SIZE ANALYSIS FOR TENTEX	80
TABLE C-4: FYE 2012 INCOME STATEMENT WITH COMMON SIZE ANALYSIS FOR TENTEX.....	81
TABLE C-5: FYE 2012 BALANCE SHEET WITH COMMON SIZE ANALYSIS FOR TENTEX.....	82
TABLE D-1: VALUATION RESULTS – MINORITY	83
TABLE D-2: VALUATION OF TAX PASS-THROUGH – MINORITY	84
TABLE D-3: TENTEX CREDIT ANALYSIS ORIGINAL DATA	85
TABLE D-4: TENTEX CREDIT RATING ANALYSIS COEFFICIENTS	85
TABLE D-5: TENTEX CREDIT RATING ANALYSIS & COST OF DEBT CALCULATION	86
TABLE D-6: YIELD SPREADS.....	86

IMPORTANT NOTICES

COPYRIGHT

All information and materials in this report are copyright © 2013 Ross & Company CPA, PLLC. **All rights are reserved, except as noted below.** Copyright in the text and numerical information, in the layout of the information in this report, and in the graphical displays of the information is owned by Ross & Company CPA, PLLC unless otherwise indicated. The text, numerical, and graphical information in this report may not be redistributed, copied, sold, transferred, or modified, without the express written permission of Ross & Company CPA, PLLC.

LIMITED COPYRIGHT LICENSE

Ross & Company grants to the purchaser of this valuation service for Tentex Corp. a limited copyright license to use this Business Valuation Report in support of the purchaser's activities for that company as long as the information in these reports is attributed as "provided by Ross & Company CPA, PLLC."

TERMS AND CONDITIONS

The business valuation result contained in this report is subject to the Appraisal Certification, and Statement of Contingent and Limiting Conditions. Appendix E of this report contains these documents.

SECTION 1: VALUATION SUMMARY

DESCRIPTION OF VALUATION ASSIGNMENT

Ross & Company CPA, PLLC, herein referred to as Ross & Company, has been retained to determine the fair market value of Tentex Corp., hereinafter referred to as Tentex. The purpose of the valuation is to establish an independent, arm's length value for use in gifting shares to related parties, consistent with IRS guidelines.

VALUATION FINDINGS

Using the discounted free cash flow method, Ross & Company estimates that the fair market value of Tentex is equal to \$12,659,662 as of September 30, 2012. We have considered market multiple valuation results, but did not find any appropriate comparables for use with this company. We also considered the net asset value of the company based on the cost approach, but concluded that this approach was not appropriate for this firm being valued as a going concern. These results are shown in the table below.

Table 1-1: Valuation of Tentex
Source: Ross & Company

Tentex Corp	9/30/2012
Total Fair Market Value of Firm	\$12,659,662
Less: Value of Debt and Other Liabilities	\$1,334,716
Value of Equity with Control	\$11,324,946
Minority Discount	17.21%
Loss of Value Due to Minority Discount	\$1,948,649
Minority Equity Value	\$9,376,297
Ownership % of Charles Rogers	50%
Value of Charles Rogers Minority Equity Interest	\$4,688,149
Value of Charles Rogers Minority Equity Interest (Rounded)	\$4,690,000

The value of the ownership equity, that is, the value remaining after all debts and other long-term liabilities are paid, is \$11,324,946. The fair market value of equity based on a minority interest is \$9,376,297. Robert Rogers's 50% ownership interest, on a minority equity basis, is \$4,690,000.

VALUATION ASSIGNMENT TERMS AND CONDITIONS

Ross & Company is independent of Tentex and related organizations, and neither Ross & Company nor I have any financial interest in the securities subject to appraisal. Our fee for this valuation is in no way influenced by the result of our valuation conclusion. This valuation report is prepared solely for the purpose stated herein.

The remaining sections and appendices further describe the analyses performed and the conclusions reached during this valuation. The attached certification, limitation of liability, statement of contingent and limited conditions, and my qualifications are integral parts of this valuation opinion.



4/8/2013

Glen A. Ross, CPA & CVA

Date

SECTION 2: THE VALUATION ASSIGNMENT

DESCRIPTION OF THE ENTITY BEING VALUED¹

Tentex is a manufacturer and supplier of LED lighting in the commercial vehicle industry, consumer and industrial markets. The company has its own staff of engineers, who design the LED lights in the United States. The company then outsources the manufacturing to facilities in Asia. Tentex sells its products through the Everest brand name. The company's products range from Stop, Tail & Turn (STT), Emergency, Interior Cargo, Clearance, and Side Market LED Lamps, add on accessories, to off road lighting, to a complete wire harness system for trucks, buses, trailers, medium and heavy duty trucks. The company also has begun to offer a variety of in-home LED products under its Everest Style brand name. These products include LED light bulbs, night lights, desk lamps, and flashlights. Sales for the home market segment account for about 3% to 5% of total sales at this time.

Tentex was incorporated on July 29, 1980 and elected S corporation status on July 1, 2007. The company is headquartered in Wantagh, NY and sells its products on a national scale.

Industry Classification

The industry classification of the company for valuation purposes presents some challenges, since the company outsources the manufacturing of most of its products. Hence, it does not have the capital invested in manufacturing equipment that we would generally see in a manufacturing company. It operates, to a large extent, as a value-added distributor, and indeed, that is the business activity code that the company uses on its federal tax return.

From the manufacturing perspective, the company could also be classified in Semiconductor and Related Device Manufacturing, NAICS code 334413, since it designs the products, and sells the end product to its customer base. The company primarily sells auto and truck related parts, so it can also be classified as an auto parts manufacturer or distributor.

For valuation purposes, we have primarily classified Tentex as a privately held company operating primarily in the industry of Other Miscellaneous Nondurable Goods Merchant Wholesalers, designated as industry number 424990 in the North American Industrial Classification System (NAICS). This industry comprises establishments primarily engaged in the merchant wholesale distribution of nondurable goods (except printing

¹ www.Everest.com

and writing paper; stationery and office supplies; industrial and personal service paper; drugs and druggists' sundries; apparel, piece goods, and notions; grocery and related products; farm product raw materials; chemical and allied products; petroleum and petroleum products; beer, wine, and distilled alcoholic beverages; farm supplies; books, periodicals and newspapers; flower, nursery stock and florists' supplies; tobacco and tobacco products; and paint, varnishes, wallpaper, and supplies). The primary SIC code for Tentex is 5199, described as Nondurable Goods, N.E.C.

We have also reviewed information on the industry of Semiconductor and Related Device Manufacturing, designated as NAICS code 334413. This U.S. industry comprises establishments primarily engaged in manufacturing semiconductors and related solid state devices. Examples of products made by these establishments are LED lights, integrated circuits, memory chips, microprocessors, diodes, transistors, solar cells and other optoelectronic devices. The primary SIC code for this industry is 3674, described as Semiconductors and Related Devices.

Information Sources

The financial information used in the valuation is based on the company's U.S. Income Tax Returns from Fiscal Year End (FYE) 2008 to FYE 2011; and the company's financial statements for FYE 2009 through FYE 2012, as reviewed by Fuller Lowenberg & Co., CPAs P.C. The company was incorporated in 1980 and has been an S type corporation since July 1, 2007. Information about the current and projected operating conditions of the company and possible areas of firm-specific risk has been provided by the company's management. Detailed financial information used for the discounted free cash flow analysis is shown in Appendix C.

The company is located at 125 Marcum Court, Wantagh, NY. Geographical factors based on the metropolitan statistical area data are used in this valuation analysis. For Tentex, the factors for the Nassau-Suffolk, NY metropolitan statistical area have been used.

Valuation Purpose

The purpose of the valuation is to establish an independent, arm's length value for use in gifting shares to related parties, consistent with IRS guidelines.

Valuation Key Assumption

A key assumption of this valuation is that the assets of Tentex, such as production equipment, technology, patents, intangible assets, or real estate holdings, have no greater value as standalone assets than they have as profit-generating assets for this business. Based on the opinion of the company's management and a review of their financials, Ross & Company believes that this assumption is valid for this valuation.

The valuation is for the income generated by the total entity from the main business operations. We have reviewed the company's financials for income generated by other non-operating activities, for non-operating assets, and for the value of assets on the balance sheet to determine if the net working capital is either below or in excess of the amount needed for on-going operations. We have concluded that the level of net working capital is consistent with the company's operational needs and expected growth.

Ownership and Management

Tentex has two owners, each with an equal 50% interest in the company; Robert Rogers and William Rogers. Both are actively involved in managing the company.

Table 2-1: Ownership of Tentex
Source: Tentex and Ross & Company

Name of Owner	Ownership %
Charles Rogers	50%
William Rogers	50%
Total	100%

REVENUE AND PROFIT

The company's net revenue (net of returns and allowances) has moderately fluctuated throughout the period of review. The company's net revenue has fluctuated with an overall growth trend throughout the period of review. In FYE 2008, net revenue was \$11.8 million. From FYE 2008 to FYE 2009, net revenue decreased 20.58% to \$9.4 million. Management has indicated that this drop in revenue was driven primarily by the recession. From FYE 2009 to FYE 2012, net revenue increased from \$9.4 million in FYE 2009 to \$20.3 million in FYE 2012, which is at an annualized growth rate of 29.06%. Management has indicated that this growth is largely driven by entry into the emergency, interior & nighttime work light segments as well as growing market demand for LED devices.

The company's gross profit margin has remained relatively stable at about 48% throughout the period of review. Management has indicated that there are currently no market pressures pushing that margin in a different direction.

For valuation purposes, we have excluded other income from foreign currency translation, which occurred in FYE 2012. Earnings before taxes (EBT)- restated has followed the growth trend of revenue, falling from FYE 2008 to FYE 2009 and then growing every year through FYE 2012. In FYE 2008, EBT restated was \$822,856, which was 6.96% of revenue. In FYE 2009, EBT restated fell to \$530,254, which was 5.65% of revenue. In FYE 2010, EBT restated increased significantly to \$1,697,889, which was 14.20% of revenue. In FYE 2011, EBT restated increased to \$2,443,367, which was 15.55% of revenue. In FYE 2012, EBT restated increased to \$2,707,610, which was

13.35% of revenue. The summary income statements for Tentex appear in the table below. The detailed income statements appear in Appendix C.

Table 2-2: Income Statement History
Source: Tentex Tax Returns & Financial Statements

Panor Corp	From Financial Statements	From Tax Returns			
	FYE 2012	FYE 2011	FYE 2010	FYE 2009	FYE 2008
Revenue	\$ 20,283,197	\$ 15,716,502	\$ 11,954,022	\$ 9,388,836	\$ 11,821,792
% Change	29.06%	31.47%	27.32%	-20.58%	n/a
Cost of Goods Sold	\$ 10,537,293	\$ 8,061,143	\$ 6,218,071	\$ 4,983,517	\$ 6,107,653
Gross Profit	\$ 9,745,904	\$ 7,655,359	\$ 5,735,951	\$ 4,405,319	\$ 5,714,139
Gross Profit Margin	48.0%	48.7%	48.0%	46.9%	48.3%
Total Deductions	\$ 7,038,294	\$ 5,213,187	\$ 4,040,333	\$ 3,877,859	\$ 5,036,427
Other Income (Expense) Included in Valuation Analysis	\$ -	\$ 1,195	\$ 2,271	\$ 2,794	\$ 145,144
Earnings Before Taxes (EBT) - Restated	\$ 2,707,610	\$ 2,443,367	\$ 1,697,889	\$ 530,254	\$ 822,856
EBT- Restated Margin	13.35%	15.55%	14.20%	5.65%	6.96%
Other Income (Expense) Excluded from Valuation Analysis	\$ (653)	\$ -	\$ -	\$ -	\$ -
Earnings Before Taxes (EBT)	\$ 2,706,957	\$ 2,443,367	\$ 1,697,889	\$ 530,254	\$ 822,856
EBT Margin	13.3%	15.5%	14.2%	5.6%	7.0%

BALANCE SHEET

We have analyzed the company's balance sheet from the company's tax returns from FYE 2008 to FYE 2011, shown in Table 2-3 and from the company's financial statements from FYE 2012, shown in Table 2-4. Detailed balance sheets are shown in Appendix C.

Assets

The company's total assets have fluctuated throughout the period of review, following the general growth path of revenue. In FYE 2008, total assets were at their highest level of \$5.9 million. In FYE 2009, total assets fell to \$4.3 million, largely driven by a decrease in cash. Total assets have since increased to \$5.2 million in FYE 2012. This growth has largely been driven by an increase in accounts receivable and inventory. As of FYE 2012, the company has current assets of \$4.8 million, consisting of \$215,941 of cash, \$2,038,648 of accounts receivable and \$2,542,305 of inventory.

The company's fixed assets primarily consist of tooling, which is used to produce finished products at manufacturing facilities in Asia. As of FYE 2012, net fixed assets are \$145,538.

The company has net intangible assets of \$20,830, which consists of the capitalized costs of purchasing and registering various trademarks and patents. The company also has a federal tax deposit asset of \$242,772.

Table 2-3: Balance Sheet History for Tentex (FYE 2008-FYE 2011)

Source: Tentex Tax Returns

Concepts		End of Tax Year			
Line	Assets	FYE 2011	FYE 2010	FYE 2009	FYE 2008
1	Cash	\$688,969	\$1,259,803	\$1,476,178	\$2,168,488
2a	Trade notes and accounts receivable	\$1,773,619	\$1,256,986	\$863,470	\$1,039,230
2c	Net Trade notes and accounts receivable	\$1,773,619	\$1,256,986	\$863,470	\$1,039,230
3	Inventories	\$2,091,805	\$1,999,373	\$1,514,816	\$2,104,465
6	Other current assets	\$147,669	\$42,575	\$80,346	\$19,255
7	Loans to shareholders	\$0	\$8,925	\$7,416	\$94,049
10a	Buildings and other depreciable assets	\$2,142,244	\$2,067,646	\$2,061,302	\$2,056,110
10b	Less accumulated depreciation	\$1,969,270	\$1,839,248	\$1,754,342	\$1,657,388
10c	Net Buildings and other depreciable assets	\$172,974	\$228,398	\$306,960	\$398,722
13a-c	Intangible assets (amortizable only)	\$248,470	\$248,470	\$248,470	\$248,470
13b-c	Less accumulated amortization	\$217,532	\$202,980	\$188,340	\$173,055
13b-d	Net Intangible Assets	\$30,938	\$45,490	\$60,130	\$75,415
14	Other assets	\$0	\$0	\$0	\$0
15	Total Assets	\$4,905,974	\$4,841,550	\$4,309,316	\$5,899,624
Liabilities and Shareholder's Equity					
16	Accounts payable	\$1,192,608	\$2,098,353	\$1,558,766	\$2,185,404
17	Mortgages, notes, bonds payable in less than 1 year	\$18,703	\$24,488	\$23,939	\$20,106
18	Other current liabilities	\$2,228,025	\$2,494,605	\$2,743,419	\$3,691,883
20	Mortgages, notes, bonds payable in 1 year or more	\$26,495	\$0	\$24,489	\$46,675
22	Capital stock	\$70	\$70	\$70	\$70
23	Additional paid-in capital	\$2,200,000	\$1,100,000	\$1,100,000	\$1,100,000
24	Retained earnings	(\$759,927)	(\$875,966)	(\$1,141,367)	(\$1,144,514)
27	Total liabilities and shareholders' equity	\$4,905,974	\$4,841,550	\$4,309,316	\$5,899,624

Liabilities

The company's current liabilities have decreased significantly throughout the period of review from \$5.9 million in FYE 2008 to \$3.4 million FYE 2011, according to the company's tax returns. This decline is largely driven by a decrease in accounts payable and due to affiliate. On the financial statements, in FYE 2012, the due to affiliate was classified as a long term debt. As of FYE 2012, current liabilities were \$2,356,194, which consisted of \$2,288,326 off accounts payable, \$18,703 of current portion of long-term liabilities, \$45,000 of retirement plan payable, and \$4,165 of sales tax payable.

As of FYE 2012, the company has \$1,316,013 in long term debt, of which \$1,308,221 is a loan payable to related party.

Table 2-4: FYE 2012 Balance Sheet for Tentex
Source: Tentex Financial Statements

Tentex	As of 9/30/2012
ASSETS	FYE 2012
CURRENT ASSETS	
Cash	\$215,941
Accounts Receivable, net of allowance for bad debts	\$2,038,648
Inventory	\$2,542,305
<i>Total Current Assets</i>	<i>\$4,796,894</i>
PROPERTY, PLANT & EQUIPMENT	
Fixed Assets, net	\$145,538
<i>Total Property, Plant & Equipment</i>	<i>\$145,538</i>
OTHER ASSETS	
Intangible Assets	\$20,830
Federal Tax Deposit	\$242,772
<i>Total Other Assets</i>	<i>\$263,602</i>
Total Assets	\$5,206,034
Liabilities & Shareholder Equity	
CURRENT LIABILITIES	
Accounts Payable and Accrued Expenses	\$2,288,326
Current Portion of Long-Term Liabilities	\$18,703
Retirement Plan Payable	\$45,000
Sales Tax Payable	\$4,165
<i>Total Current Liabilities</i>	<i>\$2,356,194</i>
LONG-TERM DEBT	
Long-Term Debt	\$7,792
Loan Payable - Related Party	\$1,308,221
<i>Total Long-Term Debt</i>	<i>\$1,316,013</i>
SHAREHOLDER'S EQUITY	
Common Stock - \$1 par value, 70 shares authorized, issued and outstanding, stated at	\$70
Additional Paid-In Capital	\$2,200,000
Accumulated Deficit	(\$666,243)
<i>Total Shareholder's Equity</i>	<i>\$1,533,827</i>
Total Liabilities and Shareholder's Equity	\$5,206,034

Shareholders' equity on a book value basis has increased consistently throughout the period of review, beginning at (\$44,444) in FYE 2008 and ending in FYE 2012 at \$1,533,827.

FINANCIAL ANALYSIS

Overview

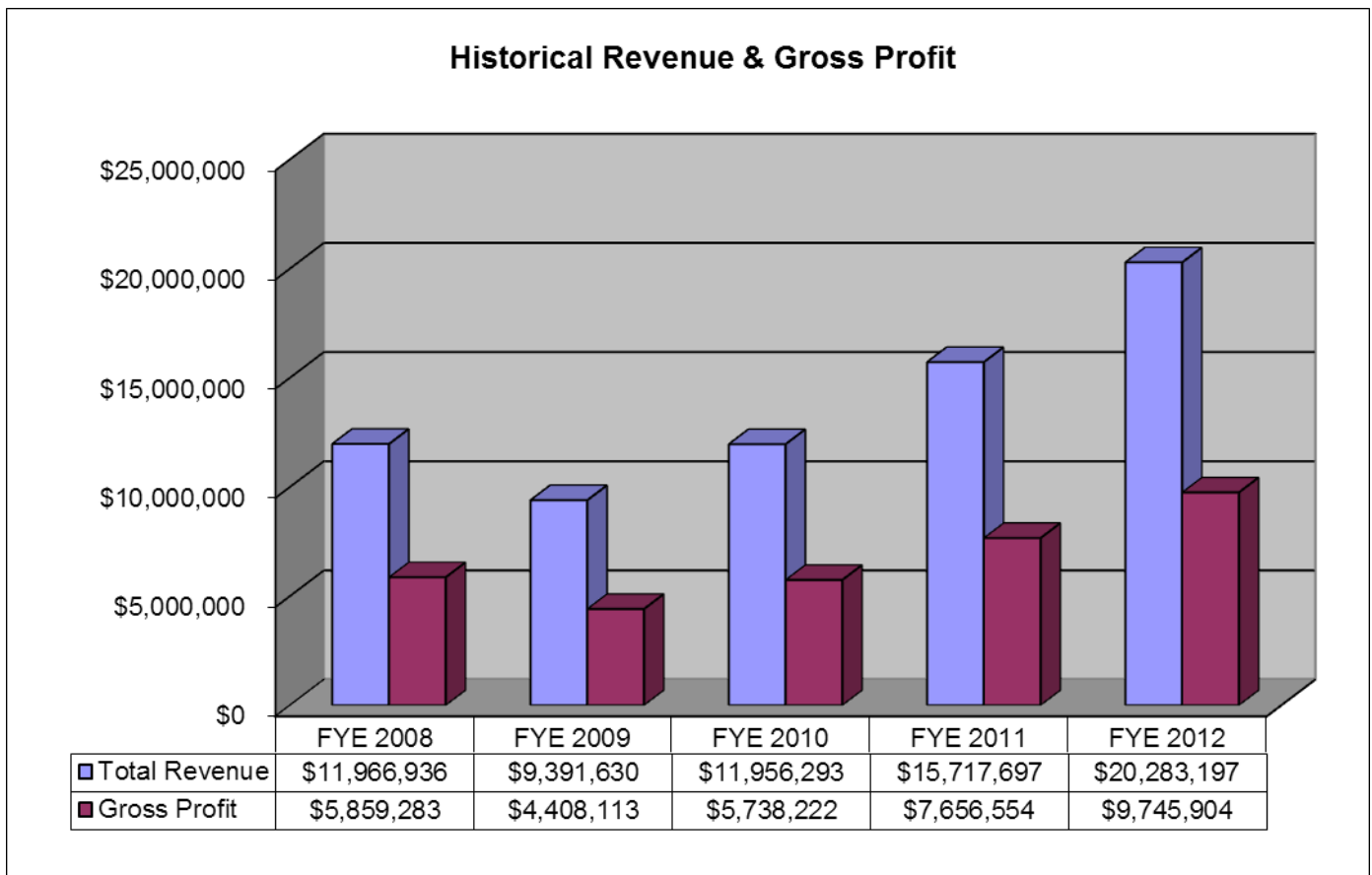
The purpose of this financial analysis is to determine the financial strength of Tentex and to identify historical trends, which may be indicative of future performance. We have used the National 2011-2012 RMA data for NAICS Code 424990- Other Miscellaneous Goods Merchant Wholesalers earning between \$10 and \$25 million per year in revenue.

The RMA data was collected in 2011, so we refer to these values in the tables as RMA 2011.

Historic Revenue and Gross Profit

In the chart below, we have examined the company's financial performance based on the net revenue and gross profit as reported in the tax returns from FYE 2008 to FYE 2011 and the company's FYE 2012 financial statements.

Chart 2-5: Historical Revenue & Gross Profit for Tentex
Source: Tentex Financial Information

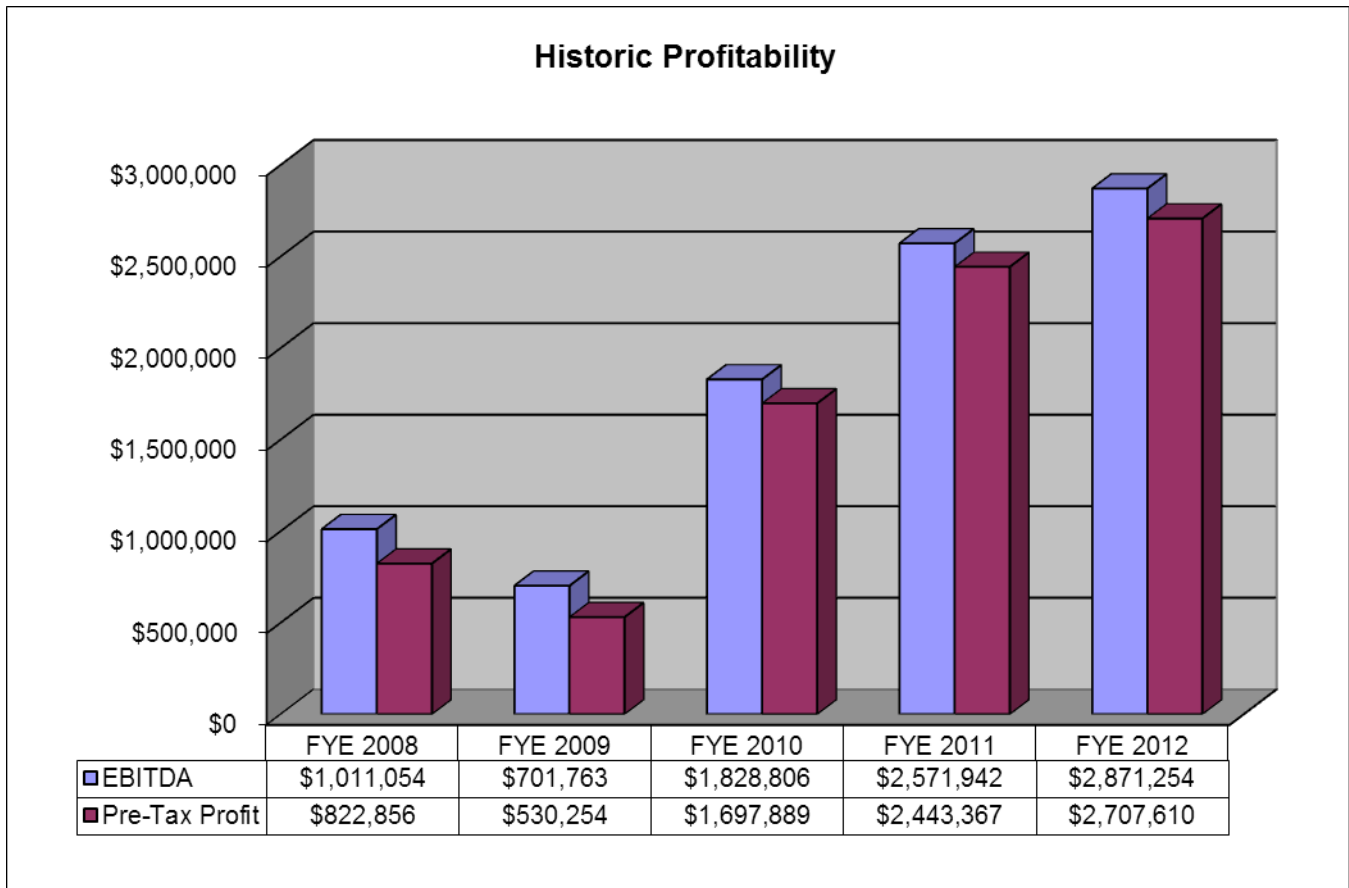


Since FYE 2009, Tentex has exhibited a growth trend in revenue and gross profit.

Historic Profitability

The company's historical EBITDA and pre-tax profit before adjustments for valuation purposes are shown in graph form below.

Chart 2-6: Historical EBITDA and Pre-tax Profit for Tentex
Source: Tentex Financial Information



Before adjustments for one-time events, technical accounting issues, and owner discretionary items, both the company’s EBITDA and pre-tax profit exhibited an increasing trend throughout the period of review.

Over the five years of review, Tentex averaged a gross margin of 48.00%, which surpassed the RMA benchmark of 27.6%. The company’s operating margin has increased from 6.83% in FYE 2008 to 13.35% in FYE 2012. Their average operating margin, of 11.11%, over the period of review is well above the industry benchmark of 4.40%.

Since Tentex has aspects of a manufacturing operation and a wholesale distribution business, it makes sense that the business has a higher gross profit margin than the broad industry benchmarks.

Table 2-7: Profit Margins and Return Measures Comparison to RMA

Source: Tentex Financial Information and RMA Data

	2011 RMA Benchmarks for Other Miscellaneous Nondurable Goods Merchant Wholesalers			Tentex Corp				
	RMA - 2011 Med	FYE 2008	FYE 2009	FYE 2010	FYE 2011	FYE 2012	Average	
Return on Sales Ratios								
Gross Margin	27.6%	48.34%	46.92%	47.98%	48.71%	48.05%	48.00%	
Operating Margin	4.4%	6.83%	5.64%	14.20%	15.54%	13.35%	11.11%	

Liquidity Ratios

Liquidity Ratios indicate a company's ability to pay off its short term debts, and thus can be used to help determine the overall level of riskiness of the company. Generally higher ratios indicate an overall safer company; however these ratios are relatively industry dependent. A summary of Tentex's liquidity ratios over time and the benchmark RMA ratios for 2011 appear in the table below.

Table 2-8: Liquidity Ratio Comparison to RMA

Source: Tentex Financial Information and RMA Data

	2011 RMA Benchmarks for Other Miscellaneous Nondurable Goods Merchant Wholesalers			Tentex Corp					
	RMA - 2011 High	RMA - 2011 Med	RMA - 2011 Low	FYE 2007	FYE 2008	FYE 2009	FYE 2010	FYE 2011	Average
Liquidity Ratios									
Current Ratio	2.4	1.6	1.2	0.91	0.91	0.99	1.37	2.04	1.24
Quick Ratio	1.4	0.90	0.5	0.91	0.91	0.99	0.72	0.96	0.90

From the table above we can see that over the last five years, the company's current ratio has improved significantly. Its average of 1.24 is slightly better than the RMA low benchmark. The company has a moderate quick ratio, which indicates that the company likely maintains sufficient means of paying off short term obligations.

Activity Ratios

Tentex has an average days in stock metric of 64.31, which is slightly above the median RMA benchmark, indicating that the company is efficiently turning over its inventory. The company's average days sales outstanding is 36.38, which is slightly lower than the median RMA benchmark, indicating that the company is collecting its receivables in a timely manner. The company's average days payables outstanding of 59.82, is higher than the RMA low benchmark of 52.90, indicating that other firms in the industry pay off

their suppliers in a more timely manner. The company's average cash conversion cycle of 40.87, is between the RMA median and high benchmarks.

Table 2-9: Activity Ratio Comparison to RMA

	2011 RMA Benchmarks for Other Miscellaneous Nondurable Goods Merchant Wholesalers			Tentex Corp					
	RMA - 2011 High	RMA - 2011 Med	RMA - 2011 Low	FYE 2008	FYE 2009	FYE 2010	FYE 2011	FYE 2012	Average
	Short-Term Operating Activity Ratios								
Cost of Sales/Inventory	14.70	6.20	3.30	5.62	6.20	5.98	7.51	4.14	5.89
Average Days in Stock	24.83	58.87	110.61	64.98	58.89	61.05	48.58	88.06	64.31
Average Days Sales Outstanding	26.84	38.02	52.90	32.09	33.57	38.38	41.19	36.69	36.38
Payables Turnover	18.90	10.60	6.90	5.41	6.02	5.70	13.18	4.60	6.98
Average Days Payables Outstanding	19.31	34.43	52.90	67.47	60.60	64.07	27.70	79.27	59.82
Cash Conversion Cycle	32.36	62.46	110.61	29.59	31.86	35.36	62.07	45.48	40.87

Source: Tentex Financial Information and RMA Data

Summary of Financial Analysis

Overall, Tentex appears to have stable financial performance. The company is significantly more profitable than its benchmark peers, has a solid liquidity track record, and has activity ratios which indicate that the business is operating efficiently. Overall, we believe that the results from this analysis are indicative of low levels of financial risk for this company.

Determining the Valuation Base Year

Academic research shows that the most recent year is generally the best starting point for forecasting future earnings compared to establishing a normalized value as the starting point. Academics have researched whether starting with the last year of earnings or normalizing earnings in some way makes any difference to the accuracy of forecasting future firm earnings. Normalizing a data series can take several forms but however it is done, a normalized value as a starting point is the result of an averaging process of some type. Research by Elton and Gruber², Ball and Watts³ and Lieber and Ronen⁴, seem to support the conclusion that how the earnings starting point is defined does not make all that much difference. These results suggest that using the firm's last year of earnings as a starting point for any analysis is consistent with properly forecasting future cash flows.

Based on our review of company financials and the company's growth trajectory since FYE 2009, we have determined that the FYE 2012 financials are the most reasonable

²Elton, Edwin J., and Gruber, Martin. "Earnings Estimation and the Accuracy of Expectational Data," *Management Science*, 18, No. 2 (April, 1972), pp. 409-424

³Ball, Ray, and Watts, Ross. "Some Time Series Properties of Accounting Numbers," *Journal of Finance*, 27 (June, 1972), pp.663-681

⁴Lieber, Zvi, and Ronen, Joshua, "Earnings Estimates and Historical Data", Unpublished Manuscript, Ross Center, New York University

base year for a valuation as of September 30, 2012. The base year financials appear in the table below.

Table 2-10: Base Year Income Statement Summary
Source: Tentex Financial Information and Ross & Company

Tentex Corp	History					Valuation Base Year - Standard
Year	FYE 2008	FYE 2009	FYE 2010	FYE 2011	FYE 2012	
Operating Revenue	\$11,966,936	\$9,391,630	\$11,956,293	\$15,717,697	\$20,283,197	
Cost of Goods Sold	\$6,107,653	\$4,983,517	\$6,218,071	\$8,061,143	\$10,537,293	
Gross Profit	\$5,859,283	\$4,408,113	\$5,738,222	\$7,656,554	\$9,745,904	
Gross Profit Margin	49.0%	46.9%	48.0%	48.7%	48.0%	
Selling, General & Administrative Expense (SGA)	\$4,886,049	\$3,732,905	\$3,937,305	\$5,109,677	\$6,972,398	
Interest Expense	\$150,378	\$144,954	\$103,028	\$103,510	\$65,896	
EBT - Operating with Interest Expense	\$822,856	\$530,254	\$1,697,889	\$2,443,367	\$2,707,610	
Other Income(Expense) Included in Valuation	\$0	\$0	\$0	\$0	\$0	
EBT - Restated for Valuation	\$822,856	\$530,254	\$1,697,889	\$2,443,367	\$2,707,610	
Interest Expense	\$150,378	\$144,954	\$103,028	\$103,510	\$65,896	
EBIT - Restated for Valuation	\$973,234	\$675,208	\$1,800,917	\$2,546,877	\$2,773,506	
Depreciation and Amortization	\$37,820	\$26,555	\$27,889	\$25,065	\$97,748	
EBITDA - Restated for Valuation	\$1,011,054	\$701,763	\$1,828,806	\$2,571,942	\$2,871,254	
Pre-Adjustment EBT Margin	6.88%	5.65%	14.20%	15.55%	13.35%	
Pre-Adjustment EBIT Margin	8.13%	7.19%	15.06%	16.20%	13.67%	
Pre-Adjustment EBITDA Margin	8.45%	7.47%	15.30%	16.36%	14.16%	

Balance Sheet Adjustments for Valuation Purposes

For the balance sheet, it is appropriate to use the most up-to-date information, which is the balance sheet ending 9/30/2012. As part of the valuation analysis process, we have reviewed the company's assets and liabilities to determine whether adjustments are necessary for valuation purposes. We have concluded that no adjustments are necessary for valuation purposes.

ADJUSTMENTS FOR VALUATION PURPOSES

Reviews of Non-recurring Events and Technical Accounting Issues

As part of the valuation analysis process, we have reviewed the company's income statement to determine whether adjustments for non-recurring revenues or expenses in the valuation base year are necessary for valuation purposes. We have also reviewed the financials for technical accounting adjustments, including non-cash charges and other expenses. There are no significant non-recurring events or technical accounting items for which we would need to make adjustments to the base year.

Owner Compensation

Owners of privately held companies have the discretion to set their own compensation. As part of an expert valuation, the compensation of the owner must be reviewed to determine whether his/her/their reported compensation exceeds an estimate of the average salary for owners of companies in the same industry, of similar size, and located in the same metropolitan statistical area. If the aggregate salary for the owners of a company is greater than the number of owners times the Ross & Company estimate of the average CEO salary of owners for companies in the same industry, of similar size, and located in the same geographic area, then the difference may be reclassified as profit for the company. This adjustment is the best available proxy for determining how

much of owner compensation is market-determined salary, and how much, if any, is a dividend for the owner(s).

Ross & Company has developed a database on CEO salaries (not including bonuses or dividends) by industry and firm asset size class, starting with the latest available data from the United States Bureau of Labor Statistics Occupational Employment Survey (BLS-OES). Using a rigorous and consistent methodology, we have extrapolated, where necessary, the BLS-OES data to cover our 980 plus NAICS-based sectors. The information is further mapped using relevant target indicators by asset class by sector. Finally, we apply the latest BLS-OES geographic differentials for CEO compensation to adjust the compensation values for differences in pay levels across states and metropolitan statistical areas. The resulting dataset has been checked for reasonableness by asset class, industry, and location. The values generally reflect the fact that owner salaries tend to be less for smaller than larger firms.

Owners of most privately-held firms pay themselves a sum that reflects both the cost of their labor, what it would cost the firm to hire someone of equal skill to do what the owner does, and a variable amount that reflects the return on the owner's business investment.

Owner Compensation Review

We have reviewed the ownership compensation in comparison to the benchmark for owner salaries in this industry, in this geographic area, and for firms of similar size. From our database of owner salaries for this industry and adjusted for location, we found that \$450,000 per owner was the benchmark level of compensation. Although the ownership salaries in FYE 2012 are higher than the benchmark, we observe that over the past four years that the levels of ownership salaries have varied significantly. On average, the ownership salaries over FYE 2009 to FYE 2012 come to approximately \$460,000. Since these differences are minor between the average and the benchmark salary, we have concluded that the owner compensation is consistent with the industry benchmarks. Hence, there is no need to add back any owner compensation to earnings for valuation purposes. This review is summarized in the table below.

Table 2-11: Review of the Ownership Compensation
Source: Ross & Company and Financial Information for Tentex

Name of Owner	Ownership %	Benchmark Salary	Average Annual Salary	FYE 2012	FYE 2011	FYE 2010	FYE 2009
Robert Rogers	50%	\$450,000	\$462,291	\$807,000	\$531,300	\$269,555	\$241,310
William Rogers	50%	\$450,000	\$462,291	\$807,000	\$531,300	\$269,555	\$241,310

Other Owner Discretionary Adjustments for Valuation Purposes

As part of the valuation interview process, we have reviewed the company's expenses for possible areas of owner discretionary (i.e. not absolutely necessary for the functioning of the business) spending in the following categories: family members on the payroll paid above or below fair market wages; rent above or below market paid to closely-controlled companies; company cars for the owners; and non-mandatory profit sharing contributions to retirement plans. The "business necessary" test is whether a new manager of this firm, independent of the owner, would reasonably make different decisions about spending in these areas to maximize earnings. The company had \$20,353 in owners discretionary spending consisting of \$20,253 of business gifts and \$100 of charitable contributions.

SUMMARY

From this review, we have determined that the appropriate source of data for the base year is the last year of financials, which is FYE 2012. From these starting values, we have made other adjustments to the financials for valuation purposes. These are explained in the previous paragraphs. In the following table, we show the starting point financial values of this firm and any adjustments to the financial results for valuation purposes.

Table 2-12: Financials for Tentex Corp Adjusted for Valuation Purposes
Source: Ross & Company and Financial Information for Tentex Corp

Tentex Corp	Valuation Base Year - Standard
Year	FYE 2012
Operating Revenue	\$20,283,197
Cost of Goods Sold	\$10,537,293
Gross Profit	\$9,745,904
Gross Profit Margin	48.0%
Selling, General & Administrative Expense (SGA)	\$6,972,398
Interest Expense	\$65,896
EBT - Operating with Interest Expense	\$2,707,610
Other Income(Expense) Included in Valuation	\$0
EBT - Restated for Valuation	\$2,707,610
Interest Expense	\$65,896
EBIT - Restated for Valuation	\$2,773,506
Depreciation and Amortization	\$97,748
EBITDA - Restated for Valuation	\$2,871,254
Pre-Adjustment EBT Margin	13.35%
Pre-Adjustment EBIT Margin	13.67%
Pre-Adjustment EBITDA Margin	14.16%
Net Non-Recurring and Accounting Adjustments	\$0
Executive Compensation	\$0
Net Owner Discretionary Expense Adjustments	\$20,353
Net Company Expense Review Adjustments	\$0
Total Adjustment	\$20,353
EBT - Restated and Adjusted	\$2,727,963
EBT Margin After Valuation Adjustments	13.4%
EBIT - Restated and Adjusted	\$2,793,859
EBITDA - Restated and Adjusted	\$2,891,607

SECTION 3: THE U.S. ECONOMIC OUTLOOK

In the following analysis, we have relied upon the BVR Economic Outlook Update service and its 2012 Q3 report. These summaries provide an overview of selected economic factors for the third quarter of 2012 and are then followed by a consensus economic forecast.

BVR ECONOMIC OUTLOOK UPDATE: Q3 2012⁵

The U.S. economy saw its growth rate accelerate slightly from last quarter. Many questioned whether consumer spending, a crucial factor in GDP growth, could continue to grow at its current rate as spending outpaces income growth. Business spending on equipment and software, which had been a source of strength for 12 consecutive quarters, finally ceased to grow. The consensus seems to be that there is little to indicate economic growth is gaining momentum.

Job growth was fairly weak in the third quarter, though the unemployment rate did drop below 8.0%. Unfortunately, the drop in the unemployment rate puts the rate back on par with its level from January 2009. The White House took the decline in the unemployment rate as evidence that the economy is continuing to heal, though they did admit that more work still needs to be done to create more jobs. At this point, some experts believe that the job market is showing signs of firming up—though they admit it is far from strong.

Consumer confidence reports were mixed this quarter. The Conference Board's Consumer Confidence Index was down from last quarter, while the Thomson Reuters/University of Michigan Index of Consumer Sentiment surged to end the third quarter up 15.6 points. Regardless, both indexes had a strong September, as a booming stock market and rising home prices, coupled with declining personal debt levels, overshadowed the high unemployment rate and consumers' expectations that their incomes will not keep pace with inflation.

Despite slow economic growth, domestically and abroad, stocks rallied this quarter, as the Federal Reserve's announcement of stimulus bolstered investor sentiment. All the major indexes are up between 20.0% and 30.0% from a year ago. With market volatility low, and assurance from the Federal Reserve, many investors moved out of bonds and back into equities. Those that remained gravitated toward inflation-protected Treasuries,

⁵ All of the contents of the economic outlook section of this valuation report are quoted from the Economic Outlook Update™ 3Q 2012 published by Business Valuation Resources, LLC, © 2012, reprinted with permission. The editors and Business Valuation Resources, LLC, while considering the contents to be accurate as of the date of publication of the Update, take no responsibility for the information contained therein. Relation of this information to this valuation engagement is the sole responsibility of the author of this valuation report.

as the Fed's announcement appeared to have caused some inflation concerns, leaving nominal Treasuries flat for the quarter.

The Institute for Supply Management reported that, after three months, its manufacturing sector index finally pulled above a level signifying contraction. The Federal Reserve also reported that industrial production was down for the quarter. The Institute for Supply Management's services index increased this quarter, and indicates that the services sector is increasing modestly.

The housing market continued to solidify. While existing-home sales dropped in September, it was due to a lack of inventory. Seemingly in response to shrinking inventory levels, privately-owned housing starts climbed nearly 35% from a year ago, and housing permits authorized have soared about 45% from 12 months ago. The National Association of Realtors reported that home prices are up more than 11% from a year ago, and they believe that this upward trend will continue during the coming years.

GROSS DOMESTIC PRODUCT

The U.S. Department of Commerce reported that the nation's economy—as indicated by GDP—increased at an annual rate of 2.0% in the third quarter. The third-quarter 2012 rate is a slight acceleration from the previous quarter's rate of 1.3%. GDP is the total market value of goods and services produced in the U.S. economy and is generally considered the most comprehensive measure of economic growth.

Most economists expected sluggish economic growth in the third quarter, so few were surprised by the GDP report. The Economic Policy Institute notes that the 2.0% rate of growth in the third quarter is at a level that has historically never put any sustained downward pressure on the unemployment rate. Unfortunately, the annual growth rate has been 1.74% for the first nine months of this year, behind last year's rate of 1.80%—some economists believe that the economy would need to grow around 3.0% for a full year to bring down the unemployment rate by one percentage point.

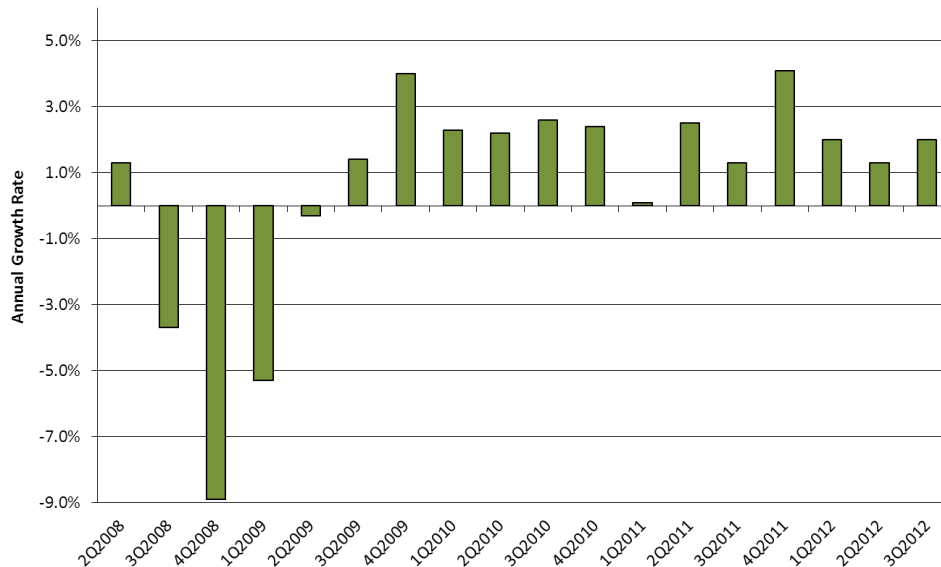
Many analysts noted that there was little in the GDP report to signal economic growth is gaining momentum. Analysts pointed out that much of the GDP growth this quarter came from large defense expenditures, and questioned whether steep defense spending increases could be relied on in the future. Business spending on equipment and software was flat in the third quarter. Analysts find this particularly worrisome because this category of investment had been a source of strength in the U.S. economy for most of the recovery, but has begun decelerating in the last year. Many point out that a near-term reversal seems unlikely—unless there is a substantial increase in overall business sales, it is doubtful that firms will need to expand capacity.

On a positive note, residential fixed investment contributed meaningfully to this quarter's growth rate, and shows no sign of reversing its strong contributions that have been seen over the last year. While state and local government spending continued to drag down

growth in the third quarter, this drag on GDP was far less than it had been in recent quarters.

Exhibit 3-1: Real GDP 2Q 2008 – 3Q 2012

Source: Business Valuation Resources, LLC- Third Quarter Economic Outlook Update



Source of data: U.S. Department of Commerce.
 Notes: Figures are seasonally adjusted at annual rates. As the U.S. Department of Commerce issues revised data, some historically reported figures may change.

The U.S. Department of Commerce found that the increase in real GDP in the third quarter reflected positive contributions from personal consumption expenditures, federal government spending, and residential fixed investment. This increase was partly offset by negative contributions from exports, nonresidential fixed investment, and private inventory investment. Imports, which are a subtraction in the calculation of GDP, decreased.

The acceleration in real GDP in the third quarter primarily reflected an upturn in federal government spending, a downturn in imports, an acceleration in personal consumption expenditures, a smaller decrease in private inventory investment, an acceleration in residential fixed investment, and a smaller decrease in state and local government spending. This acceleration was partly offset by downturns in exports and in nonresidential fixed investment.

The economy grew 1.8% in 2011, after growing 2.4% in 2010.

CONSUMER SPENDING

Consumer spending grew at a rate of 2.0% during the third quarter of 2012. This is an acceleration from the prior quarter’s rate of 1.5%, but was still regarded as rather weak.

Consumer spending—also referred to as personal consumption—accounts for approximately 70% of the U.S. GDP.

Many economists question whether the consumer-spending rate of 2.0% in the third quarter can even be sustained going forward. They note that inflation-adjusted disposable income rose at only a 0.8% rate, while the personal savings rate fell from 4.0% to 3.7%. In a nutshell, personal consumption growth over the quarter was not solely funded through rising household incomes, but with a decline in savings as well.

This quarter's growth in consumer spending contributed 1.42 percentage points to the third-quarter GDP.

Exhibit 3-2: Historical Economic Data 2005-2011 and Forecasts 2012-2021

Source: Business Valuation Resources, LLC- Third Quarter Economic Outlook Update

	HISTORICAL DATA							CONSENSUS FORECASTS**						
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018-2021
Real GDP*	3.1	2.7	1.9	-0.3	-3.1	2.4	1.8	2.2	2.1	3.1	3.1	3.0	2.6	2.4
Industrial Production*	3.3	2.2	2.5	-3.5	-11.4	5.4	4.1	4.1	2.7	3.5	3.1	2.9	2.6	2.4
Personal Consumption*	3.4	2.9	2.3	-0.6	-1.9	1.8	2.5	1.9	2.0	2.7	2.7	2.7	2.5	2.3
Real Disposable Personal Income*	1.3	4.0	2.4	2.4	-2.3	1.8	1.2	1.6	1.5	2.9	2.8	2.9	2.7	2.4
Nonresidential Fixed Investment*	6.7	8.0	6.5	-0.8	-18.1	0.7	8.6	8.5	5.3	6.6	5.9	5.1	4.5	4.0
Nominal Pre-Tax Corp. Profits*	16.8	10.5	-6.1	-17.4	7.5	26.8	7.3	5.3	3.1	6.8	5.6	4.0	3.3	5.0
Total Government Spending*	0.3	1.4	1.3	2.6	3.7	0.6	-3.1	-1.9	-0.9	NA	NA	NA	NA	NA
Consumer Prices*	3.4	3.2	2.8	3.8	-0.4	1.6	3.2	2.0	2.0	2.2	2.3	2.3	2.3	2.3
3 Month Treasury Bill Rate	3.2	4.9	4.5	1.4	0.2	0.1	0.1	0.1	0.2	1.2	2.5	3.5	3.9	4.0
10 Year Treasury Bond Yield	4.3	4.8	4.6	3.7	3.3	3.2	2.8	1.8	2.5	3.6	4.2	4.8	5.2	5.2
Unemployment Rate	5.1	4.6	4.6	5.8	9.3	9.6	9.0	8.2	8.0	NA	NA	NA	NA	NA
Housing Starts (millions)	2.068	1.801	1.355	0.906	0.554	0.587	0.609	0.750	0.900	NA	NA	NA	NA	NA

Source of historical data: U.S. Department of Commerce, U.S. Department of Labor, U.S. Census Bureau and The Federal Reserve Board.
Source of forecasts: Consensus Forecasts - USA, September 2011.

Notes:

*Numbers are based on percent change from preceding period. Consumer Prices are the percent change between annual averages. Historic Unemployment Rate, 3 Month Treasury Rate and 10 Year Treasury Yield are the annual averages.

**Forecast numbers are based on percent change from preceding period (excludes Unemployment Rate, Housing Starts, 3 Month Treasury Rate and 10 Year Treasury Yield). Consumer Price Index information is the percent change between annual averages. The 2012 through 2017 forecasts for the 3 Month Treasury Rate and 10 Year Treasury Yield are for the end of each period. Forecasts for 2018-2021 signify the average for that period.

Personal Consumption includes spending on services, durable, and nondurable goods.
Nonresidential Fixed Investment is also known as business spending.
Total Government Spending includes federal, state, and local government spending.

Every month, Consensus Economics surveys a panel of 30 prominent United States economic and financial forecasters for their predictions on a range of variables including future growth, inflation, current account and budget balances, and interest rates.

Overall consumer spending increased 2.5% in 2011, after growing 1.8% in 2010.

Consumer spending on durable goods—items meant to last three years or more, such as computers, cars, and machinery—increased at a rate of 8.5% in the third quarter, compared with a decreasing rate of 0.2% in the previous quarter. Consumer spending on durable goods increased 7.2% in 2011 and 6.2% in 2010.

Consumer spending on nondurable goods—items such as food and gasoline—increased at a rate of 2.4% this quarter, up from a rate of 0.6% last quarter. Consumer spending on nondurable goods increased 2.3% in 2011 and 2010.

Service expenditures grew at a rate of 0.8% this quarter, a deceleration from 2.1% in the previous quarter. Consumer spending on services increased 1.9% in 2011, after growing 1.0% in 2010.

According to the U.S. Department of Commerce, total retail and food service sales in the third quarter are up 1.4% from the previous quarter, and are up 5.4% from one year ago. Automobile and parts sales increased 1.7% during the third quarter and 8.1% over the last 12 months. Electronic and appliance store sales increased 1.7% this quarter and are up 3.6% from a year ago. Gasoline station sales decreased 2.2% in the third quarter, and are up 5.8% over the last 12 months. Food services and drinking places sales increased 0.4% this quarter and 5.6% over the last 12 months. Grocery store sales increased 0.9% this quarter and are up 3.8% from a year ago.

Exhibit 3-3: Key Economic Variables Actual 2005-2011 and Forecasts 2012-2021

Source: Business Valuation Resources, LLC- Third Quarter Economic Outlook Update

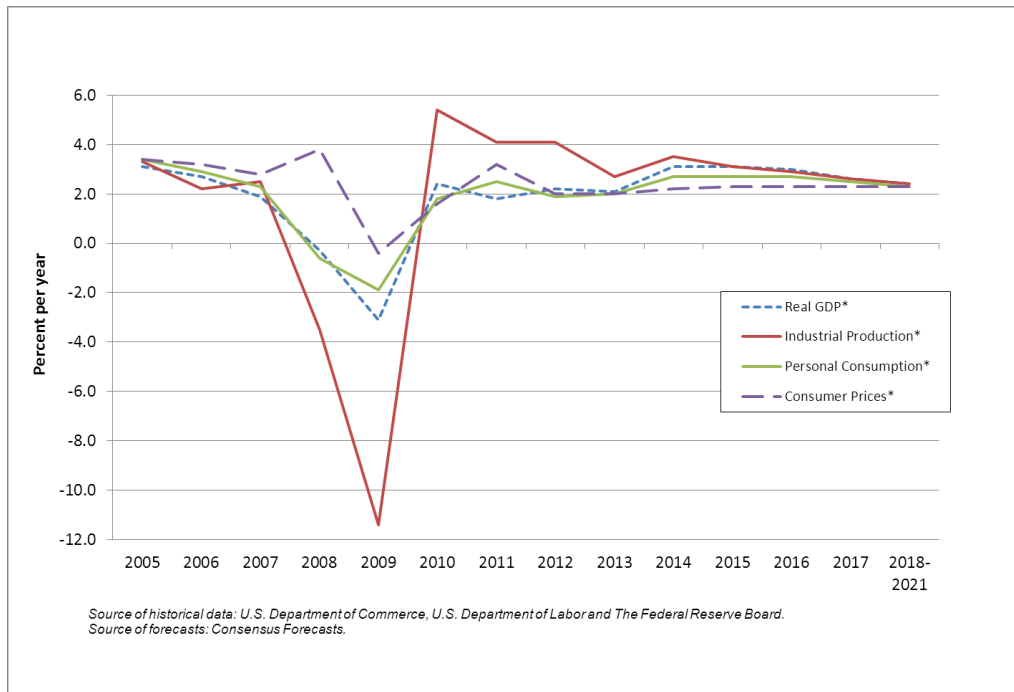


Exhibit 3-4: Economic Indicators Historical Data

Source: Business Valuation Resources, LLC- Third Quarter Economic Outlook Update

	MONTHLY DATA											
	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12
Real GDP			4.1			2.0			1.3			2.0
Personal Consumption			2.0			2.4			1.5			2.0
Nonresidential Fixed Investment			9.5			7.5			3.6			-1.3
Total Government Spending			-2.2			-3.0			-0.7			3.7
Exports			1.4			4.4			5.3			-1.6
Imports			4.9			3.1			2.8			-0.2
CPI (1-month % Change)	0.0	0.1	0.0	0.2	0.4	0.3	0.0	-0.3	0.0	0.0	0.6	0.6
Unemployment Rate	9.0	8.6	8.5	8.3	8.3	8.2	8.1	8.2	8.2	8.3	8.1	7.8
PMI	51.8	52.2	53.1	54.1	52.4	53.4	54.8	53.5	49.7	49.8	49.6	51.5
NMI	52.6	52.6	53.0	56.8	57.3	56.0	53.5	53.7	52.1	52.6	53.7	55.1
Housing Starts (millions)	0.630	0.708	0.697	0.720	0.718	0.706	0.747	0.706	0.754	0.728	0.758	0.872
Building Permits (millions)	0.667	0.709	0.701	0.684	0.707	0.769	0.723	0.784	0.760	0.811	0.801	0.894

Notes: Real GDP and subcomponents data only available on a quarterly basis and therefore are quarterly figures. The numbers in this table are seasonally adjusted at annual rates. PMI is the Institute of Supply Management's Manufacturing Index —any reading above 50.0% suggests growth in the manufacturing economy, whereas a reading below 50.0% indicates contraction. NMI is the Institute of Supply Management's Non-Manufacturing Index which measures the strength of the services sector—any reading above 50.0% suggests growth, whereas a reading below 50.0% indicates contraction.

	QUARTERLY DATA											
	4Q 08	1Q 09	2Q 09	3Q 09	4Q 09	1Q 10	2Q 10	3Q 10	4Q10	1Q11	2Q11	3Q11
Real GDP	-8.9	-5.3	-0.3	1.4	4.0	2.3	2.2	2.6	2.4	0.1	2.5	1.3
Personal Consumption	-5.1	-1.6	-1.8	2.1	0.0	2.5	2.6	2.5	4.1	3.1	1.0	1.7
Nonresidential Fixed Investment	-22.9	-28.9	-17.5	-7.8	-6.4	2.1	12.3	7.7	9.2	-1.3	14.5	19.0
Total Government Spending	1.6	1.8	9.6	3.7	1.1	-3.1	2.8	-0.3	-4.4	-7.0	-0.8	-2.9
Exports	-21.4	-28.7	0.6	13.8	24.0	5.9	9.6	9.7	10.0	5.7	4.1	6.1
Imports	-14.9	-33.9	-15.9	17.2	19.3	10.4	20.2	13.9	0.0	4.3	0.1	4.7
CPI (3-month % Change)	-3.4	0.5	1.0	0.5	0.7	0.1	-0.1	0.5	0.9	1.3	0.7	0.9
Unemployment Rate	7.2	8.5	9.5	9.8	10.0	9.7	9.5	9.6	9.4	8.8	9.2	9.1
Housing Starts (millions)	0.560	0.505	0.585	0.585	0.581	0.636	0.536	0.594	0.539	0.600	0.615	0.647
Building Permits (millions)	0.554	0.513	0.601	0.609	0.664	0.687	0.587	0.563	0.632	0.590	0.633	0.616

Notes: Unemployment Rate is the rate for the last month of the quarter. Housing Starts and Building Permits are seasonally adjusted annual rates for the last month of the quarter. The numbers in this table are seasonally adjusted at annual rates.

	YEARLY DATA									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Real GDP	1.8	2.5	3.5	3.1	2.7	1.9	-0.3	-3.1	2.4	1.8
Personal Consumption	2.7	2.8	3.3	3.4	2.9	2.3	-0.6	-1.9	1.8	2.5
Nonresidential Fixed Investment	-7.9	1.4	6.2	6.7	8.0	6.5	-0.8	-18.1	0.7	8.6
Total Government Spending	4.7	2.2	1.4	0.3	1.4	1.3	2.6	3.7	0.6	-3.1
Exports	-2.0	1.6	9.5	6.7	9.0	9.3	6.1	-9.1	11.1	6.7
Imports	3.4	4.4	11.1	6.1	6.1	2.4	-2.7	-13.5	12.5	4.8
Consumer Price Index	1.6	2.3	2.7	3.4	3.2	2.8	3.8	-0.4	1.6	3.2
Unemployment Rate	5.8	6.0	5.6	5.1	4.6	4.6	5.8	9.3	9.6	9.0
Housing Starts (millions)	1.705	1.848	1.956	2.068	1.801	1.355	0.906	0.554	0.587	0.609
Building Permits (millions)	1.748	1.889	2.070	2.155	1.838	1.398	0.905	0.583	0.605	0.624

Notes: Yearly Consumer Price Index information is the percent change between annual averages. Yearly unemployment is the annual average rate.

Personal Consumption includes spending on services, durable, and nondurable goods.
Government Spending includes federal, state, and local government spending.
As the Government issues revised data, some historical reported figures may have changed.

Source of data: U.S. Department of Commerce, U.S. Department of Labor, U.S. Census Bureau The Federal Reserve Board, and the Institute of Supply Management.

GOVERNMENT SPENDING

Total government spending grew at a rate of 3.7% in the third quarter, following eight consecutive quarterly declines in government spending. This quarter's increase in government spending provided a 0.71 percentage point contribution to the third-quarter GDP. Total government spending decreased by 3.1% in 2011, after growing 0.6% in 2010.

Federal government spending increased at a rate of 9.6% in the third quarter, after declining at a rate of 0.2% in the previous quarter. Federal government spending declined by 2.8% in 2011, after growing 4.5% in 2010.

National defense spending decreased at rate of 13.0% this quarter, after decreasing at a rate of 0.2% in the previous quarter. National defense spending declined 2.6% in 2011, after increasing 3.0% in 2010.

State and local government spending declined at a rate of 0.1% in the third quarter, after decreasing at a rate of 1.0% in the previous quarter. State and local government spending declined 3.4% in 2011 and 1.8% in 2010.

FIXED INVESTMENTS

Business spending, also known as nonresidential fixed investment, decreased at a rate of 1.3% in the third quarter. This quarter's decrease comes after five straight quarterly increases. Business spending contributed -0.13 percentage points to the third-quarter GDP. Business spending increased 8.6% in 2011 and 0.7% in 2010.

Business spending on structures (nonresidential structures) decreased at an annual rate of 4.4% in the third quarter. Business expenditures on equipment and software were unchanged this quarter, after 12 consecutive quarterly increases.

Residential fixed investment, often considered a proxy for the housing market, increased at an annual rate of 14.4% during the third quarter. This comes after a rate of 8.5% in the previous quarter. This quarter's growth in residential fixed investment made a 0.33 percentage point contribution to the second-quarter GDP. Residential fixed investment declined 1.4% in 2011 and 3.7% in 2010.

BUSINESS INVENTORIES

Business investments in inventories decreased at a slower pace in the third quarter than in the previous quarter. The change in private inventories subtracted 0.12 percentage points from the third-quarter change in real GDP after subtracting 0.46 percentage points from the second-quarter change. Farm inventories subtracted 0.42 percentage points from the third-quarter change in GDP after subtracting 0.17 percentage points from the second-quarter change. Nonfarm inventories added 0.30 percentage points to the third-quarter change in GDP after subtracting 0.29 percentage points from the second-quarter change.

EXPORTS AND IMPORTS

Net exports were a drag on growth this quarter, subtracting 0.18 percentage points from the third-quarter GDP.

Exports decreased at an annual rate of 1.6% in the third quarter, following last quarter's growing rate of 5.3%. Exports increased 6.7% in 2011 and 11.1% in 2010.

Foreign imports, which are a subtraction in the calculation of GDP, decreased at an annual rate of 0.2% during the third quarter. This follows last quarter's growth rate of 2.8%. Imports increased 4.8% in 2011 and 12.5% in 2010.

CONSUMER PRICES AND INFLATION RATES

According to the U.S. Department of Commerce, the price index for gross domestic purchases, which measures prices paid by U.S. residents, increased 1.5% in the third quarter, compared with an increase of 0.7% last quarter. Excluding food and energy prices, the price index for gross domestic purchases increased 1.3% in the third quarter, compared with an increase of 1.4% in the previous quarter.

The U.S. Department of Labor reported that the Consumer Price Index (CPI) increased 0.6% in September on a seasonally adjusted basis—tying August's rise as the largest increase since June 2009. CPI is a measure of a basket of products and services, including housing, electricity, food, and transportation and is used as a measure of inflation. Increasing gas prices fueled the CPI increase, with the gasoline index rising 7.0% in September after climbing 9.0% in August. The food index increased slightly, mostly because of higher prices for dairy products and nonalcoholic beverages. Over the last 12 months, CPI has climbed 2.0%.

Core consumer prices (Core CPI), a measure of inflation that excludes volatile food and energy costs, increased 0.1% in September on a seasonally adjusted basis, after increasing 0.1% in both August and July. Increases in the indexes for shelter, medical care, apparel, and airline fares all contributed significantly to the September increase, while the indexes for used cars and trucks, new vehicles, personal care, and household furnishings all fell for the month. Core CPI has risen 2.0% over the last 12 months.

The U.S. Department of Labor reported that the Producer Price Index (PPI) increased 1.1% in September on a seasonally adjusted basis. PPI increased by 1.7% in August and 0.3% in July. The increase in August was the largest increase since June 2009. The index for energy, which increased 4.7% in September and 6.4% in August, was the main driver of the PPI increases this quarter. The gasoline index accounted for over 80% of September's increase in the index for energy, though the indexes for diesel fuel and residential natural gas also increased. The index for food moved up this quarter, mostly because of rising dairy prices. PPI has increased 2.1% over the last 12 months.

Core producer prices (Core PPI)—which do not include volatile food and energy prices—were unchanged in September. This increase came after increases of 0.2% in August and 0.4% in July. September was the first time in nearly a year where Core PPI did not increase. Declining prices for communication and related equipment offset higher prices

for light motor trucks in September. In August, much of the PPI rise was attributed to higher pharmaceutical prices.

ENERGY PRICES

The Energy Information Administration (EIA) reported that the spot price for a barrel of West Texas Intermediate (WTI) crude oil was \$92.18 at the end of the third quarter. This is up from \$85.04 per barrel at the end of last quarter. A year ago, the spot price for a barrel of WTI crude oil was \$78.93.

The regular retail gas price (conventional areas) was \$3.78 per gallon at the end of the third quarter. This is up from \$3.38 per gallon at the end of last quarter. A year ago, the regular retail gas price was \$3.46 per gallon.

The Henry Hub natural gas spot price was \$3.08 per million Btu (MMBtu) at the end of the third quarter, up from \$2.74 per MMBtu at the end of last quarter. A year ago, the Henry Hub natural gas sport price was \$3.68 per MMBtu.

INTEREST RATES

The Federal Open Market Committee (FOMC) met twice during the third quarter of 2012, issuing two statements on its target for the federal funds rate. As expected, the FOMC continued its pledge to keep its target for the federal funds rate near zero, at least through mid-2015. The federal funds rate is the interest rate at which a commercial bank lends immediately available funds in balances at the Federal Reserve to another commercial bank. The FOMC establishes a target rate and expands or contracts the money supply with the aim that the federal funds rate, a market rate, will approximate the target rate.

The FOMC stated that the information it has received indicated that the economy has been expanding moderately. The Committee expressed concern that growth in employment has been slow, and that the unemployment rate remains high. Further, while household spending has continued to grow, business spending has slowed. The FOMC believes that the housing sector, while showing signs of improvement, is far from booming. It notes that inflation has been subdued, although the prices of some key commodities have increased recently, and that longer-term inflation expectations have remained stable. It anticipates that inflation over the medium term likely will run at or below its goal of 2%. The Committee expressed concern that future economic growth might not be strong enough to create sustained improvement in labor market conditions, and that strains in the global financial markets may impede U.S. economic growth.

During the third quarter of 2012, the Board of Governors of the Federal Reserve left the discount rate unchanged at 0.75%. The discount rate is the interest rate a commercial bank is charged to borrow funds, typically for a short period, directly from a Federal

Reserve Bank. The board of directors of each Reserve Bank establishes the discount rate every 14 days, subject to the approval of the Board of Governors.

UNEMPLOYMENT AND PERSONAL INCOME

The U.S. Department of Labor reported that the unemployment rate was 7.8% at the end of the third quarter (or approximately 12.1 million unemployed), down from 8.2% at the end of the second quarter. The unemployment rate had been higher than 8.0% since February 2009, the longest stretch since monthly jobless figures were first compiled in 1948. The 7.8% matches the January 2009 rate, the month President Obama took office. While the consensus is that the labor market is not robust, some economists believe it is starting to firm up.

The economy added a relatively small 114,000 jobs in September, after adding 142,000 jobs in August and 181,100 jobs in July. In September, employment increased in healthcare, with the sector seeing its strongest month since February. September employment also increased in the transportation and warehousing sector, but changed little in most other major industries. There were 4.8 million long-term unemployed (those jobless for 27 weeks or more), which made up 40.1% of unemployed persons at the end of September.

The White House Council of Economic Advisers, an agency within the Executive Office of the President, stated that the September employment report provided further evidence that the U.S. economy is continuing to heal. Regardless, they acknowledge that there is more work that remains to be done. It emphasized the need to focus on the middle class, and stated that the most pressing issue was for Congress to pass an extension of the middle class tax cuts.

Average hourly earnings for all private-sector employees rose seven cents in September, to \$23.58. Average hourly earnings for all private-sector employees have increased 1.8% over the past 12 months. Average hourly earnings for private-sector production and nonsupervisory employees increased five cents in September, to \$19.81. Average hourly earnings for private-sector production and nonsupervisory employees have increased 1.4% over the past 12 months.

The U.S. Department of Commerce reported that current-dollar personal income increased \$89.3 billion (2.7%) in the third quarter, compared with an increase of \$130.3 billion (4.0%) in the previous quarter.

Personal current taxes increased \$13.2 billion in the third quarter, compared with an increase of \$20.2 billion last quarter.

Disposable personal income increased \$76.1 billion (2.6%) in the third quarter, compared with an increase of \$110.0 billion (3.8%) in the previous quarter. Real

disposable personal income increased 0.8% in the third quarter, compared with an increase of 3.1% in the previous quarter.

Personal outlays increased \$111.4 billion (4.0%) in the third quarter, compared with an increase of \$57.4 billion (2.0%) last quarter. Personal saving—disposable personal income less personal outlays—was \$445.0 billion in the third quarter, compared with \$480.3 billion in the previous quarter.

The personal saving rate—saving as a percentage of disposable personal income—was 3.7% in the third quarter, down from 4.0% last quarter.

CONSUMER CONFIDENCE AND SENTIMENT

The Conference Board's Consumer Confidence Index stood at 68.4 at the end of the third quarter, down from 73.2 at the end of prior quarter. Though the reading at the end of this quarter was below that of last quarter, the index ended well up from a rough August, where the index fell to 61.3. In September, the index benefited from consumers' more positive assessment of current conditions, specifically the job market, as well as a favorable short-term outlook for business conditions, employment, and personal financial situations. Some economists attributed the higher-than-expected September increase to several factors, including a rally in the stock markets in recent months and a turnaround in the weak housing market. While consumers are more optimistic than they have been in several months, it is not clear whether this confidence level will continue, given the lingering high jobless rate.

The Consumer Confidence Index is an indicator designed to measure consumer confidence, which is the degree of optimism on the state of the economy that consumers are expressing through their activities of savings and spending. A month-on-month decreasing trend in the Consumer Confidence Index suggests consumers have a negative outlook on their ability to secure and retain good jobs, whereas a rising trend in consumer confidence indicates improvements in consumer buying patterns. Opinions on current conditions make up 40% of the index (the Present Situation Index), with expectations of future conditions comprising the remaining 60% (the Expectations Index).

The Thomson Reuters/University of Michigan's Index of Consumer Sentiment increased to 78.3 at the end of third quarter, from 73.2 at the end of last quarter. The index is well up from one year ago when the reading was 59.5. At the end of the third quarter, consumers said they expect the economy to create more jobs over the next year. Consumers also reported small gains in their current financial situations, mostly because of a reduction in their debt levels and an increase in the value of their assets, mainly in the form of higher stock prices and home values. Unfortunately, the majority of consumers anticipate very small wage gains. Consumers also expect to see a large price increase in the year ahead, largely due to rising food and energy costs. Overall,

the information in the report indicated that that half of all households anticipate declining living standards as their incomes fail to keep pace with inflation.

The Thomson Reuters/University of Michigan's Survey of Consumers is a rotating panel survey based on a nationally representative sample that gives each household in the contiguous U.S. an equal probability of being selected. Interviews are conducted throughout the month by telephone. The Index of Consumer Sentiment is composed of the Index of Consumer Expectations and the Current Conditions Index and is intended to gauge how consumers feel about when the economic environment will change. The survey's Index of Consumer Expectations is an official component of the U.S. Leading Economic Index.

Exhibit 3-5: Consumer Confidence and Consumer Sentiment

Source: Business Valuation Resources, LLC- Third Quarter Economic Outlook Update

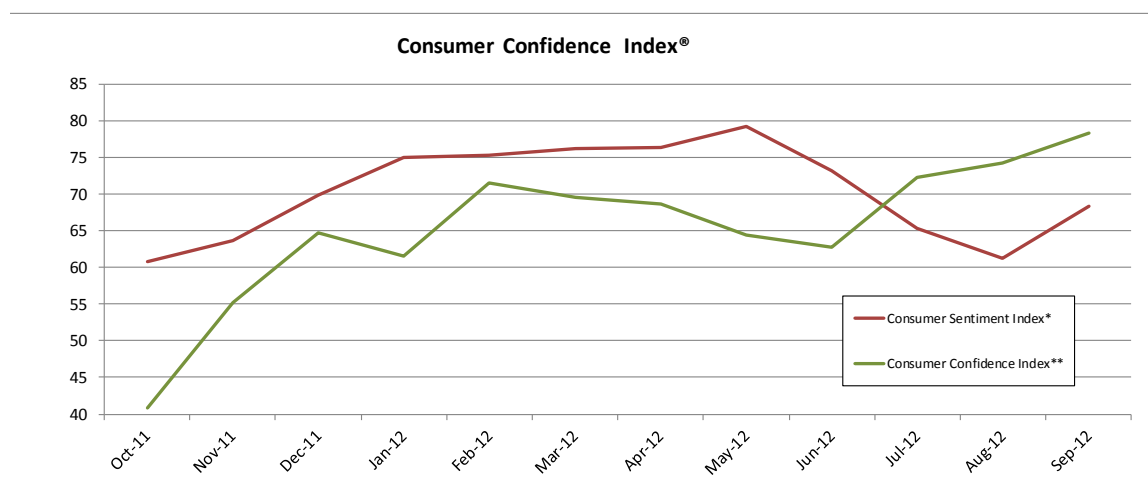
	MONTHLY DATA											
	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12
Consumer Sentiment Index*	60.8	63.7	69.9	75.0	75.3	76.2	76.4	79.3	73.2	65.4	61.3	68.4
Consumer Confidence Index**	40.9	55.2	64.8	61.5	71.6	69.5	68.7	64.4	62.7	72.3	74.3	78.3

Source of data: The Conference Board and Thomson Reuters/University of Michigan

Notes:

*The Thomson Reuters/University of Michigan Index of Consumer Sentiment

**The Conference Board Consumer Confidence Index®



STOCK MARKETS AND VOLATILITY

Despite the fact that unemployment remains high, U.S. economic growth is sluggish, much of Europe is in a recession, China's growth is slowing, and the U.S. is approaching a potential fiscal cliff (automatic spending cuts and tax hikes), the major stock indexes rallied this quarter after a dismal second quarter. September has historically been the worst month of the year for U.S. stocks—which was certainly not the case this year, as many of the indexes hit multi-year highs. Many attributed this quarter's positive investor sentiment to optimism surrounding the prospects for Federal Reserve and other central bank stimuli around the world. The president of the European Central Bank pledged to

do “whatever it takes” to preserve the euro and stabilize the Eurozone, while the Federal Reserve initiated another round of bond buying intended to keep interest rates low, encourage economic growth, and reduce unemployment. Further, many believe the relatively low market volatility this quarter encouraged investors to shift funds into the stock market, helping to support the rally.

The Dow Jones Industrial Average (Dow) climbed 4.3% in the third quarter, and is up 10.0% year-to-date. The Dow has risen 23.1% over the last 12 months. The Dow is an index of 30 of the largest and most widely held public companies in the U.S. and is considered the single most watched index in the world.

The NASDAQ Composite Index (NASDAQ), consisting mainly of high-tech stocks, ended the third quarter with a gain of 6.2%. The NASDAQ is up 19.6% for the year, and has gained 29.0% over the last 12 months.

The S&P 500 grew 5.8% in the third quarter, and has seen year-to-date gains of 14.6%. The index has risen 27.3% over the last 12 months. The S&P 500 consists of a representative sample of 500 leading companies of the U.S. economy and is one of the most commonly used benchmarks for the overall U.S. stock market.

The Dow Jones U.S. Total Market Index gained 5.7% in the third quarter, and is up 14.6% year-to-date. The index has risen 27.6% over the last 12 months. The Dow Jones U.S. Total Market Index, considered a total market index, represents the top 95% of the U.S. stock market based on market capitalization.

The Russell 2000 Index grew 4.9% this quarter, and is up 13.0% for the year. The Russell 2000 has climbed 30.0% over the last 12 months. The Russell 2000 Index serves as a benchmark for small cap stocks in the U.S. stock market.

Exhibit 3-6: Stock Market Historical Data

Source: Business Valuation Resources, LLC- Third Quarter Economic Outlook Update

QUARTERLY RETURNS												
(%)	4Q 09	1Q 10	2Q 10	3Q 10	4Q 10	1Q 11	2Q 11	3Q 11	4Q 11	1Q 12	2Q 12	3Q 12
DJIA	7.4	4.1	-10.0	10.4	7.3	6.4	0.8	-12.1	12.0	8.1	-2.5	4.3
Nasdaq Composite	6.9	5.7	-12.0	12.3	12.0	4.8	-0.3	-12.9	7.9	18.7	-5.1	6.2
S&P 500	5.5	4.9	-11.9	10.7	10.2	5.4	-0.4	-14.3	11.2	12.0	-3.3	5.8
Dow Jones US Total Market	5.4	5.8	-11.6	11.1	11.2	5.6	-0.5	-15.7	11.4	12.7	-3.8	5.7
Russell 2000	3.5	8.5	-10.2	10.9	15.9	7.6	-1.9	-22.1	15.0	12.1	-3.8	4.9

YEARLY RETURNS								FORECAST*	
(%)	2005	2006	2007	2008	2009	2010	2011	2012	2013
DJIA	-0.6	16.3	6.4	-33.8	18.8	11.0	5.5		
Nasdaq Composite	1.4	9.5	9.8	-40.5	43.9	16.9	-1.8		
S&P 500	4.7	11.8	3.5	-38.5	23.5	12.8	0.0	10.77	6.98
Dow Jones US Total Market	6.2	12.2	3.9	-38.7	26.5	15.6	-1.4		
Russell 2000	5.4	14.7	-2.7	-34.8	25.2	25.3	-5.5		

MONTHLY DATA												
	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12
DJIA	11,118.40	11,006.02	11,577.51	12,632.91	12,952.07	13,212.04	13,213.63	12,393.45	12,880.09	13,008.68	13,090.84	13,437.13
Nasdaq Composite	2,507.41	2,498.23	2,652.87	2,813.84	2,966.89	3,091.57	3,046.36	2,827.34	2,935.05	2,939.52	3,066.96	3,116.23
S&P 500	1,183.26	1,180.55	1,257.64	1,312.41	1,365.68	1,408.47	1,397.91	1,310.33	1,362.16	1,379.32	1,406.58	1,440.67
Dow Jones US Total Market	12,412.30	12,464.30	13,290.00	13,769.30	14,332.30	14,769.20	14,618.90	13,665.50	14,208.60	14,346.70	14,630.90	15,025.20
Russell 2000	703.35	727.01	783.65	792.82	810.94	830.30	816.88	761.82	798.49	786.94	812.09	837.45
VIX**	45.45	36.16	30.59	22.97	21.14	20.84	20.39	25.10	26.66	20.47	18.96	17.98

QUARTERLY DATA												
	4Q 08	1Q 09	2Q 09	3Q 09	4Q 09	1Q 10	2Q 10	3Q 10	4Q 10	1Q 11	2Q 11	3Q 11
DJIA	8,776.39	7,608.92	8,447.00	9,712.28	10,428.05	10,856.63	9,774.02	10,788.05	11,577.51	12,319.73	12,414.34	10,913.38
Nasdaq Composite	1,577.03	1,528.59	1,835.04	2,122.42	2,269.15	2,397.96	2,109.24	2,368.62	2,652.87	2,781.07	2,773.52	2,415.40
S&P 500	903.25	797.87	919.32	1,057.08	1,115.10	1,169.43	1,030.71	1,141.20	1,257.64	1,325.83	1,320.64	1,131.42
Dow Jones US Total Market	9,087.20	8,113.10	9,424.90	10,911.70	11,497.40	12,161.00	10,750.00	11,947.10	13,290.00	14,036.40	13,968.10	11,771.90
Russell 2000	499.45	422.75	508.28	604.28	625.39	678.64	609.49	676.14	783.65	843.55	827.43	644.16
VIX**	80.86	56.65	32.68	29.15	23.69	19.26	36.57	23.89	21.36	29.40	22.73	48.00

YEARLY DATA								FORECAST*		
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
DJIA	10,783.01	10,717.50	12,463.15	13,264.82	8,776.39	10,428.05	11,577.51	12,217.56		
Nasdaq Composite	2,175.44	2,205.32	2,415.29	2,652.28	1,577.03	2,269.15	2,652.87	2,605.15		
S&P 500	1,211.92	1,248.29	1,418.30	1,468.36	903.25	1,115.10	1,257.64	1,257.60	1,393.00	1,490.30
Dow Jones US Total Market	11,971.10	12,517.70	14,257.50	14,819.60	9,087.20	11,497.40	13,290.00	13,109.50		
Russell 2000	651.57	673.22	787.66	766.03	499.45	625.39	783.65	740.92		
VIX**	21.58	17.74	23.81	31.09	80.86	56.65	45.79	48.00		

Source of data: Yahoo! Finance

Index Tickers: *DJIA, *IXIC, *GSPC, *DWC, *RUT, *VIX

Notes:

Quotes are closing prices on the last day of trade for the month

**Source: The Livingston Survey, June 7, 2012

**VIX values reported are the highest value of the respective time period. VIX is a popular volatility measure-higher values correspond to greater volatility.

The Chicago Board Options Exchange Volatility Index (VIX)—a popular volatility measure—began the third quarter at 17.80 and ended at 15.73. The highest closing VIX reading this quarter was 20.47, compared with last quarter’s high of 26.66. The average VIX reading this quarter was 16.21, compared to 20.03 last quarter.

The VIX represents the implied volatility of 30-day options on the Standard & Poor’s 500 stocks and has been termed by some as the “fear gauge.” Accordingly, the VIX represents the expected volatility of the market, as represented by the S&P 500. Stock market professionals use the VIX to gauge investor sentiment.

Investopedia says the following: “VIX values greater than 30 are generally associated with a large amount of volatility as a result of investor fear or uncertainty, while values below 20 generally correspond to less stressful, even complacent, times in the markets.”

BOND MARKETS

Low yields and less demand for safe-haven assets proved to be headwinds for the bond market this quarter. Broad bond market returns, as measured by Barclays Aggregate Bond Index, generally lagged stocks. Investment grade corporate bonds were a bright spot in the bond market this quarter, while high yield bonds saw even greater benefits for investors. Overall, nominal Treasuries were flat, lagging the investment-grade U.S. bond market. Treasury inflation-protected securities outperformed the broad bond market due to the longer-term inflationary implications of the Federal Reserve's quantitative easing program.

The 30-day T-bill rate was 0.06% at the end of the third quarter, little changed from 0.04% at the end of last quarter. The 5-year Treasury ended the third quarter with a yield of 0.62%, compared with 0.72% at the end of the previous quarter.

The 10-year Treasury bond yield was 1.65% at the end of the third quarter, nearly unchanged from a yield of 1.67% at the end of the previous quarter. The 20-year Treasury bond yield was 2.42% at the end of the third quarter, compared with 2.38% at the end of the previous quarter.

Moody's seasoned Aaa and Baa corporate bonds ended the third quarter with a yield of 3.42% and 4.72%, respectively, compared with yields of 3.66% and 5.06% at the end of last quarter.

The prime lending rate was 3.25% at the beginning of the third quarter and remained there through the end of September. The discount window (primary credit) remained at 0.75% during the third quarter.

Exhibit 3-7: Bond Market Historical Data

Source: Business Valuation Resources, LLC- Third Quarter Economic Outlook Update

PERIODIC DATA									
	Jul-12			Aug-12			Sep-12		
	BM	MM	EM	BM	MM	EM	BM	MM	EM
(%)									
30-day Treasury Bill ¹	0.06	0.04	0.07	0.07	0.11	0.09	0.10	0.08	0.06
5-year Treasury Note ¹	0.67	0.60	0.60	0.63	0.80	0.59	0.62	0.72	0.62
10-year Treasury Bond ¹	1.61	1.50	1.51	1.56	1.80	1.57	1.59	1.88	1.65
20-year Treasury Bond ¹	2.30	2.18	2.21	2.25	2.53	2.29	2.30	2.68	2.42
Prime Lending Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Federal Funds Rate	0.18	0.18	0.13	0.14	0.13	0.13	0.14	0.16	0.09
Discount Window Primary Credit Rate	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Corporate Bonds Moody's Seasoned Aaa ⁴	3.58	3.39	3.29	3.32	3.64	3.36	3.39	3.67	3.42
Corporate Bonds Moody's Seasoned Baa ⁴	5.01	4.85	4.78	4.82	5.07	4.78	4.77	4.97	4.72

Notes:
 BM=beginning of month, MM = mid-month, EM = end of month

MONTHLY DATA												
	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12
(%)												
30-day Treasury Bill ¹	0.04	0.02	0.01	0.01	0.01	0.00	0.02	0.06	0.06	0.07	0.07	0.05
5-year Treasury Note ¹	1.54	1.02	0.90	1.06	0.91	0.89	0.84	0.83	1.02	0.89	0.76	0.71
10-year Treasury Bond ¹	3.00	2.30	1.98	2.15	2.01	1.98	1.97	1.97	2.17	2.05	1.8	1.62
20-year Treasury Bond ¹	3.95	3.24	2.83	2.87	2.72	2.67	2.7	2.75	2.94	2.82	2.53	2.31
Prime Lending Rate ²	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Federal Funds Rate ²	0.07	0.1	0.08	0.70	0.08	0.07	0.08	0.1	0.13	0.14	0.16	0.16
Discount Window Primary Credit Rate ²	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Corporate Bonds Moody's Seasoned Aaa ⁴	4.93	4.37	4.09	3.98	3.87	3.93	3.85	3.85	3.99	3.96	3.8	3.64
Corporate Bonds Moody's Seasoned Baa ⁴	5.76	5.36	5.27	5.37	5.14	5.25	5.23	5.14	5.23	5.19	5.07	5.02

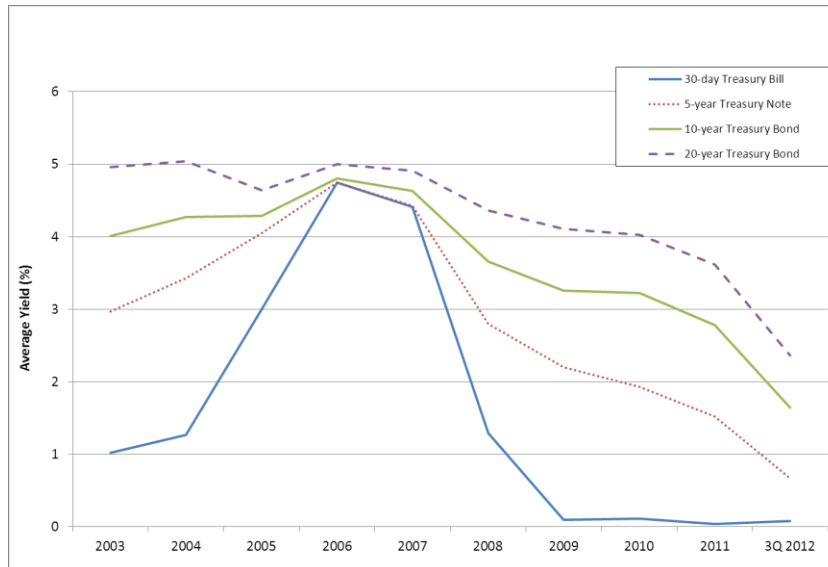
YEARLY DATA										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	
(%)										
30-day Treasury Bill ¹	1.02	1.27	3.00	4.75	4.41	1.29	0.10	0.11	0.04	
5-year Treasury Note ¹	2.97	3.43	4.05	4.75	4.43	2.80	2.20	1.93	1.52	
10-year Treasury Bond ¹	4.01	4.27	4.29	4.80	4.63	3.66	3.26	3.22	2.78	
20-year Treasury Bond ¹	4.96	5.04	4.64	5.00	4.91	4.36	4.11	4.03	3.62	
Prime Lending Rate ³	4.12	4.34	6.19	7.96	8.05	5.09	3.25	3.25	3.25	
Federal Funds Rate ³	1.13	1.35	3.22	4.97	5.02	1.92	0.16	0.18	0.1	
Discount Window Primary Credit Rate ³	N/A	2.34	4.19	5.96	5.86	2.39	0.50	0.72	0.75	
Corporate Bonds Moody's Seasoned Aaa ⁴	5.66	5.63	5.23	5.59	5.56	5.63	5.31	4.94	4.64	
Corporate Bonds Moody's Seasoned Baa ⁴	6.76	6.39	6.06	6.48	6.48	7.44	7.29	6.04	5.66	

Source of data: The Federal Reserve Board.

Notes:
 (1) Yields on actively traded non-inflation-indexed issues adjusted to constant maturities
 (2) Monthly figures are averages of each calendar day in the month
 (3) Annualized figures use a 360-day year or bank interest
 (4) Average yield to maturity on selected long term bonds

Exhibit 3-8: Treasury Historical Data

Source: Business Valuation Resources, LLC- Third Quarter Economic Outlook Update



CONSTRUCTION

According to the U.S. Census Bureau, privately owned housing starts in September were at a seasonally adjusted annual rate of 872,000, up 15.0% from the previous month and 34.8% from one year ago. The construction of single-family homes increased 11.0% in September and is up 42.9% from one year ago. Construction in the multifamily home sector grew 25.0% in September and is up 18.7% from one year ago. The multifamily home sector, which consists of buildings with five units or more, tends to be more volatile than the single-family home sector.

Building permit authorizations for privately owned housing units, considered a good leading indicator of demand for new homes, were at a seasonally adjusted rate of 894,000 in September. This was 11.6% above the August rate and 45.1% above the rate from one year ago. Building permits for single-family housing units were up 6.7% in September and 27.3% from one year ago. Building permits for multifamily housing units climbed 11.4% in September and are up 93.4% from one year ago.

The U.S. Census Bureau reported that overall spending on new construction during September 2012 was at a seasonally adjusted annual rate of \$851.6 billion. This figure is 0.6% above the August rate of \$846.2 billion and 7.8% above the \$790.3 billion rate from one year ago. During the first nine months of 2012, construction spending amounted to \$624.8 billion, 8.9% above the \$573.1 billion for the same period in 2011.

Spending on all private construction was at a seasonally adjusted annual rate of \$580.5 billion in September, 1.3% above the August rate of \$572.8 billion and 14.4% above the rate from one year ago. Private residential construction spending was at a seasonally adjusted annual rate of \$285.9 billion in September, 2.8% above the August rate of \$278.0 billion and 20.9% above the rate from one year ago. Private nonresidential construction was at a seasonally adjusted annual rate of \$294.6 billion in September, 0.1% below the August rate of \$294.7 billion, but up 8.8% from a year ago.

The seasonally adjusted annual rate of total public construction spending was \$271.1 billion in September, down 0.8% from the August rate of \$273.4 billion, and down 4.2% from a year ago. Educational construction was at a seasonally adjusted annual rate of \$66.7 billion in September, 0.8% below the August rate of \$67.2 billion, and down 6.9% from a year ago. Highway and street construction was at a seasonally adjusted annual rate of \$78.4 billion in September, 1.6% below the August rate of \$79.6 billion, and 2.4% below the rate from one year ago.

MANUFACTURING

The Federal Reserve published that, after remaining unchanged in July, industrial production declined 1.4% in August, before increasing 0.4% in September. For the third quarter as a whole, industrial production dropped at an annual rate of 0.4%. At 97.0% of its 2007 average, total industrial production in September was up 2.8% from its level a

year earlier. Industrial production is an output measure of the industrial sector of the economy. The industrial sector includes manufacturing, mining, and utilities.

Manufacturing dropped at an annual rate of 0.9% in the third quarter, compared with growth at a rate of 1.0% last quarter. This was manufacturing's first quarterly decline since the second quarter of 2009. Manufacturing has risen 3.2% over the past 12 months.

The output of mines grew at a rate of 1.4% in the third quarter, compared with a decreasing rate of 0.4% in the previous quarter. Mining output has increased 3.8% over the past 12 months.

The output of utilities grew at a rate of 1.0% in the third quarter. This is down significantly from a rate of 21.2% in the previous quarter. The output of utilities has declined 1.4% over the past 12 months.

Capacity utilization averaged 78.5% during the third quarter. The second-quarter figure is down slightly from an average of 78.9% in the previous quarter. Capacity utilization is the percentage of production capacity manufacturers actually use. Capacity utilization averaged 76.8% in 2011 and 73.7% in 2010.

The U.S. Census Bureau announced that new orders for manufactured durable goods in September increased \$19.6 billion (9.9%), to \$218.2 billion. This increase followed a 13.1% August increase. Excluding defense, new orders increased 9.1%. Excluding the volatile transportation orders, new orders increased 2.0%. Orders for transportation equipment, up five of the last six months, had the largest September increase, at 31.7%. New orders for nondefense capital goods excluding volatile aircraft orders—an indicator of business spending strength—were unchanged in September after rising only 0.2% in August. Many analysts took this as a signal of a slowdown in investment that may curb U.S. economic growth.

The Institute for Supply Management (ISM) reported that its monthly Manufacturing Index (known as PMI) was at 51.5% at the end of the third quarter, up slightly from 49.7% at the end of the previous quarter. PMI is an indicator of the economic health of the manufacturing sector and is based on data compiled from purchasing and supply executives nationwide. While the September reading is up somewhat from the reading at the end of the second quarter, it is important to note that the June reading marked a 35-month low for PMI. After three consecutive months of indicating the manufacturing sector was contracting, the September PMI reading indicated a slight expansion. An increase in the indexes for new orders and manufacturing employment fueled the September PMI rise. Feedback from those surveyed was mixed. Some felt the recent slowdown was a "summer thing" and everything was picking up for the fall, while others reported that the third quarter was strong, but the fourth quarter is showing signs of

slowing. Despite whom you listen to, PMI is indicating a slight expansion for the manufacturing sector.

A reading above 50% indicates that the manufacturing economy is generally expanding; a reading below 50% indicates that it is generally contracting. A PMI in excess of 42.5%, over a period of time, generally indicates an expansion of the overall economy. Therefore, the September PMI indicates an expansion in the manufacturing sector after three consecutive months of contraction and growth in the overall economy for the 40th consecutive month.

SERVICES

ISM reported that its Non-Manufacturing Index (known as NMI) increased to 55.1% at the end of the third quarter from 52.1% at the end of the prior quarter. NMI measures the strength of the services sector and is based on data compiled from purchasing and supply executives nationwide. While the reading at the end of the third quarter is up from last quarter, the June reading marked a 29-month low for NMI. An increase in the new orders index, up four points in September, more than offset a decrease in the employment index, which declined almost three points.

The September NMI reading of 55.1% is above the 12-month average of 54.1%, but below the 12-month high of 57.3%.

A reading above 50% indicates the nonmanufacturing sector economy is generally expanding, whereas a reading below 50% indicates the nonmanufacturing sector is generally contracting. The reading in September indicates continued growth for the 33rd consecutive month in the nonmanufacturing sector.

REAL ESTATE

Homeownership Rates, Homeowner Vacancy Rates, and Rental Vacancy Rates

The U.S. Census Bureau found that the homeownership rate for the third quarter was 65.5%, unchanged from last quarter's rate, but below the rate one year ago of 66.3%.

The U.S. Census Bureau reported that the national vacancy rate for rental housing in the third quarter was 8.6%, unchanged from last quarter. Rental vacancy is down from this time one year ago, when the rate was 9.8%. The national vacancy rate for homeowners was 1.9% in the third quarter, down from 2.1% last quarter. Homeowner vacancy is down from this time one year ago, when the rate was 2.4%.

Mortgage Bankers Association

The Mortgage Bankers Association (MBA) believes the housing market will continue to recover and gain traction over the next few years. MBA believes the recent surge in multifamily housing starts will continue through 2014, along with a continued recovery in

single-family housing starts. It believes fixed mortgage rates will climb slowly towards the end of 2012, finishing around 3.8% for the year. It believes this trend will continue into 2013 and 2014, with rates increasing to 4.1% for 2013 and 4.5% 2014. MBA expects housing starts, which have already started to pick up in 2012, to continue to increase steadily. It expects to see approximately a 28% increase in multifamily housing starts in 2013, and about an 11% increase in single family housing starts. It expects total existing home sales to increase almost 2% in 2013 and 5% in 2014, while new homes sales increase about 8% percent in 2013 and 14% in 2014.

Exhibit 3-9: Mortgage Bankers Association Market Forecast

Source: Business Valuation Resources, LLC- Third Quarter Economic Outlook Update

Mortgage Bankers Association® Forecast				
	Q4 2012	Q1 2013	2012	2013
Housing Measures (Thous)				
Housing Starts	810	835	761	885
Single-Family	555	560	527	586
Two or More	255	275	234	299
Home Sales				
Total Existing Homes	4,831	4,738	4,654	4,785
New Homes	391	390	372	403
Home Prices (thousands)				
Existing Homes (median)	\$186.2	\$185.1	\$179.4	\$186.0
New Homes (median)	\$236.0	\$240.5	\$235.5	\$246.6
Rates				
30-Year Fixed Rate Mortgage	3.8%	3.9%	3.8%	4.1%
10-Year Treasury Yield	1.8%	1.9%	1.8%	2.1%

Source of data: Mortgage Brokers Association®.

Notes:

Quarterly housing starts and home sales are seasonally adjusted at annual rate.

Total existing home sales include condos and co-ops.

ECONOMIC OUTLOOK

Consensus Economics Inc., publisher of *Consensus Forecasts—USA*, reports that the consensus of U.S. forecasters believes real GDP will increase at a seasonally adjusted annual rate of 1.9% in the fourth quarter of 2012 and 1.8% in the first quarter of 2013. Every month, Consensus Economics surveys a panel of 30 prominent U.S. economic and financial forecasters (the forecasters) for their predictions on a range of variables including future growth, inflation, current account and budget balances, and interest rates. The forecasters expect GDP to grow 2.2% in 2012, 2.1% in 2013, and 3.1% in

2014. In the long term, they report that real GDP will grow by an average annual rate of 2.4% between 2018 and 2021.

They forecast personal consumption will increase at a rate of 2.0% in the fourth quarter of 2012 and 1.7% in the first quarter of 2013. They expect personal consumption to increase 1.9% in 2012 and 2.0% in 2013.

The forecasters believe unemployment will average 8.1% in both the fourth quarter of 2012 and the first quarter of 2013. They believe unemployment will average 8.2% in 2012 and 8.0% in 2013.

The forecasters believe the three-month Treasury bill rate will be 0.1% at the end of the fourth quarter of 2012 and will remain at 0.1% through the end of the first quarter of 2013. They believe the three-month Treasury bill rate will climb to 0.2% at the end of 2013. They forecast the 10-year Treasury bond yield will be 1.8% at the end of the fourth quarter of 2012 and 1.9% at the end of the first quarter of 2013. They believe the 10-year Treasury bond yield will rise to 2.5% at the end of 2013.

They also believe consumer prices will rise at a rate of 2.2% in the fourth quarter of 2012 and 2.0% in the first quarter of 2013. They expect consumer prices to increase 2.0% in both 2012 and 2013. They expect producer prices to increase at a rate of 1.1% in the fourth quarter of 2012 and 1.6% in the first quarter of 2013. The forecasters anticipate producer prices will rise 1.5% in 2012 and 1.4% in 2013.

The forecasters in the survey believe real disposable personal income will increase at a rate of 1.9% in the fourth quarter of 2012 before falling 0.4% in the first quarter of 2013. They believe real disposable personal income will increase 1.6% in 2012 and 1.5% in 2013.

The forecasters expect industrial production to increase at a rate of 2.3% in both the fourth quarter of 2012 and the first quarter of 2013. They forecast industrial production will increase 4.1% in 2012 and 2.7% in 2013.

Nominal pretax corporate profits will increase at a rate of 5.3% and 3.1% in 2012 and 2013, respectively, according to the forecasters. The forecasters project housing starts will be 750,000 in 2012 and 900,000 in 2013.

The 32 participants in *The Livingston Survey* (the *Survey*) released their latest predictions in June. The participants, who are surveyed by the Federal Reserve Bank of Philadelphia twice a year, project real GDP to grow at an annual rate of 2.6% between 2Q 2012 and 4Q 2012 (up from their previous estimate of 2.5%). They then expect GDP will increase at an annual rate of 2.3% between 4Q 2012 and 2Q 2013. They believe GDP will grow 2.7% annually over the next 10 years.

The *Survey* also noted that forecasts for the unemployment rate have been revised downward from the previous *Survey*. They expect the unemployment rate to be about 8.0% by December 2012, down from their previous estimate of 8.7%. They expect unemployment to decrease to 7.8% by June 2013.

The forecasters in the *Survey* have modified their near-term predictions for consumer price inflation (CPI). They expect CPI to be 2.3% in 2012, up slightly from 2.2% in their previous survey. They predict CPI will be 2.0% in 2013. The *Survey* expects CPI to average 2.5% over the next 10 years, unchanged from their forecast in the prior *Survey*. The *Survey* expects producer price inflation (PPI) to be 2.1% in 2012—down from the previous estimate of 2.3%—before increasing 2.6% in 2013.

The *Survey* predicts the interest rate on 3-Month Treasury bills will be 0.10% at the end of December 2012—nearly unchanged from the forecasters' previous estimate of 0.09%. The Livingston forecasters predict that the rate will then rise to 0.12% in June 2013, before rising to 0.20% in December 2013. The interest rate on 10-Year Treasury bonds is predicted to reach 2.20% at the end of December 2012, down from the previous estimate of 2.75%. According to the *Survey*, the rate will then rise to 2.50% in June 2013 and to 2.75% in December 2013.

The forecasters from the *Survey* have somewhat increased their previous projections for future S&P 500 values. They expect the S&P 500 will be at 1,393.0 at the end of December 2012, before climbing to 1,449.2 by the end of June 2013. They believe the S&P 500 will end 2013 at 1,490.3.

The National Association of Realtors believes existing home sales will increase to 4.6 million in 2012, before increasing to 5.0 million by 2013. NAR believes the median existing home sales price will increase to \$174,100 in 2012, before increasing to \$182,800 in 2013. It believes new home sales will increase to 379,000 in 2012, before increasing to 594,000 in 2013. NAR expects housing starts to increase to 769,000 in 2012, then to 1,120,000 in 2013.

Realtors have moderate expectations about the direction of the single-family housing market for the next six months, but their expectations remain weak for the townhome and condo market. NAR's RCI for the six-month outlook of single-family homes stood at 56, while the figure was 39 for townhomes and 33 for condos (strong = 100; moderate = 50; weak = 0). The RCI is a key indicator of housing market strength based on a monthly survey of over 50,000 real estate practitioners. Practitioners are asked about their expectations for home sales, prices, and market conditions.

The Energy Information Administration predicts that the West Texas Intermediate crude oil spot price will average approximately \$95.66 per barrel in 2012 and \$92.63 per barrel in 2013, compared with \$94.86 in 2011. The EIA expects retail prices for regular-grade

gas to average \$3.64 per gallon in 2012 and \$3.33 per gallon in 2013, compared with \$3.53 in 2011.

The EIA believes the Henry Hub natural gas spot price will average \$2.65 per million Btu (MMBtu) in 2012 and \$3.34 per MMBtu in 2013, compared with \$4.00 per MMBtu in 2011. The cost of coal delivered to electric generating plants, which averaged \$2.40 per MMBtu in 2011, is expected to average \$2.39 per MMBtu in both 2012 and 2013. Residential electric prices, which averaged 11.79 cents per kilowatt-hour (kWh) in 2011, are expected to average 11.91 cents per kWh in 2012 and 12.02 cents per kWh in 2013.

SUMMARY

To sum it up, the U.S. economy is growing steadily, but nowhere near fast enough to lower the unemployment rate substantially. “Steady growth” might not sound so bad, but the Economic Policy Institute points out that the failure to address chronically high rates of joblessness deprives the U.S. economy of hundreds of billions of dollars each quarter. Moreover, even this slow-but-steady growth could be threatened by the approaching federal spending cuts and expiring tax breaks mandated under current law—referred to by many as the “fiscal cliff.” The consensus seems that, should they happen, these cuts would slow growth even further, and could quite possibly pull the U.S. economy into recession.

The consensus forecasts for GDP, personal consumption, business investments, unemployment, along with other key indicators, remain mostly positive and indicate slow growth ahead.

Tentex has experienced strong growth for the past few years, despite the weak recovery. We expect that the continued slow growth of the U.S. economy will have a mildly positive effect on Tentex.

SECTION 4: THE INDUSTRY OUTLOOK

INDUSTRY OVERVIEW

Tentex operates within the Other Miscellaneous Nondurable Goods Wholesalers. However, this is a broad industry that encompasses wholesalers of many different kinds of products. Tentex is a distributor of heavy-duty LED lighting products. The NAICS code for LED manufacturing is 334413, Semiconductor and Related Device Manufacturing. To get a better understanding of the market forces affecting LED products, we have reviewed the 2011 IBISWorld research report on LED Manufacturing in the U.S. Below, we show excerpts, from the IBISWorld report, which provides input into our analysis. However, based on the recent past and anticipated future performance of Tentex, and the local and the economic conditions, we have developed a firm-specific forecast to use in the discounted free cash flow analysis, rather than use an industry projection.

Executive Summary⁶

The LED Manufacturing industry has expanded over the past five years. Revenue is expected to grow at an average of 1.7% annually to \$825.2 million in the five years to 2011. Growing interest in energy-efficient products has driven revenue higher. An increasing number of LEDs were integrated into downstream lighting products that were sold to businesses or included in other consumer items. Despite the recession, businesses ramped up their LED purchases in order to save on rising energy expenses and invest in products that typically last longer than traditional lighting goods. Tax credits passed by the US government also helped industry players weather the recession, since these credits allow companies to open up facilities for less cost. Continuing interest in energy-efficient goods will prolong industry growth, with revenue expected to increase 1.9% in 2011.

The industry has invested a substantial amount in research and development (R&D) to create LEDs that are brighter and more energy efficient than their predecessors. Over the five years to 2011, LEDs have been included as lights in automobiles and backlights in televisions and mobile phones, highlighting their ability to be used in many different products. LED technology will continue to develop quickly, and firms that concentrate on creating LEDs that can be used as substitutes for traditional lighting while keeping final prices down will fare best. Additionally, industry players are scrambling to meet the demands of businesses looking to cut back on energy costs and the US government as it seeks to decrease its energy footprint, prompting players to develop products that are more energy efficient.

⁶ IBIS World Report: LED Manufacturers in the U.S. OD4456, November 2011

The next five years are set to be brighter for the industry. Continued R&D will result in new types of LEDs that will be used in a variety of consumer items, facilitating revenue growth and expanding the industry's reach. Consumers and businesses will continue to demand products that are perceived to be better for the environment, raising potential demand for industry products. However, growing competition from LEDs that are produced abroad will hamper revenue growth prospects and place pressure on profit margins. Foreign-based firms will enjoy low-cost labor and lax environmental regulations, enabling them to engage in price competition with domestic firms. As a result of these trends, industry revenue is anticipated to increase at an average annual rate of 3.4% to \$975.8 million in the five years to 2016.

Key External Drivers

Technological Change

Demand for energy-efficient technologies drives technological change in this industry as players strive to manufacture products that have more energy-efficient qualities. Higher demand for these technologies results in heightened industry revenue. This driver is expected to increase in 2012, representing a potential opportunity for the industry.

Tax credits for energy efficiency

The industry is supported by tax credits for energy efficiency (LEDs are considered more energy efficient than traditional light bulbs), since higher tax credits allow operators to write off the costs of establishing new manufacturing plants in the United States. As a result, industry revenue increases, as more players open up shop on US soil. The tax credit for creating a new manufacturing facility expired in 2010. Businesses are also increasingly interested in energy-efficient technology that enables them to save on energy costs. Some states have incentives that promote the purchase of energy-efficient products. This driver is expected to stay stable in 2012.

GDP growth of mainland China

Chinese GDP growth is a strong indicator of mainland China's economic expansion. Higher economic growth results in heightened incentives to move manufacturing-intensive operations abroad, resulting in lower industry revenue as operators produce LEDs abroad. Chinese GDP growth also discourages new entrants to start operations in the United States, opting for lower labor costs outside of US borders. This driver is expected to increase during 2012.

Price of semiconductor and electronic components

Industry players source semiconductor components to create LEDs. An increase in semiconductor material costs results in higher production costs and eats into profit margins. This driver is expected to decrease slowly during 2012.

Consumer spending

LEDs are present in many goods that are available for consumers. For instance, LEDs are used to manufacture TVs and mobile phones. A dip in consumer spending results in lower industry revenue, as fewer products with LEDs are purchased and in turn, downstream manufacturers demand fewer LED products from industry players. This

driver is expected to increase slowly during 2012, representing a potential threat for the industry.

Import penetration into the manufacturing sector

Higher import penetration causes heightened competition between industry players, ultimately resulting in lower revenue. Imports typically cost less than US manufactured products, prompting many consumers to purchase cheaper LEDs over products offered by industry players. This driver is expected to increase slowly during 2012.

World price of natural gas

Energy prices are increasingly becoming an important indicator of industry demand. As energy prices increase, businesses and individuals increasingly install energy-efficient HVAC units in an attempt to reduce operational and living expenses. As energy prices fall, though, the financial benefits associated with energy-efficient HVAC units diminishes, hurting the demand for HVAC upgrade and replacement services. This driver is expected to increase during 2012.

Current Performance

The LED Manufacturing industry expanded over the five years to 2011, with revenue expected to grow 1.7% annually to \$825.2 million. Growing technological change, underpinned by high interest in energy efficiency, has driven interest in the energy-saving aspects of LEDs and the inclusion of LEDs in traditional lighting applications. Despite the recession, industry players increasingly started LED manufacturing operations amid generous advanced energy manufacturing tax credits. Also, the US government's strong support for LED technology has resulted in government contracts that include LEDs in public works projects, ultimately boosting industry demand. However, the industry has continually battled outsourcing, as many players began to produce LEDs abroad in emerging economies, limiting the industry's growth potential during the past five years.

The industry is driven by demand for energy-efficient technology and concern for the health of the environment. LEDs are considered to be more energy efficient than traditional lighting technology and typically last longer. Higher demand for energy-efficient technology and heightened awareness of the perceived environmental impact of energy-inefficient products drives industry revenue higher. Business spending also influences this industry since LEDs are used in the downstream manufacturing of lighting products. LED manufacturers compete against imports from abroad; therefore the relative strength of the economy in those countries bolsters competition and creates higher import competition, limiting revenue generated from manufacturing in the United States. The price of semiconductor materials, the main input into the creation of LEDs, affects industry performance, since higher prices limits industry profit.

Growing interest in LEDs

Rising interest in energy-efficient technology has driven the industry over the past five years. Growing concerns about the state of the environment and the perception that current energy usage rates are not sustainable has underpinned this trend. Businesses have shifted demand toward products that save on energy costs and are perceived to be better for the environment. As a result, downstream manufacturers (that use LEDs to produce lighting products) are demanding LEDs at an accelerating pace. For example, Cree, the industry's largest major player, received a contract from International House of Pancakes to provide all its lighting requirements in 2008.

In turn, industry players shipped out LEDs to meet this demand and expanded R&D to create LEDs that can be used in a variety of businesses. Business products that use LEDs include: indoor lights, projection screens and fluorescent lamps. Sales of these products have driven industry revenue. as businesses have consistently preferred products that have energy-efficient qualities and last longer than traditional bulbs and lighting technology. However, sales of products with LEDs dipped during the recession, as businesses pulled back on expenses, forcing many downstream manufacturers to order fewer LEDs. A dip in sales did not deter industry firms completely as businesses continued to buy products with LEDs because of the energy-saving qualities of LEDs. Industry revenue will benefit from interest in the energy-efficient advantages of the LED products; therefore, it is expected to grow 1.9% from 2010 to 2011.

Industry players are continuing R&D efforts to increase demand. Research is ongoing to develop LEDs for residential home products, make current LEDs more energy efficient and create LEDs with new consumer applications. The completion of LED application to residential home products will particularly benefit the industry, resulting in a jump in revenue when the technology is fully developed.

Government Support

To promote the use of energy-efficient technology and to reinvigorate the economy, the US government passed the American Recovery and Reinvestment Act (ARRA). The legislation contained a new advanced manufacturing tax credit of 30.0% (LED technology is considered an advanced energy product by the US government), enabling industry firms to start up manufacturing facilities with less cost (by saving 30.0% on federal taxes). While this incentive expired in 2010, firms used it to open up new facilities and save money on expansion activities amid demand declines during the recession. Tax relief on expansion activities helped mitigate Industry revenue declines during 2009 (when it fell 8.8%).

Government contracts for inclusion of LEDs into street and highway lighting have further supported the industry. As with businesses, the US government became increasingly interested on saving energy costs amid recessionary conditions. Large federal deficits and a decline in tax revenue resulted in the government searching for cost-saving solutions, such as LEDs for public highways and streets. Government contracts have

provided industry players with stable revenue sources amid a volatile market for consumer products. Firms that have been awarded contracts experienced less revenue volatility than their peers.

Across the seas

Despite growing industry revenue and strong government support, LEDs are cheaper to procure abroad in emerging economies, especially China. Industry players with manufacturing facilities in China have lower labor costs, manufacturing incentives and less environmental production regulation, resulting in fewer manufacturing costs. Firms that have facilities abroad have higher profit margins and are able to scale more quickly because there are fewer production restrictions on manufacturing processes that are potentially dangerous for the environment. However, innovation in LED technology typically takes place in the United States, allowing domestic firms to develop new products that may have high market acceptance. This trend has kept many players within US borders; however, some players have located abroad to take advantage of lower production costs.

Additionally, products that are produced in China are typically cheaper than domestically manufactured products, creating price competition and making it hard for domestic players to keep profit high. Imports are expected to grow at an average annual rate of 2.0% to \$340.8 million in the five years to 2011. Despite growing import penetration and strong presence of foreign-based manufacturers, profit margins actually grew during the past five years. In response to increasing price competition, industry players exported high volumes of LEDs; in fact, exports are expected to increase at a faster rate than imports, at an average annual rate of 2.9% to \$649.6 million in the five years to 2011. Industry players also experienced favorable economies of scale (lower semiconductor input cost per product sold) amid high order volume; as demand for LEDs grew, industry players generated more profit per product sold. Firms that concentrated on high margin products, such as streetlights for the US government, experienced the highest profit margins and outperformed their peers.

Industry Outlook

The LED Manufacturing industry will outpace its growth of the previous five years. Revenue is expected to expand at an average of 3.4% annually to \$975.8 million in the five years to 2016. Continued technological development will carry this industry to the next phase, as LEDs will increasingly be used in consumer and industrial products for lighting, often at the expense of traditional lighting technology. Concerns about environmental awareness will persist, resulting in further interest in LEDs as an energy-efficient technology. However, nimble overseas manufacturing firms will ramp up their production of LEDs to compete with domestic producers, threatening the industry.

Technology continues to gain

Industry players will continue to invest in LED technology that can be integrated into traditional lighting applications. While LEDs were previously just a small lighting

application for mobile phones, computers and TVs, they will increasingly be used in residential and industrial lighting. These LEDs will be brighter and able to take in more energy than those used in small quantities in various consumer products. Gains in LED technology will be met by downstream manufacturers that develop ways to integrate LEDs into their products with relative ease. During the previous five years, many downstream lighting product producers had difficulty integrating industry products with theirs, because of the perceived steep LED integration learning curve. This trend will reverse over the next five years as downstream customers make more products with LEDs. This trend will also lead to revenue growth as downstream manufacturers try and capture growing demand for LED products. As a result, revenue is anticipated to grow 2.1% from 2011 to 2012.

As LED technology grows, economies of scale will also improve. Industry players were previously hampered by relatively inefficient economies of scale for LEDs that could be used to brighten up a room. Instead, manufacturers focused on high-volume products that were used for applications that needed consistent light over a long period, such as streetlamps and lights that the US government purchased. The next five years will be markedly different; the economies of scale for consumer products that require bright LED technology and can be used sparingly will become increasingly attractive, lowering the production cost of each LED. This trend will allow producers to widen profit margins, amid high demand for these products and favorable economies of scale. Industry players that produce this technology abroad will experience the highest profit margins, since these labor costs continue to be lower than domestic labor.

Energy efficiency takes center stage

As with the past five years, businesses will increasingly be interested in technology that is perceived to be energy efficient and good for the environment. In turn, they will demand products with LED lights and LEDs for use in their businesses to save energy costs. Economic growth expected over the next five years will result in higher energy costs as global demand for energy rises. This factor will prompt many business owners to incorporate LEDs to save money. Furthermore, many businesses are concerned with marketing messages that explain how they incorporate environmental awareness in their business models, because consumers have shifted demand to products and businesses that are considered sustainable. The inclusion of LEDs will allow businesses to market sustainability to their customers and potential customers, resulting in greater interest in their respective firms.

Consumers will also increasingly adopt LED bulbs and other residential lights to save on energy costs. Coupled with increasing concerns about the economy's health and the anticipated increase in energy costs, consumers will use LEDs at accelerating rates. Along with a rise in consumer LED production economies of scale, the price of LED technology will become more affordable for consumers, resulting in sales growth over the next five years. Nevertheless, the price drops will not hinder profit margins, as the decrease in price will be met by declining production costs.

Still threatened by overseas producers

Despite expected revenue increases, technological gains and growing markets for downstream products with LEDs, firms that are located abroad will continue to limit industry revenue growth. As LED technology continues to gain ground, firms will focus production in emerging economies to access lower labor costs and experience fewer environmental manufacturing regulations.

In turn, as manufacturing operations concentrate abroad, especially in China, the industry will be threatened by low-cost LEDs. Firms that produce abroad will be able to charge less for LEDs and experience greater economies of scale than their domestic counterparts. These products will be imported into the United States at an accelerating pace, as these players will be able to undercut US producers on price, creating formidable price competition. Imports are expected to surge 6.7% annually to \$472.2 million in the five years to 2016, threatening industry margins. Industry players that focus on high value-added products (e.g. bulbs that are the most energy efficient) will fare better as imported LEDs will likely be of lesser quality.⁷

DETERMINING THE FUTURE GROWTH ASSUMPTIONS FOR TENTEX

The choices of the growth segment going forward and the terminal earnings growth assumption for Tentex involve several considerations. The company has been able to grow its revenue at an annualized rate of 29.27% from FYE 2009 to FYE 2012. This growth is largely attributed to growing demand from its current products as well as entering into the emergency LED and interior/night time work light segments. Based off of discussions with management and a review of the company's market opportunities, we have developed a moderately strong growth projection for the company.

Based on this projection, we expect the company's revenue to grow 15% in FYE 2013, 10% in FYE 2014, 10% in FYE 2015, 5% in FYE 2016, and 5% in FYE 2017. Following this path, revenue will grow from \$20.3 million in FYE 2012 to \$31.1 million in FYE 2017.

Over the FYE 2008 to FYE 2012 review period, Tentex was able to maintain a gross profit margin that did not fluctuate far from its average of 48%. Management has indicated that this trend will continue. Therefore, we expect this gross profit margin to stay flat at 48% throughout the projection period. We expect the company to gain some efficiency on selling, general, and administrative (SGA) expenses as revenue increases throughout the projection period. Thus, we have projected SGA to increase at a rate slightly lower than that of revenue and gross profit growth. The effect of this is a mild increase in profit margins throughout the projection period. We expect EBT-restated & adjusted to grow from \$2,727,963 in FYE 2012 to \$5,283,583 in FYE 2017. At this rate,

⁷ End of IBISWorld Excerpts

the EBT restated and adjusted margin will increase from 13.4% in FYE 2012 to 17.0% in FYE 2017.

In any one year, we would expect revenue and earnings to fluctuate above or below this projection path, but on average, we would expect the company to be on track with this projection. In Table 4-1, we show the income statement projections that we have developed for Tentex. The following table shows the levels of revenue and operating earnings based on revenue, adjusted pre-tax operating earnings, and projected growth rates.

Table 4-1: Firm-Specific Forecast for Tentex
Source: Ross & Company

Tentex Corp.	Valuation Base Year - Standard	Projection - Valuation Years Ending 09/30/2013 to 09/30/2017					
		FYE 2012	FYE 2013	FYE 2014	FYE 2015	FYE 2016	FYE 2017
Operating Revenue		\$20,283,197	\$23,325,677	\$25,658,244	\$28,224,069	\$29,635,272	\$31,117,036
%Growth			15.0%	10.0%	10.0%	5.0%	5.0%
Cost of Goods Sold		\$10,537,293	\$12,117,887	\$13,329,676	\$14,662,643	\$15,395,775	\$16,165,564
%Growth			15.0%	10.0%	10.0%	5.0%	5.0%
Gross Profit		\$9,745,904	\$11,207,790	\$12,328,569	\$13,561,425	\$14,239,497	\$14,951,472
Gross Profit Margin		48.0%	48.0%	48.0%	48.0%	48.0%	48.0%
Selling, General & Administrative Expense (SGA)		\$6,972,398	\$7,751,932	\$8,329,725	\$8,950,583	\$9,284,150	\$9,630,148
%Growth		77.1%	11.2%	7.5%	7.5%	3.7%	3.7%
Interest Expense		\$65,896	\$65,896	\$65,896	\$65,896	\$65,896	\$65,896
EBT - Operating with Interest Expense		\$2,707,610	\$3,389,961	\$3,932,948	\$4,544,946	\$4,889,451	\$5,255,427
Other Income(Expense) Included in Valuation		\$0	\$0	\$0	\$0	\$0	\$0
EBT - Restated for Valuation		\$2,707,610	\$3,389,961	\$3,932,948	\$4,544,946	\$4,889,451	\$5,255,427
Interest Expense		\$65,896	\$65,896	\$65,896	\$65,896	\$65,896	\$65,896
EBIT - Restated for Valuation		\$2,773,506	\$3,455,857	\$3,998,844	\$4,610,842	\$4,955,347	\$5,321,323
Depreciation and Amortization		\$97,748	\$113,933	\$136,720	\$164,064	\$180,470	\$198,517
EBITDA - Restated for Valuation		\$2,871,254	\$3,569,791	\$4,135,564	\$4,774,906	\$5,135,817	\$5,519,841
%Growth			25.2%	16.0%	15.6%	7.6%	7.5%
Pre-Adjustment EBT Margin		13.35%	14.53%	15.33%	16.10%	16.50%	16.89%
Pre-Adjustment EBIT Margin		13.67%	14.82%	15.59%	16.34%	16.72%	17.10%
Pre-Adjustment EBITDA Margin		14.16%	15.30%	16.12%	16.92%	17.33%	17.74%
Net Non-Recurring and Accounting Adjustments		\$0	\$0	\$0	\$0	\$0	\$0
Executive Compensation		\$0	\$0	\$0	\$0	\$0	\$0
Net Owner Discretionary Expense Adjustments		\$20,353	\$22,629	\$24,315	\$26,127	\$27,101	\$28,111
Net Company Expense Review Adjustments		\$0	\$0	\$0	\$0	\$0	\$0
Total Adjustment		\$20,353	\$22,629	\$24,315	\$26,127	\$27,101	\$28,111
EBT - Restated and Adjusted		\$2,727,963	\$3,412,590	\$3,957,263	\$4,571,074	\$4,916,552	\$5,283,538
EBT Margin After Valuation Adjustments		13.4%	14.6%	15.4%	16.2%	16.6%	17.0%
EBIT - Restated and Adjusted		\$2,793,859	\$3,478,486	\$4,023,159	\$4,636,970	\$4,982,448	\$5,349,434
EBITDA - Restated and Adjusted		\$2,891,607	\$3,526,523	\$4,093,983	\$4,735,138	\$5,097,022	\$5,482,056

A projected operating earnings growth rate beyond 5 years is also needed to calculate the “terminal” value of the business. This represents the expected long-term growth in profits without any net new investment. For the terminal earnings growth projection, we have obtained information on the company’s longer-term growth objectives. The company does not plan to expand beyond its current location. Instead, the company must invest to remain competitive in its current location.

Our starting assumption for terminal earnings growth for a company is 0%, which implies that over the long-run, competition will drive down the profitability of most firms to the point that they will no longer be able to earn a return on new investments greater than its

cost of capital plus the long-term rate of inflation, which is 2.5%. This assumes that there will be moderate revenue growth. Given the market conditions for Tentex, we have concluded that 2.5% is the appropriate terminal earnings growth rate for Tentex.

DETERMINING FREE CASH FLOWS

From the projections of pre-tax earnings adjusted for valuation purposes, we then calculate after-tax cash flows for the company over the forecast years. The next step in the analysis is to determine the free cash flows available for distribution to the owners. These firm-specific after-tax cash flow values are reduced by the projected change in capital expenditures and the change in working capital.

Net Fixed Asset Review

The net fixed capital expenditures review considers whether a company is investing in fixed assets in amounts greater than its annual depreciation expense. If so, then this is a use of cash flows that would otherwise go the owners. For companies that are growing in revenue, the general expectation is that the net fixed capital expenditures will grow at a rate consistent with revenue growth. For Tentex, the company has a very low level of net fixed assets compared with revenue. We expect that for the company to support its growing business operations, net fixed assets will have to increase twice as fast as revenue growth. The capital expenditures review can be seen in the table below.

Table 4-2: Net Fixed Asset Detail
Source: Ross & Company

Capital Expenditures Review	Forecast					
	FYE 2012	FYE 2013	FYE 2014	FYE 2015	FYE 2016	FYE 2017
Company Revenue	\$20,283,197	\$23,325,677	\$25,658,244	\$28,224,069	\$29,635,272	\$31,117,036
Revenue Growth Rate		15.0%	10.0%	10.0%	5.0%	5.0%
Assumed Growth Rate for Net Fixed Assets and Depreciation		30.0%	20.0%	20.0%	10.0%	10.0%
Net Fixed Assets	\$145,538	\$189,199	\$227,039	\$272,447	\$299,692	\$329,661
Growth Rate		30.0%	20.0%	20.0%	10.0%	10.0%
Net Capital Expenditures (Year to Year Change in Net Fixed Assets)		\$43,661	\$37,840	\$45,408	\$27,245	\$29,969
Depreciation	\$87,641	\$113,933	\$136,720	\$164,064	\$180,470	\$198,517
Growth Rate		30.0%	20.0%	20.0%	10.0%	10.0%
Total Available for PP&E Spending (Net Capital Expenditures + Depreciation)	\$87,641	\$157,595	\$174,560	\$209,472	\$207,715	\$228,487

Working Capital Review

For the change in working capital, we start with the same general expectation: companies that are growing in revenue will need an increase in working capital consistent with the revenue growth. For Tentex, the company needs to maintain high inventory to keep up with growing demand, also accounts receivable/payable will grow in

line with revenue. For these reasons, we expect that Tentex's working capital will grow at the same rate as revenue. This is shown in the table below.

Table 4-3: Working Capital Detail
Source: Ross & Company

Working Capital Review	FYE 2012	Forecast				
		FYE 2013	FYE 2014	FYE 2015	FYE 2016	FYE 2017
Company Revenue	\$20,283,197	\$23,325,677	\$25,658,244	\$28,224,069	\$29,635,272	\$31,117,036
Revenue Growth Rate		15.0%	10.0%	10.0%	5.0%	5.0%
Assumed Growth Rate for Working Capital		15.0%	10.0%	10.0%	5.0%	5.0%
Review of Cash in Excess of Operating Needs						
Cash	\$215,941					
Marketable Securities	\$0					
Total Cash & Marketable Securities	\$215,941					
Operating Cash Need	\$215,941					
Adjustment To Cash & MS	\$0					
<i>Current Assets</i>						
Operating Cash	\$215,941					
Inventory	\$2,542,305					
Accounts Receivable	\$2,038,648					
Other Current Assets	\$0					
Total Operating Current Assets	\$4,796,894					
<i>Current Liabilities</i>						
Accounts Payable	\$2,288,326					
Other Current Liabilities	\$45,000					
Total Current Liabilities	\$2,333,326					
Operating Working Capital	\$2,463,568	\$2,833,103	\$3,116,414	\$3,428,055	\$3,599,458	\$3,779,430
Change in Operating Working Capital		\$369,535	\$283,310	\$311,641	\$171,403	\$179,973

Summary of Free Cash Flows

In the table below, we show the calculations of free cash flow over the projection period, including the Adjusted EBIT, the assumed corporate tax owed, the Net Operating Profit After Tax, and the impact of a change in net capital expenditures, net operating working capital, and other adjustments. The effect of the net fixed asset review and working capital review on free cash flows can be seen in Rows 17 and 19 in the table below. This will be discussed in more detail in Section 6.

Business Valuation Report For Tentex Corp.

Table 4-4: Free Cash Flows- Control
Source: Ross & Company

	Base Year	FYE 2013	FYE 2014	FYE 2015	FYE 2016	FYE 2017
Revenue	\$20,283,197	\$23,325,677	\$25,658,244	\$28,224,069	\$29,635,272	\$31,117,036
<i>Growth in Revenue</i>		15%	10%	10%	5%	5%
Cost of Goods Sold	\$10,537,293	\$12,117,887	\$13,329,676	\$14,662,643	\$15,395,775	\$16,165,564
<i>Growth in Cost of Goods Sold</i>		15%	10%	10%	5%	5%
Gross Profits (R1 - R2)	\$9,745,904	\$11,207,790	\$12,328,569	\$13,561,425	\$14,239,497	\$14,951,472
<i>Growth in Gross Profits</i>		15%	10%	10%	5%	5%
Total Operating Expenses	\$6,972,398	\$7,751,932	\$8,329,725	\$8,950,583	\$9,284,150	\$9,630,148
<i>Growth in Operating Expenses</i>		11%	7%	7%	4%	4%
Interest Expense	\$65,896	\$65,896	\$65,896	\$65,896	\$65,896	\$65,896
Other Income (Expense) Included in Valuation	\$0	\$0	\$0	\$0	\$0	\$0
EBT Restated for Valuation (R3 - R4 - R5 + R6)	\$2,707,610	\$3,389,961	\$3,932,948	\$4,544,946	\$4,889,451	\$5,255,427
Interest Expense	\$65,896	\$65,896	\$65,896	\$65,896	\$65,896	\$65,896
EBIT Restated for Valuation (R7 + R8)	\$2,773,506	\$3,455,857	\$3,998,844	\$4,610,842	\$4,955,347	\$5,321,323
<i>Growth in EBIT</i>		25%	16%	15%	7%	7%
Total Adjustments	\$20,353	\$22,629	\$24,315	\$26,127	\$27,101	\$28,111
Adjusted EBIT Restated for Valuation (R9 + R10)	\$2,793,859	\$3,478,486	\$4,023,159	\$4,636,970	\$4,982,448	\$5,349,434
Tax Rate as a C Corp.	40%	40%	40%	40%	40%	40%
NOPAT (R11 * (1 - R12))		\$2,087,091	\$2,413,895	\$2,782,182	\$2,989,469	\$3,209,661
Amortization Add-back	\$10,107	\$10,107	\$0	\$0	\$0	\$0
Adjusted NOPAT (R13 + R14)		\$2,097,198	\$2,413,895	\$2,782,182	\$2,989,469	\$3,209,661
Net Fixed Capital	\$145,538	\$189,199	\$227,039	\$272,447	\$299,692	\$329,661
Change in Net Fixed Capital		\$43,661	\$37,840	\$45,408	\$27,245	\$29,969
Working Capital	\$2,463,568	\$2,833,103	\$3,116,414	\$3,428,055	\$3,599,458	\$3,779,430
Change in Working Capital		\$369,535	\$283,310	\$311,641	\$171,403	\$179,973
Other Changes to Free Cash Flows (1)	0	\$0	\$0	\$0	\$0	\$0
Free Cash Flow (R15 - R17 - R19- R20)		\$1,684,002	\$2,092,745	\$2,425,133	\$2,790,821	\$2,999,719

SECTION 5: OTHER KEY VALUATION FACTORS

COST OF CAPITAL: THE EXPECTED RATE OF RETURN FOR THIS FIRM

Risk versus Return

Important factors in determining the value of a company are the growth in operating profits and rate of return that investors require. The rate of return investors require depends on a number of factors that relate to how risky they believe the company to be. The greater the risk about the expected operating profits growth, the greater the return investors require to compensate them for taking this risk. Financial research shows that a portfolio of risky stocks has returned on average 6.62% more per year than a one year Treasury bond. This incremental return is the reward that investors receive for taking the risk of investing in risky assets like a portfolio of stocks, rather than in riskless Treasury bonds. To value Tentex, we must calculate its cost of capital. This is the return investors would require, if the firm were a public company. An adjustment for the fact that this firm is a private company is made later in the form of a liquidity discount.

Calculating the Firm-Specific Cost of Capital

The cost of capital for Tentex is constructed from factors related to economy-wide indicators, and to industry- and size-specific measures. Since the company primarily distributes products that are used for automobiles, we have used the median unlevered beta from Morningstar's Cost of Capital Yearbook for SIC 3714, Motor Vehicles Parts and Accessories. This SIC code is appropriate for market risk, however, it will not provide us with an accurate capital structure for Tentex, which is an LED manufacturer/distributor. Therefore, for a debt-to-equity ratio, we have used the SIC code for LED manufacturing, which is 3674, Semiconductors and related devices. With this approach, we will construct a cost of capital that reflects the market risk of the company's end-user, trucks and auto, while still reflecting the capital structure of similar companies, LED manufacturers. We have generated the firm's cost of debt based on a firm-specific credit rating model, which is shown in appendix D. Ross & Company has generated a firm-specific cost of capital measure, as shown in the following table.

Table 5-1: Calculating the Cost of Capital for Tentex
Source: Ross & Company

Cost of Capital - Tentex Corp		
		Source
Valuation Date	9/30/2012	
Cost of Common Equity		
Risk Free Rate(1)	2.42%	20 Year Constant Maturity Treasury Bond Federal Reserve
Beta	1.2400	Median Unlevered Beta for Public Comps: Morningstar 2012 Cost of Capital Yearbook: SIC 3714
D/E Ratio	0.0809	Debt to Equity Ratio: Morningstar 2012 Cost of Capital Yearbook: SIC 3674
Levered Beta	1.3002	Ross & Company Calculation
Market Risk Premium	6.62%	Morningstar: 2012 Valuation Edition Table 5-6
Size Premium	9.81%	Morningstar: 2012 Valuation Edition Table 7-7
Firm Specific Risk Premium	3.00%	Ross & Company Estimate
Weight of Equity	92.52%	Debt to Equity Ratio: Morningstar 2012 Cost of Capital Yearbook: SIC 3674
Cost of Common Equity(2)	23.84%	Ross & Company Calculation
Cost of Debt	5.90%	Ross & Company Estimate
Tax Rate	40.00%	Ross & Company Assumption
Weight of Debt	7.48%	Debt to Equity Ratio: Morningstar 2012 Cost of Capital Yearbook: SIC 3674
After Tax Cost of Debt(3)	3.54%	Ross & Company Calculation
Weighted Average Cost of Capital(4)	22.32%	Ross & Company Calculation
<small>(1) 20 Year Treasury Bond rate at valuation date</small>		
<small>(2) Cost of Equity=Risk Free Rate + (Beta * Market Risk Premium) + Size Premium + Firm Specific Risk Premium</small>		
<small>(3) After Tax Cost of Debt= Cost of Debt*(1-Tax Rate)</small>		
<small>(4) Weighted Average Cost of Capital= (Weight of Debt*After Tax Cost of Debt)+(Weight of Equity*Cost of Equity)</small>		

For this valuation, we also considered firm-specific non-financial risks in determining the cost of equity for this firm. The results of this review are shown in the following table.

Table 5-2: Firm-Specific Non-Financial Risks for Tentex
Source: Ross & Company and Valuation Questionnaire

<i>Firm-Specific Non-Financial Risks for Tentex</i>		
Risk Concept	Measurement	Assessment
<i>Business Stability</i>	<i>How long has the company been in business? 1-3 Years - High Risk 4-6 Years - Moderate Risk More than 6 Years - Low Risk</i>	<i>Low Risk</i>
<i>Business Transparency</i>	<i>Does the firm produce an audited financial statement at least once a year? Yes - Low Risk No - High Risk</i>	<i>High Risk</i>
<i>Customer Concentration</i>	<i>Does the firm receive more than 30% of its revenue from less than 5 customers? Yes - High Risk No - Low Risk</i>	<i>Low Risk</i>
<i>Supplier Reliance</i>	<i>Can the firm change suppliers without sacrificing product/service quality or increasing costs? Yes - Low Risk No - High Risk</i>	<i>Low Risk</i>
<i>Reliance on Key People</i>	<i>Are there any personnel critical to the success of the business that cannot be replaced in a timely way at the current market wage? Yes - High Risk No - Low Risk</i>	<i>High Risk</i>
<i>Intensity of Competition</i>	<i>What is the intensity of firm competition? Very Intense - High Risk Moderately Intense - Moderate Risk Not Very Intense - Low Risk</i>	<i>Moderate Risk</i>
Firm-Specific Risk Premium Addition to the Cost of Common Equity		3.0%

In our estimation, Tentex has average firm-specific risk premium due to three primary reasons. First, the company does not produce audited financial statements. While, this is not in itself a risk, it does pose a business transparency risk to potential investors. Second, the company has key people reliance risk associated with its two owners,

Robert Rogers and William Rogers. Lastly, the company faces moderately intense competition from other firms operating in the LED lighting industry and from producers of more traditional substitutes. As shown above, our overall estimate of firm-specific risk is 3%.

TWO KEY VALUATION ADJUSTMENTS FOR THIS FIRM

There are two important adjustments that should be made in the valuation of a privately held firm, when the valuation is centered on the total business entity. These are the liquidity discount and the control premium and/or minority discount. In any valuation where these adjustments are made, it is important to understand the rationale for making these adjustments and the basis on which a valuation expert selected the values to use in making these adjustments. These adjustment factors can be large, often ranging from 20% to 45% of the total business value before adjustment; and yet the general explanations in the valuation literature of how to choose a value for either the liquidity discount or control premium appear to be based on weak analysis or questionable data. Our calculation of the liquidity discount for Tentex is described in the following section.

The Liquidity Discount

The liquidity discount reduces the ownership value to reflect the fact that the ownership interest cannot be easily sold. Any potential buyer of the ownership value faces the risk that he/she cannot sell the ownership interest in a timely way because there are a limited number of potential buyers. This is to be contrasted to shares of stock that trade on the New York Stock Exchange for example. These shares can be readily purchased and sold and, except for rare cases, the price received will reflect the fair market value of these shares. Thus, the liquidity discount reflects the additional risk that the buyer faces because he/she may not be able to receive a price that would be obtained if ownership interest in Tentex were sold in a highly liquid market.

Although much has been written on the liquidity discount and several organizations have routinely attempted to measure it, the values traditionally reported are far too high. The reason is that what is reported as marketability or liquidity discount is really a private company discount. This private company discount reflects a number of factors that are not related to lack of liquidity. The differences between private firm valuations and those of public peers can occur because of differing cash flow growth prospects, timing of cash flows and differing ratios of debt to equity. The result is that reported discounts for marketability are too high and private company valuations that use them are too low. The following table offers evidence of the variation in private company discounts.

Table 5-3: Representative Studies That Attempt to Measure the Liquidity Discount
Source: Ross & Company

Author(s)	Peer Review	Discount	Reported Dispersion	Type of Study
<i>William Silber</i>	Yes	35%	<i>14% for large creditworthy companies; 50% for small firms with negative earnings</i>	<i>Restricted stock study</i>
<i>M. Hertzler and Richard Smith</i>	Yes	<i>Not Reported</i>	<i>.2 % - 43.7 %</i>	<i>Private Equity Study</i>
<i>John Emory</i>	Yes	47%	<i>Not Reported</i>	<i>Pre-IPO Study</i>
<i>John Koeplin et.al.</i>	Yes	20.39%	<i>Depending on the multiple used, discount varied from 0% based on sales revenue to 28.26% using the ratio of Enterprise Value to EBIT</i>	<i>Identified all acquisitions of private firms from 1984 to 1998</i>
<i>Willamette Associates</i>	No	40.1%	<i>Wide dispersion from a premium to a maximum discount of 99%</i>	<i>Pre-IPO Study</i>

The Willamette results are the best known and as can be seen are generally consistent with those reported by other researchers. The problem with Willamette’s results is that their data is proprietary and Willamette has not disclosed this information for peer review and analysis by academic researchers. This is an important qualification. This creates the potential that the empirical work presented may simply be fraught with errors. The peer review process, while it does not completely remove this possibility, nevertheless, minimizes the potential for drawing incorrect conclusions due to errors related to measurement, research design, and statistical method. It is particularly important to utilize peer-reviewed research when one is valuing a private asset since many of the issues that arise have been addressed by finance scholars and for which there is a well-developed academic literature.

This peer review issue aside, Willamette’s numbers appear far too high to only account for a private firm’s lack of liquidity. Based on Ross & Company’s review of this research, we believe the most appropriate value to use is the average private company discount published in the Koeplin study. This conclusion is based on two factors. First, their research controls for capital structure differences. Second, selection of the private company’s public company peer was dictated by whether they were in the same four digit SIC industry. Based on this, Ross & Company uses 20% as the liquidity discount adjustment factor for a C type corporation. For Tentex the liquidity discount that has been applied is 25%. This discount is consistent with the additional liquidity constraints inherent in the structure of an S-Corporation, relative to the C-Corporation.

The Control Premium or Minority Discount

The control premium is an additional sum that an investor would pay above the fair market value of a minority interest of the firm in question. This means that if a share of common stock of a public company is selling for \$100, and an investor is willing to purchase all shares for \$120 per share, the control premium is 20%. This is the additional amount an investor is willing to pay to have the right to change the company’s

assets and managements in pursuit of even higher cash flows. An outside investor cannot easily buy a minority interest in a private firm, as they can in a public firm. In addition, in many cases, the owner of a privately held firm is the person who founded the firm and has used his/her control of the firm to build the company into to its current level of performance. In this type of situation, the valuation expert often concludes that the current and projected cash flows embody the control value of the firm. To calculate the minority value, we have to apply a minority discount to the control value of the equity of the firm.

Ross & Company reviews a number of factors to determine whether to apply a control premium or a minority discount to the initial discounted free cash flow results. These include:

- The ability of the owner to manage the cash flow of the firm in a way that is consistent with life style and family responsibilities
- The nature and magnitude of business non-operating assets
- The quality of management
- Synergies between the buying and target firm; these might include removal of overlapping functions and therefore reducing expenses per dollar of revenue (which is generally considered part of the strategic value of a firm, rather than the fair market value)
- Taking advantage of growth opportunities that would either not be possible or highly expensive to take advantage of without purchasing the assets of the target firm.
- Depending upon our conclusions about the target firm, we either apply a control premium or a minority discount to the equity value.

THE CONTROL PREMIUM OR MINORITY ADJUSTMENT FOR THIS FIRM

The determination of whether a control premium or minority discount is necessary, and the amount calculated varies by firm based on the specific facts of the situation. In the case of Tentex, the current active owners/managers appear to be exercising their control to maximize the future growth of the company, even in the face of a shrinking market. Hence, we would not expect a new owner (unless it would be a strategic acquirer) to be able to leverage the company's assets in any greater manner than the current owners/managers.

Consequently, we assume that the initial cash flow value includes a control premium. We have included in that cash flow value adjustments that we have made to the company's financials to reflect valuation standards for financial transparency to be the control value of the firm.

The Minority Discount for this Firm

Based on our analysis of the firm and a review of the RMA benchmarks for different size categories within the wholesale distribution industry and semiconductor manufacturing industries, we have determined that owners of firms like this generally pay themselves a total of 7.85% of revenue, or \$1,592,231 for the base year. We have compared this compensation benchmark to the average benchmark compensation for Robert Rogers and William Rogers of \$900,000 in total. We would expect a potential minority investor in Tentex, who would not be intending to work in management, would reasonably assume that under different management, profits would be less by the difference between the adjusted compensation and the RMA estimated benchmark officers' compensation value. That difference is \$692,231. The calculations are shown below.

Table 5-4: Calculation in Minority Interest Reduction in Earnings
Source: Ross & Company

Compensation (as a percentage of revenue) for an owner with control	7.85%
Compensation for an owner with control	\$ 1,592,231
Adjusted combined salary of officers	\$ 900,000
Adjustment to Officers' Compensation for Minority Discount Valuation	\$ (692,231)

Thus, to determine the minority value of the firm, we have generated a second valuation analysis, in which the officers' compensation expense has been increased and earnings reduced by this difference. The calculations are shown in Appendix D. The revised values for minority owners compared to the control values for the operating business are shown in the table below.

Table 5-5: The Minority Discount for Tentex
Source: Ross & Company

Control Equity	\$11,329,216
Minority Equity	\$9,372,437
Loss in Value due to Minority Interest	\$1,956,779
Minority Discount	17.27%

SECTION 6: VALUATION FINDINGS

APPROACH TO VALUATION OF THIS FIRM

The Internal Revenue Service has established guidelines for conducting a proper business valuation. These guidelines are set down in Revenue Ruling 59-60, and the valuation presented herein is generally consistent with these guidelines. According to Revenue Ruling 59-60, the factors that should be considered when doing a business valuation include:

- The nature of the business and the history of the enterprise from its inception.
- The economic outlook in general and the condition and outlook of the specific industry the firm is in.
- The financial condition of the business.
- The earnings and dividend capacity of the company.
- Whether or not the company has good will or other intangible value, like patents for example.
- Whether the whole company or only a minority interest in the company is being valued.
- The market prices of stock of companies engaged in the same or a similar line of business having their stocks actively traded in a free and open market, either on an exchange, like the New York Stock Exchange, or over-the-counter, like the NASDAQ.

Defining Fair Market Value

In the United States, the most widely accepted standard for valuing a closely held business is fair market value. This is the standard used in all matters related to state and federal tax matters including estate taxes, gift taxes, income taxes etc. Ross & Company applies a valuation method that it believes is consistent with the standard of fair market value established by the IRS. The American Society of Appraisers has defined fair market value as “the amount at which property would change hands between a willing seller and a willing buyer when neither is acting under compulsion and when both have reasonable knowledge of the relevant facts”.

The Internal Revenue Service in Revenue Ruling 59-60 defines fair market value as:

The price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts. Court

decisions frequently state in addition that the hypothetical buyer and seller are assumed to be able, as well as willing, to trade and to be well informed about the property and concerning the market for such property.⁸

VALUATION FUNDAMENTALS

A business valuation is an analytical process for estimating the price a willing buyer would pay for a business and a willing seller would accept – without having to actually sell the business.

Value as an On-going Concern

The first issue to be addressed is whether the valuation is for a business as an on-going concern, or a business in liquidation. For an on-going business, the objective of the valuation is to analyze the company from a prospective buyer's perspective, i.e., what is the likely future flow of earnings from this company. For a business in liquidation, the value of the business is the market price of its assets minus its liabilities. For Tentex, this is a valuation as an on-going concern.

Valuation Methods: Market and Income

Valuation analysts have developed several methods that can be used to value an on-going concern. These methods can be grouped into two categories: market-based and income-based methods. Market-based methods use measures of revenue and EBITDA valuation multiples from comparable companies. For public company comparables, the information is readily available on the value of these companies from the stock exchanges. For private companies, the source of comparables is recent private company sales. Income-based methods use estimates of future earnings discounted back to the present using a cost of capital for the company being valued.

Every valuation methodology has its own set of assumptions necessary to develop this proxy for fair market value. For example, the valuation method of using market prices from private sales of comparable companies has two key assumptions that must be met for the resulting valuation to be accurate. First, the firm sold and the firm being valued must be similar in their business size and performance. Second, the sale should be very recent to the date of the valuation, so the external conditions that influence valuations are approximately the same.

In practice, these two assumptions are difficult to validate. Many private transactions are not reported, while some that are reported have some seller or third party financing

⁸ Revenue Ruling 59-60

involved which complicates measuring the actual price paid. Assessing comparability of the businesses can also be challenging for many types of businesses.

IRS Revenue Ruling 59-60 suggests the use of market prices for publicly held companies as a valuation method. In this approach, value to revenue and value to earnings (usually earnings before interest, tax, depreciation, and amortization (EBITDA)) for “proxy” public companies are used as guidelines for valuing a private firm. These guideline firms are typically in the same aggregate industry sector (usually 2 or perhaps 3 digit SIC). Even if more detailed industry classifications are available, the guideline firms are placed in these classifications by their primary SIC code. This would not be a problem except for the fact that most public companies are in multiple SIC codes and the primary one, which is determined by the firm’s SIC that makes up the lion’s share of its revenue, may not be the SIC that accounts for the lion’s share of the firm’s cash flow.

Income-based methods of valuation include capitalized earnings, excess earnings, discounted cash flow, and discounted free cash flow. Each of these valuation methodologies has its own set of assumptions and necessary data inputs. The accuracy of these methods is dependent upon how well the assumptions are met and the accuracy of the inputs.

Since each valuation assignment is unique, it is important to keep an open mind about which method or set of methods will be best suited for the assignment. However, it is also important to track how well different methods perform in predicting what the actual price will be when a business is sold. For help on this, we turn to a classic academic research paper by Steven N. Kaplan, University of Chicago and Richard S. Ruback, Harvard Business School the authors state the following:

Investment bankers and dealmakers typically price acquisitions, leveraged buyouts, IPOs, and other transactions using multiples of current earnings or cash flow for comparable companies or transactions. For example, if a company for sale has \$100 million of current earnings before interest tax and depreciation, and the standard multiple for similar companies is five times EBITDA, then the price of the company would be estimated at \$500 million. -----
As we report in this article, our study provides evidence of a strong relationship between market values of transactions in our sample and the discounted value of their cash flow forecasts.----- Although some of the “comparable” or “multiple” methods performed as well on an average basis, the discounted cash flow methods were more reliable in the sense

that the discounted cash flow estimates were clustered more tightly around the actual values.⁹ (emphasis added)

These findings suggest that valuation results generated by market multiple methods should be given less weight in the final valuation analysis than discounted cash flow estimates unless the degree of comparability between the peers and the company under review is quite high and the timing of the valuation comparables are quite close.

One must also keep in mind that Kaplan and Ruback's study used data on public company transactions. Valuation of private firms using private company comparable multiples is likely to be even more error prone than the company sample used by Kaplan and Ruback. The reasons are:

- ❑ Private companies that are directly comparable to the private company to be valued are virtually impossible to find. Hence, one is often forced to use what we call "proxy" comparables. Using these "proxy" multiples assumes that the private firm in question has the same cash flow growth potential and the ratio of debt to equity as the proxy firm or what is even more unlikely the firm to be valued has the cash flow and/or the capital structure of the median of a set of proxy firms. Any real similarity between the firm to be valued and the proxy firm would only occur coincidentally. Thus, for example, multiplying the median "proxy" revenue or EBITDA (earnings before interest, tax, depreciation and amortization) multiple by a firm's last year revenue and/or EBITDA values respectively, will result in a value that may be too low or too high and in any case would not be correct.
- ❑ Suitable comparable transactions may not be available at the time the private firm in question is being valued. Applying the median multiple for transactions that happened as recently as three months ago may not be appropriate. For example, if interest rates at the valuation date are different from those that existed when the comparable transactions took place, the multiples will also be different. If the current long term government interest rate were 1% lower today than when the median for the comparable transactions took place, applying the comparable's multiple would result in a value that is far LOWER than it should be.¹⁰

⁹ Steven N. Kaplan and Richard Ruback, "The Market Pricing of Cash Flow Forecasts: Discounted Cash Flow vs. The Method of Comparables", Journal of Applied Corporate Finance, Winter 1996, p.45

¹⁰ Consider the simple Gordon-Shapiro model. $Value/Earnings = (1+g)/(i-g)$ where i is the interest rate, g is the growth in earnings for the median firm and $Value/Earnings$ is the median earnings multiple. Let us assume that g is .05 and i is .10. The earnings multiple is then 21. Let us say that these were the exact circumstances that were in place 3 months ago. Firm A with earnings of \$100,000 was sold for \$2.1 million ($21 * \$100,000$) 3 months ago. Firm B is currently up for sale and also has earnings of \$100,000. Since Firm A was sold, interest rates fell from 10% to 9%. The earnings multiple is now 26.25 and Firm B is worth \$2,625,000. If the old multiple, 21, were used, then the owner of Firm B would have received \$525,000 too little for his firm.

ROSS & COMPANY'S APPROACH TO VALUATION OF THIS FIRM

Per the requirements of Revenue Ruling 59-60, we have considered multiple methods to generate valuation estimates for this firm. The first method described is the discounted free cash flow method

The Discounted Free Cash Flow Forecasting Valuation Method

For the discounted free cash flow forecasting, there are key assumptions that must be made in order to develop a reliable valuation. This approach relies on the assumption that a reliable estimate of future cash flows can be generated for a company, and on the assumption that the risk characteristics of the company can also be estimated. As discussed in Sections 2 and 4, we have determined the most reasonable base year is a weighted average of the most recent four years' financials. For the projection period, we have used a firm-specific projection, taking into account industry and economic factors.

Valuation of Tentex

The process of the valuation takes multiple steps to go through the analysis process:

- First, we value 100% control of the firm as a C corporation with adjustments for valuation purposes
- Second, we value the tax pass-through associated with the firm's dividend payouts as an S corporation.
- Third, we add in the value of non-operating assets and excess cash (none of either for this firm)
- Fourth, we make adjustments for the firm's lack of liquidity to the company's equity
- Fifth, we go through the same steps using a minority discount scenario

The elements of the discounted free cash flow valuation of 100% control of the firm as a C corporation are shown in the table below. This analysis of adjusted earnings and cash flows starts with Earnings before Interest Expense and Income Taxes (EBIT). We then add back the adjustments discussed in Section 2, and calculate the net operating profit after tax (NOPAT) based on an assumed corporate tax rate of 40%. From this NOPAT line we make adjustments based on our capital expenditures and working capital review in Section 4 to compute the free cash flows. These free cash flows are then discounted by the weighted average cost of capital (WACC) to get a summation for their present values.

The valuation calculations in the control scenario are shown below.

Business Valuation Report For Tentex Corp.

Table 6-1: Valuation of Operating Business before Liquidity Adjustment – Control
Source: Ross & Company

Panor Corp.								
Discounted Cash Flow Analysis - Control Value								
Valuation Inputs:								
A	NOPAT Perpetuity Growth	2.5%						
B	WACC	22.32%						
C	Mid-Year Convention	0.5						
D	Valuation Date	9/30/2012						
Row		<-Actual-> Base Year	FYE 2013	FYE 2014	FYE 2015	FYE 2016	FYE 2017	Perpetuity
1	Revenue	\$20,283,197	\$23,325,677	\$25,658,244	\$28,224,069	\$29,635,272	\$31,117,036	
	Growth in Revenue		15%	10%	10%	5%	5%	
2	Cost of Goods Sold	\$10,537,293	\$12,117,887	\$13,329,676	\$14,662,643	\$15,395,775	\$16,165,564	
	Growth in Cost of Goods Sold		15%	10%	10%	5%	5%	
3	Gross Profits (R1 - R2)	\$9,745,904	\$11,207,790	\$12,328,569	\$13,561,425	\$14,239,497	\$14,951,472	
	Growth in Gross Profits		15%	10%	10%	5%	5%	
4	Total Operating Expenses	\$6,972,398	\$7,751,932	\$8,329,725	\$8,950,583	\$9,284,150	\$9,630,148	
	Growth in Operating Expenses		11%	7%	7%	4%	4%	
5	Interest Expense	\$65,896	\$65,896	\$65,896	\$65,896	\$65,896	\$65,896	
6	Other Income (Expense) Included in Valuation	\$0	\$0	\$0	\$0	\$0	\$0	
7	EBT Restated for Valuation (R3 - R4 - R5 + R6)	\$2,707,610	\$3,389,961	\$3,932,948	\$4,544,946	\$4,889,451	\$5,255,427	
8	Interest Expense	\$65,896	\$65,896	\$65,896	\$65,896	\$65,896	\$65,896	
9	EBIT Restated for Valuation (R7 + R8)	\$2,773,506	\$3,455,857	\$3,998,844	\$4,610,842	\$4,955,347	\$5,321,323	
	Growth in EBIT		25%	16%	15%	7%	7%	
10	Total Adjustments	\$20,353	\$22,629	\$24,315	\$26,127	\$27,101	\$28,111	
11	Adjusted EBIT Restated for Valuation (R9 + R10)	\$2,793,859	\$3,478,486	\$4,023,159	\$4,636,970	\$4,982,448	\$5,349,434	
12	Tax Rate as a C Corp.	40%	40%	40%	40%	40%	40%	
13	NOPAT (R11 * (1 - R12))		\$2,087,091	\$2,413,895	\$2,782,182	\$2,989,469	\$3,209,661	
14	Amortization Add-back	\$10,107	\$10,107	\$0	\$0	\$0	\$0	
15	Adjusted NOPAT (R13 + R14)		\$2,097,198	\$2,413,895	\$2,782,182	\$2,989,469	\$3,209,661	
16	Net Fixed Capital	\$145,538	\$189,199	\$227,039	\$272,447	\$299,692	\$329,661	
17	Change in Net Fixed Capital		\$43,661	\$37,840	\$45,408	\$27,245	\$29,969	
18	Working Capital	\$2,463,568	\$2,833,103	\$3,116,414	\$3,428,055	\$3,599,458	\$3,779,430	
19	Change in Working Capital		\$369,535	\$283,310	\$311,641	\$171,403	\$179,973	
20	Other Changes to Free Cash Flows (1)	0	\$0	\$0	\$0	\$0	\$0	Perpetuity Value (2)
21	Free Cash Flow (R15 - R17 - R19- R20)		\$1,684,002	\$2,092,745	\$2,425,133	\$2,790,821	\$2,999,719	\$16,600,487
22	Present Value Index (3)		0.90	0.74	0.60	0.49	0.40	0.40
23	Present Value Of Free Cash Flow (R21 * R22)		\$1,522,640	\$1,546,964	\$1,465,577	\$1,378,842	\$1,211,636	\$6,705,211
24	Value of Operations (Sum of R23)	\$13,830,870						

Notes:
1) Other Changes to Free Cash Flows =
2) Perpetuity Value = Last Projection Year's NOPAT * (1 + Input A) / (Input B - Input A)
3) Present Value Index = 1 / (1 + Input B) ^ (R - Input C)

Valuation of Tax Pass-through

The next stage is to analyze the impact of the S corporation status on the value of Tentex. Within the S corporation rules, a company is taxed only once on its profits by passing these profits through to the personal tax returns of the owners. In addition, there can be differences between the effective corporate tax rates and personal tax rates, depending upon the number of owners and their salaries. The value of the S corporation status is equal to:

- The present value of the differences between taxing the profits of the company as a C corporation versus taxing the distribution of those profits through the K-1 forms at the personal tax rate.
- The present value of the difference between the taxes on dividends paid out by C corporations, which are taxed to the recipient at 15% federal plus state personal tax, versus the S corporation option of making distributions to owners on a tax-free basis, since the owners have already been taxed on these S corporation profits through their personal returns.

There is relatively little difference in the combined federal corporate tax rate and the combined personal tax rate, so the value of the tax pass-through is largely based on the avoidance of double taxation. For this calculation, we take the after-tax free cash flows of Tentex, and apply a dividend tax over the projected period and take the present value of the dividend tax as shown below.

Table 6-2: Valuation of Tax Pass-through – Control
Source: Ross & Company

Row		FYE 2013	FYE 2014	FYE 2015	FYE 2016	FYE 2017	Perpetuity Value (t)
	Avoided tax on Dividends:						
1	Free Cash Flow	\$1,684,002	\$2,092,745	\$2,425,133	\$2,790,821	\$2,999,719	
2	Interest Expense	\$65,896	\$65,896	\$65,896	\$65,896	\$65,896	
3	Free Cash Flow Less Interest Expense	\$1,618,106	\$2,026,849	\$2,359,237	\$2,724,925	\$2,933,823	
4	Dividend Tax (R3 * Tax Rate)	20.00%	\$323,621	\$405,370	\$471,847	\$544,985	\$3,034,768
5	Present Value Index (1 / (1+ Input B) ^ (Input D - Input C))		0.90	0.74	0.60	0.49	
6	Present Value (R4 * R5)		\$292,612	\$299,651	\$285,151	\$269,257	\$1,225,793
7	Sum of Present Value		\$2,609,467				
8	Value of Tax Passthrough (R7)		\$2,609,467				

Notes:

We have added the value of the tax pass-through to the value of operations to get the total value of the firm, which is \$16,440,337. We have then subtracted the firm's debt and other liabilities from the total value of the firm with control before adjustments. This consists of loan payable to a related party of \$1,308,221, long-term debt of \$7,792, and current portion of long-term liabilities of \$18,703, for a total of \$1,334,716. The discount for liquidity is applied to the equity portion of the value. The liquidity discount described in Section 5 that is appropriate for an S type corporation is 25%. These calculations are shown in the following table.

Table 6-3: Total Value of Tentex with Control
Source: Ross & Company

Tentex	
Discounted Free Cash Flow Results- Control	9/30/2012
Value of Operations	\$13,830,870
Value of Tax Pass Thru	\$2,609,467
Total Value of Firm With Control Before Adjustments	\$16,440,337
Less: Value of Debt and Other Liabilities	\$1,334,716
Value of Equity With Control Before Adjustments	\$15,105,621
Liquidity Discount	25%
Loss of Value Due to Liquidity Discount	\$3,776,405
Value of Equity With Control After Liquidity Discount	\$11,329,216
Plus: Value of Debt and Other Liabilities	\$1,334,716
Total Fair Market Value of Firm	\$12,663,932

Valuation of a Minority Interest in Tentex

The process of valuing the firm for use in determining the value of minority interests takes a similar path through the analysis process:

- First, we value the firm as a C corporation without 100% control, i.e. for use in determining the value of a minority interest where the owner of the shares has a right to the available distributions, but does not have the right to control the assets of the company. We used the difference between the industry's RMA estimated officer compensation and the benchmark officer compensation as the proxy for the reduced EBIT that would be available to a minority owner.
- Second, we value the tax pass-through associated with the firm's dividend payouts as an S corporation.
- Third, we add in the value of the firm's non-operating assets and excess cash (non for this firm)
- Fourth, we make adjustments for the firm's lack of liquidity to the company's equity

As discussed in Section 5, we ran this type of analysis and extrapolated a minority discount of 17.27%, which is a reasonable finding. The final results of this are shown in the table below. The calculation for the discounted cash flow and the tax pass-through can be found in Appendix D.

Table 6-4: Total Value of Tentex on a Minority Interest Basis
Source: Ross & Company

Tentex	
Discounted Free Cash Flow Results- Minority Interest	9/30/2012
Value of Operations	\$11,656,671
Value of Tax Pass Thru	\$2,174,627
Total Value of Firm With Minority Interest Before Adjustments	\$13,831,298
Less: Value of Debt and Other Liabilities	\$1,334,716
Value of Equity Before Adjustments	\$12,496,582
Liquidity Discount	25.00%
Loss of Value Due to Liquidity Discount	\$3,124,146
Value of Equity with Minority Interest After Liquidity Discount	\$9,372,437
Plus: Value of Debt and Other Liabilities	\$1,334,716
Total Fair Market Value of Firm	\$10,707,153
Value of Equity With Control After Liquidity Discount	\$11,329,216
Minority Discount	17.27%
Loss of Value Due to Minority Discount	\$1,956,779
Minority Equity Value	\$9,372,437

The Factors Impacting the Valuation of this Firm

The valuation results are dependent on the following set of factors:

- The nature of the business and its current financial condition based on the latest company financial information.
- The economic outlook in general and prospects for the industry the firm is in.
- Cash flow from identified non-business operations is valued separately from cash flow streams associated with primary business operations.
- The expected cash flow growth of the industry over the next five years, and the on-going growth expectation.
- The rate of return investors require for owning a business that has a risk profile similar to this firm.
- A liquidity discount applied to the initial value reflecting the fact that there are a limited number of buyers for this firm.
- A discount subtracted from calculated initial value or a premium added to the calculated initial value depending upon an assessment whether a new owner (other than a strategic buyer) would likely be able to deploy the assets more

effectively than the current owner. A controlling or a majority interest in the firm is more valuable than a minority interest. The reason is that controlling interest confers the right on the controlling buyer to make decisions about how the assets of the business are to be used. A minority interest does not confer this right and therefore is less valuable. A minority interest only confers on the minority owner the right to his/her pro-rata share of the firm's earnings.

VALUATION REVIEW: PRIVATE AND PUBLIC COMPANY MARKET MULTIPLES

In accordance with IRS Revenue Ruling 59-60 (Appendix F), we have conducted a review of companies similar to Tentex to determine whether information on the value of these companies can be used in the valuation of Tentex. Ross & Company reviews the major subscription transaction databases: Pratt's Stats Private Company, Public Stats, BizComps, and IBA Market Data. Each database differs in the type of data reported and level of detail. In addition, since contributions to each database are purely voluntary the information is not always reliable. Without considerable and painstaking effort to verify and filter transaction data, making definitive conclusions on the bases of private market transactions is difficult. Despite these shortcomings, if comparable transactions can be identified, their market prices can be used anecdotally to substantiate the discounted free cash flow method. Unfortunately, we were unable to find any appropriate comparables to Tentex.

We have also searched for public companies that are similar to Tentex. However, we were unable to identify any public companies that are comparable to Tentex.

WEIGHTING THE VALUATION METHODS

To determine a final value for the fair market value of Tentex, we have carefully considered the degree to which the facts of this assignment are consistent with the key assumptions of the methods of valuation used in this assignment, private company transaction market multiples and discounted free cash flow.

It is our judgment that the private company transaction multiples available for use as comparables are not appropriate to use due to important differences in size and geographical coverage, compared to Tentex, and to the lack of a sufficient and current sample size to provide reliable results. There are no facts in this assignment that limit the appropriateness of the discounted free cash flow method to the valuation of Tentex. Accordingly, we have assigned the weights as shown in the following table to the valuation results generated by the different methods employed in this assignment.

Table 6-5: Weighting of Different Valuation Results
Source: Ross & Company

Valuation Weighting for Tentex as of September 30, 2012	
<i>Valuation Method</i>	<i>Weight</i>
<i>Income Valuation: Discounted Free Cash Flow</i>	<i>100.00%</i>
<i>Market Valuation: Private Comparables</i>	<i>Not Applicable</i>
<i>Market Valuation: Public Comparables</i>	<i>Not Applicable</i>
<i>Sum of the Valuation Weights</i>	<i>100.00%</i>

The total fair market value of Tentex is \$12,663,932. The value of equity with control is \$11,329,216. The results of our analysis indicate that there is a 17.27% discount for having a minority interest. Thus, the value of equity on a minority basis is \$9,372,437. The value on a rounded basis of a 50% interest owned by Robert Rogers is \$4,690,000. These valuation results for Tentex, as of September 30, 2012, are shown in the table below.

Table 6-6: Valuation Results
Source: Ross & Company

Tentex Corp.	9/30/2012
Total Fair Market Value of Firm	\$12,663,932
Less: Value of Debt and Other Liabilities	\$1,334,716
Value of Equity with Control	\$11,329,216
Minority Discount	17.27%
Loss of Value Due to Minority Discount	\$1,956,779
Minority Equity Value	\$9,372,437
Ownership % of Robert Rogers	50%
Value of Robert Rogers Minority Equity Interest	\$4,686,219
Value of Robert Rogers Minority Equity Interest (Rounded)	\$4,690,000

APPENDIX A: ABOUT ROSS & COMPANY CPA, PLLC

Ross & Company, CPA's roots date back to 1930 when Jack Ross partnered with Goldstein & Goldstein CPA. In 1966, Mr. Jack Ross bought out the Goldstein partners with his son Myron Ross and changed the name to Ross & Ross CPAs. In 1992, Mr. Myron Ross's son, Glen Ross, joined the firm. Upon Mr. Myron Ross's retirement in June of 2005, Mr. Glen Ross changed the name to Ross & Company CPA, PLLC and continues his grandfather's vision: to build the firm into a state of the art practice servicing a growing clientele in an ever wider array of industries.

Today, Ross & Company, CPA has offices on Long Island, NY, Boynton Beach, FL and Oakland, ME specializing in tax planning and preparation, personal financial planning, accounting and auditing, small business consulting, as well as business valuations, appraisals and litigation consulting. The firm is capable of providing a full complement of resources and services typically expected only from a large accounting firm.

Financial Planning Services includes: Investment Consulting, Cash Flow & Budgeting Analysis, Retirement Planning, Estate and Business Succession Planning and Insurance Consulting.

Tax Planning & Return Prep: The firm continuously monitors federal, state and local tax law changes to minimize clients' current and future tax liabilities. If necessary, it implements tailor made detailed compliance monitoring systems to prevent costly interest and penalty assessments attributed to late filing. In addition, the firm offers full tax preparation and filing services.

Auditing Services: The firm examines company's financial statements in accordance with generally accepted auditing standards. An audit requires the firm to examine internal controls and to complete substantial testing of the information underlying the financial statements.

Business Valuation Services: The firm conducts comprehensive analysis that for making informed decisions: ESOPs, litigation support, mergers and acquisitions, divorce settlements, and buy - sell agreements.

Expert Witness Services: The firm offers witness testimony in the areas of business valuation and other matters requiring forensic accounting expertise.

Forensic Accounting: The firm offers tailor made forensic accounting services as well as expert testimony.

Bookkeeping/Write-Up: The firm provides full-charge bookkeeping services, including general journal and subsidiary ledger maintenance, bank statement reconciliation, and receivables and payables tracking and analysis.

Financial Forecast and Projections: The firm provides complete financial and business forecasting services, including proforma projections. It also customizes What-If planning scenarios to help management plan for unexpected business contingencies.

Computer Consulting: Through a network of companies, business-savvy computer technicians and programmers can explain even the most advanced high-tech concepts in plain English.

Internet Commerce: The firm offers advice on the upside and the downside to e-commerce.

APPENDIX B: PROFESSIONAL QUALIFICATIONS

GLEN A. ROSS, CPA CVA

Mr. Ross graduated from Long Island University-CW Post Campus in 1992 with a Bachelor of Science Degree. He received his CPA designation-New York State licensure in 1998 and received his Certified Valuation Analyst (CVA) designation in 2003.

Mr. Ross is a member of the New York State Society of Certified Public Accountants, the National Conference of Certified Public Accounting Practitioners and the National Association of Certified Valuation Analysts.

Mr. Ross has worked for the CPA firm of Ross & Ross, CPA since 1992 and became a Partner of said firm in 1998. In 2005, the firm changed names to Ross & Company CPA, PLLC. He has been active in fundraising for L.I. Cares, an organization dedicated to fighting hunger on Long Island, and has fed hundreds of families over the past few years. In 1999, Mr. Ross founded an online interactive advertising company. He acted as President and CEO of the company until it was sold in 2001. In 2011, Mr. Ross became a member of the board of directors of a national wholesale insurance broker that writes premiums in excess of \$200 million and in 2013 became a member of the board of directors of a not-for-profit. In 2012, he founded another online company that connects customers with tax preparers in need of service.

In 2003 and 2004 Mr. Ross lectured on business valuations. His course, Understanding & Using Business Valuations, is approved for both CPE and CLE credit.

Mr. Ross has specialized knowledge and experience in the following industries and areas:

- Valuations of various entities and professional licenses including litigation support services.
- Forensic accounting in the determination of fraud and true economic value.
- Vast experience in taxation, tax planning and management advisory services for small, closely held businesses, new start-ups and going concern entities with a concentration in the insurance industry.
- Financial statement presentation and support.
- Computer consulting and integrated systems analysis.

Mr. Ross has worked on many major projects over the years including, but not limited to:

- Conducted and/or assisted in hundreds of valuation engagements consisting of: Matrimonial disputes of closely held businesses, valuations of professional licenses, valuations of closely held businesses for estate taxes, gifting, buy/sell agreements and ESOPs.
- Mr. Ross was a Beta tester for "ValueSource Pro 2003" from John Wiley & Sons. This program is the leading valuation and financial analysis software in the country.
- Mr. Ross has prepared and/or analyzed financial statement projections and related analysis for start-up organizations and/or going concern entities.
- Mr. Ross has performed and/or assisted in certified audits for closely held businesses since 1991, totaling in excess of 90 audits.

Business Valuation Report For Tentex Corp.

- Mr. Ross has been deposed in New York State Supreme Court, Kings County and has testified as an expert in New York State Supreme Court, Westchester County and as well as Kings County.

APPENDIX C: FIRM FINANCIAL DATA

Table C-1: FYE 2008 to FYE 2011 Income Statement History and Common Size analysis for Tentex

Source: Ross & Company and Tentex's Tax Returns

Concepts	Years				Years			
	FYE 2011	FYE 2010	FYE 2009	FYE 2008	FYE 2011	FYE 2010	FYE 2009	FYE 2008
1a Gross receipts or sales	\$16,016,553	\$12,221,314	\$9,779,651	\$12,190,281	101.91%	102.24%	104.16%	103.12%
1b Less returns and allowances	\$300,051	\$267,292	\$390,815	\$368,489	1.91%	2.24%	4.16%	3.12%
1c Balance - Net Receipts	\$15,716,502	\$11,954,022	\$9,388,836	\$11,821,792	100.00%	100.00%	100.00%	100.00%
2 Cost of goods sold	\$8,061,143	\$6,218,071	\$4,983,517	\$6,107,653	51.29%	52.02%	53.08%	51.66%
3 Gross profit	\$7,655,359	\$5,735,951	\$4,405,319	\$5,714,139	48.71%	47.98%	46.92%	48.34%
5 Other income (loss)	\$811	\$2,021	\$1,942	\$130,105	0.01%	0.02%	0.02%	1.10%
6 Total income (loss)	\$7,656,170	\$5,737,972	\$4,407,261	\$5,844,244	48.71%	48.00%	46.94%	49.44%
Expenses								
7 Compensation of officers	\$1,062,600	\$539,110	\$482,620	\$1,121,070	6.76%	4.51%	5.14%	9.48%
8 Salaries and wages	\$1,141,564	\$969,140	\$1,042,610	\$1,149,189	7.26%	8.11%	11.10%	9.72%
9 Repairs and maintenance	\$67,807	\$44,468	\$31,347	\$31,650	0.43%	0.37%	0.33%	0.27%
10 Bad debts	\$10,982	\$7,561	\$18,580	\$0	0.07%	0.06%	0.20%	0.00%
11 Rents	\$253,086	\$211,736	\$199,006	\$158,506	1.61%	1.77%	2.12%	1.34%
12* Taxes and licenses	\$90,597	\$89,776	\$89,776	\$148,247	0.58%	0.75%	0.96%	1.25%
13 Interest	\$103,510	\$103,028	\$144,954	\$150,378	0.66%	0.86%	1.54%	1.27%
14a** Depreciation	\$25,065	\$27,889	\$26,555	\$37,820	0.16%	0.23%	0.28%	0.32%
c Net Depreciation	\$25,065	\$27,889	\$26,555	\$37,820	0.16%	0.23%	0.28%	0.32%
16 Advertising	\$195,108	\$171,622	\$205,069	\$170,094	1.24%	1.44%	2.18%	1.44%
17 Pension, profit-sharing plans	\$58,268	\$0	\$17,197	\$91,704	0.37%	0.00%	0.18%	0.78%
19 Other deductions	\$2,204,600	\$1,876,003	\$1,620,145	\$1,977,769	14.03%	15.69%	17.26%	16.73%
20 Total deductions	\$5,213,187	\$4,040,333	\$3,877,859	\$5,036,427	33.17%	33.80%	41.30%	42.60%
21 Ordinary income (loss) from trade or business activities	\$2,442,983	\$1,697,639	\$529,402	\$807,817	15.54%	14.20%	5.64%	6.83%

Business Valuation Report For Tentex Corp.

Table C-2: Tax Return Income Statement Details & Common Size Analysis Tentex
Source: Ross & Company and Tentex's Tax Returns

Travel	\$145,894	\$118,053	\$113,660	\$111,030	0.93%	0.99%	1.21%	0.94%	
Meals and Entertainment	\$8,628	\$6,604	\$6,543	\$7,597	0.05%	0.06%	0.07%	0.06%	
Allocated 263A Costs	(\$159,610)	(\$120,858)	(\$137,325)	(\$142,474)	-1.02%	-1.01%	-1.46%	-1.21%	
Auto Lease	\$32,010	\$21,912	\$31,955	\$44,802	0.20%	0.18%	0.34%	0.38%	
Bank Charges	\$42,972	\$60,955	\$42,441	\$41,794	0.27%	0.51%	0.45%	0.35%	
Casual Labor	\$26,283	\$7,365	\$3,825	\$410	0.17%	0.06%	0.04%	0.00%	
Collection Costs	\$2,830	\$4,466	\$1,844	\$2,288	0.02%	0.04%	0.02%	0.02%	
Commission	\$776,443	\$592,512	\$469,296	\$594,327	4.94%	4.96%	5.00%	5.03%	
Consulting	\$2,466	\$44,365	\$0	\$0	0.02%	0.37%	0.00%	0.00%	
Data Processing	\$115,450	\$19,675	\$37,958	\$48,530	0.73%	0.16%	0.40%	0.41%	
Dues and Subscription	\$24,913	\$0	\$18,394	\$14,997	0.16%	0.00%	0.20%	0.13%	
Foreign Exchange Loss	\$749	\$280	\$9	\$0	0.00%	0.00%	0.00%	0.00%	
Gifts	\$14,296	\$8,090	\$8,640	\$25,448	0.09%	0.07%	0.09%	0.22%	
Insurance	\$241,566	\$214,770	\$222,983	\$321,187	1.54%	1.80%	2.37%	2.72%	
Internet Service	\$111,118	\$55,400	\$23,926	\$43,749	0.71%	0.46%	0.25%	0.37%	
Laboratory Testing	\$21,745	\$36,062	\$17,539	\$24,810	0.14%	0.30%	0.19%	0.21%	
Leased Equipment	\$15,720	\$15,499	\$12,075	\$11,408	0.10%	0.13%	0.13%	0.10%	
Miscellaneous	(\$16,693)	\$5,141	\$0	\$0	-0.11%	0.04%	0.00%	0.00%	
Office Cleaning	\$8,502	\$5,649	\$8,397	\$12,378	0.05%	0.05%	0.09%	0.10%	
Office Supplies & Postage	\$75,290	\$69,713	\$60,467	\$63,356	0.48%	0.58%	0.64%	0.54%	
Packaging	\$29,251	\$24,227	\$16,838	\$21,632	0.19%	0.20%	0.18%	0.18%	
Payroll Service Costs	\$3,563	\$3,516	\$3,537	\$3,311	0.02%	0.03%	0.04%	0.03%	
Pest Control	\$0	\$0	\$652	\$652	0.00%	0.00%	0.01%	0.01%	
Professional Fees	\$122,825	\$119,498	\$146,685	\$125,463	0.78%	1.00%	1.56%	1.06%	
Promotional Items	\$0	\$104,415	\$112,611	\$115,437	0.00%	0.87%	1.20%	0.98%	
Refuse Removal	\$8,065	\$9,683	\$10,464	\$9,348	0.05%	0.08%	0.11%	0.08%	
Royalties	\$0	\$0	\$0	\$470	0.00%	0.00%	0.00%	0.00%	
Samples	\$11,065	\$10,723	\$7,705	\$10,140	0.07%	0.09%	0.08%	0.09%	
Security Expense	\$2,530	\$2,156	\$2,143	\$5,603	0.02%	0.02%	0.02%	0.05%	
Shipping	\$401,258	\$297,588	\$237,931	\$293,147	2.55%	2.49%	2.53%	2.48%	
Telephone	\$30,864	\$28,951	\$28,921	\$27,722	0.20%	0.24%	0.31%	0.23%	
Trade Show Expense	\$27,680	\$31,879	\$41,332	\$76,698	0.18%	0.27%	0.44%	0.65%	
Utilities	\$76,927	\$77,714	\$68,699	\$62,509	0.49%	0.65%	0.73%	0.53%	
Total to Form 1120, Line 26	\$2,204,600	\$1,876,003	\$1,620,145	\$1,977,769	14.03%	15.69%	17.26%	16.73%	

Schedule A- Cost of Goods Sold

Concepts	Line	Years							
		FYE 2011	FYE 2010	FYE 2009	FYE 2008				
	1	\$2,194,436	\$1,719,959	\$2,356,885	\$2,582,576	13.96%	14.39%	25.10%	21.85%
	2	\$7,571,995	\$6,138,004	\$3,877,168	\$5,314,490	48.18%	51.36%	41.30%	44.96%
	3	\$241,574	\$234,466	\$202,983	\$246,588	1.54%	1.96%	2.16%	2.09%
	4	\$159,610	\$120,858	\$137,325	\$142,474	1.02%	1.01%	1.46%	1.21%
	5	\$170,743	\$199,220	\$129,115	\$178,410	1.09%	1.67%	1.38%	1.51%
	6	\$10,338,358	\$8,412,507	\$6,703,476	\$8,464,538	65.78%	70.37%	71.40%	71.60%
	7	\$2,277,215	\$2,194,436	\$1,719,959	\$2,356,885	14.49%	18.36%	18.32%	19.94%
	8	\$8,061,143	\$6,218,071	\$4,983,517	\$6,107,653	51.29%	52.02%	53.08%	51.66%

Schedule A- Statement 3

Concepts	Line	Years							
		FYE 2011	FYE 2010	FYE 2009	FYE 2008				
	1	\$44,008	\$32,990	\$11,548	\$11,830	0.28%	0.28%	0.12%	0.10%
	2	\$100,897	\$116,808	\$55,584	\$90,420	0.64%	0.98%	0.59%	0.76%
	3	\$25,838	\$49,422	\$61,983	\$69,210	0.16%	0.41%	0.66%	0.59%
	4				\$6,950	0.00%	0.00%	0.00%	0.06%
	5	\$170,743	\$199,220	\$129,115	\$178,410	1.09%	1.67%	1.38%	1.51%

Table C-3: FYE 2008 to FYE 2011 Balance Sheet & Common Size Analysis for Tentex
Source: Ross & Company and Tentex's Tax Returns

Concepts		End of Tax Year				Common Size End of Tax Year			
Line	Assets	FYE 2011	FYE 2010	FYE 2009	FYE 2008	FYE 2011	FYE 2010	FYE 2009	FYE 2008
1	Cash	\$688,969	\$1,259,803	\$1,476,178	\$2,168,488	14.04%	26.02%	34.26%	36.76%
2a	Trade notes and accounts receivable	\$1,773,619	\$1,256,986	\$863,470	\$1,039,230	36.15%	25.96%	20.04%	17.62%
2c	Net Trade notes and accounts receivable	\$1,773,619	\$1,256,986	\$863,470	\$1,039,230	36.15%	25.96%	20.04%	17.62%
3	Inventories	\$2,091,805	\$1,999,373	\$1,514,816	\$2,104,465	42.64%	41.30%	35.15%	35.67%
6	Other current assets	\$147,669	\$42,575	\$80,346	\$19,255	3.01%	0.88%	1.86%	0.33%
7	Loans to shareholders	\$0	\$8,925	\$7,416	\$94,049	0.00%	0.18%	0.17%	1.59%
10a	Buildings and other depreciable assets	\$2,142,244	\$2,067,646	\$2,061,302	\$2,056,110	43.67%	42.71%	47.83%	34.85%
10b	Less accumulated depreciation	\$1,969,270	\$1,839,248	\$1,754,342	\$1,657,388	40.14%	37.99%	40.71%	28.09%
10c	Net Buildings and other depreciable assets	\$172,974	\$228,398	\$306,960	\$398,722	3.53%	4.72%	7.12%	6.76%
13a-c	Intangible assets (amortizable only)	\$248,470	\$248,470	\$248,470	\$248,470	5.06%	5.13%	5.77%	4.21%
13b-c	Less accumulated amortization	\$217,532	\$202,980	\$188,340	\$173,055	4.43%	4.19%	4.37%	2.93%
13b-d	Net Intangible Assets	\$30,938	\$45,490	\$60,130	\$75,415	0.63%	0.94%	1.40%	1.28%
14	Other assets	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	0.00%
15	Total Assets	\$4,905,974	\$4,841,550	\$4,309,316	\$5,899,624	100.00%	100.00%	100.00%	100.00%
Liabilities and Shareholder's Equity									
16	Accounts payable	\$1,192,608	\$2,098,353	\$1,558,766	\$2,185,404	24.31%	43.34%	36.17%	37.04%
17	Mortgages, notes, bonds payable in less than 1 year	\$18,703	\$24,488	\$23,939	\$20,106	0.38%	0.51%	0.56%	0.34%
18	Other current liabilities	\$2,228,025	\$2,494,605	\$2,743,419	\$3,691,883	45.41%	51.52%	63.66%	62.58%
20	Mortgages, notes, bonds payable in 1 year or more	\$26,495	\$0	\$24,489	\$46,675	0.54%	0.00%	0.57%	0.79%
22	Capital stock	\$70	\$70	\$70	\$70	0.00%	0.00%	0.00%	0.00%
23	Additional paid-in capital	\$2,200,000	\$1,100,000	\$1,100,000	\$1,100,000	44.84%	22.72%	25.53%	18.65%
24	Retained earnings	(\$759,927)	(\$875,966)	(\$1,141,367)	(\$1,144,514)	-15.49%	-18.09%	-26.49%	-19.40%
27	Total liabilities and shareholders' equity	\$4,905,974	\$4,841,550	\$4,309,316	\$5,899,624	100.00%	100.00%	100.00%	100.00%
Schedule L- Other Current Assets									
		End of Year							
Statement 5		FYE 2011	FYE 2010	FYE 2009	FYE 2008				
	Prepaid Expenses	\$147,669	\$42,575	\$80,346	\$19,155	3.01%	0.88%	1.86%	0.32%
	Due From Affiliate	\$0	\$0	\$0	\$100	0.00%	0.00%	0.00%	0.00%
	Total to Schedule L, Line 6	\$147,669	\$42,575	\$80,346	\$19,255	3.01%	0.88%	1.86%	0.33%
Schedule L- Other Current Liabilities									
		End of Year							
Statement 8		FYE 2011	FYE 2010	FYE 2009	FYE 2008				
	Accrued Expense	\$368,274	\$0	\$0	\$0	7.51%	0.00%	0.00%	0.00%
	Due to Affiliate	\$1,855,784	\$2,494,605	\$2,743,419	\$2,788,902	37.83%	51.52%	63.66%	47.27%
	Sales Tax Payable	\$3,967	\$0	\$0	\$0	0.08%	0.00%	0.00%	0.00%
	Notes Payable - Related Party	\$0	\$0	\$0	\$900,000	0.00%	0.00%	0.00%	15.26%
	Retirement Plan Contribution	\$0	\$0	\$0	\$2,906	0.00%	0.00%	0.00%	0.05%
	Garnishment Payable	\$0	\$0	\$0	\$75	0.00%	0.00%	0.00%	0.00%
	Total to Schedule L, Line 18	\$2,228,025	\$2,494,605	\$2,743,419	\$3,691,883	45.41%	51.52%	63.66%	62.58%

Business Valuation Report For Tentex Corp.

Table C-4: FYE 2012 Income Statement with Common Size Analysis for Tentex
Source: Ross & Company and Tentex's Financial Statements

Tentex Corp	FYE 2012	Common Size Analysis FYE 2012
REVENUE		
Sales	\$20,631,214	101.72%
Less: Returns & Allowances	(\$348,017)	-1.72%
Net Revenue	\$20,283,197	100.00%
Cost of Goods Sold		
Purchases	\$10,113,356	49.86%
Direct Labor	\$277,985	1.37%
Payroll Taxes	\$23,954	0.12%
Tooling	\$121,998	0.60%
Total Other Overhead	\$145,952	0.72%
Total Cost of Goods Sold	\$10,537,293	51.95%
Gross Profit	\$9,745,904	48.05%
SELLING, GENERAL & ADMINISTRATIVE		
Officers' Salaries	\$1,614,000	7.96%
Depreciation & Amortization	\$97,748	0.48%
Bad Debt Expense	\$9,347	0.05%
	\$0	0.00%
SELLING EXPENSES	\$0	0.00%
Payroll - sales	\$578,501	2.85%
Payroll Taxes	\$49,850	0.25%
Advertising	\$235,346	1.16%
Business Gifts	\$20,253	0.10%
Commission	\$994,314	4.90%
Internet Charges	\$140,816	0.69%
Meals and Entertainment	\$37,062	0.18%
Packaging Expenses	\$32,324	0.16%
Sample Items	\$8,870	0.04%
Shipping	\$533,206	2.63%
Trade Show Expenses	\$13,594	0.07%
Travel	\$180,313	0.89%
	\$0	0.00%
GENERAL AND ADMINISTRATIVE EXPENSES	\$0	0.00%
Payroll - Office	\$926,991	4.57%
Payroll Taxes	\$117,385	0.58%
Auto Leases	\$41,492	0.20%
Bank Charges	\$26,881	0.13%
Casual Labor	\$23,844	0.12%
Charitable Contributions	\$100	0.00%
Collection Costs	\$1,560	0.01%
Consulting	\$2,489	0.01%
Data Processing	\$83,005	0.41%
Dues and Subscriptions	\$23,640	0.12%
Insurance - General	\$363,945	1.79%
Internet Services	\$15,493	0.08%
Laboratory Testing	\$40,820	0.20%
Leases - Equipment	\$19,200	0.09%
Merchant Processing Fees	\$17,268	0.09%
Miscellaneous	\$2,625	0.01%
Office and Postage	\$87,134	0.43%
Payroll Processing Costs	\$4,124	0.02%
Professional Fees	\$54,705	0.27%
Recruitment Fees	\$2,031	0.01%
Retirement Plan Expense	\$103,268	0.51%
Telephone	\$34,258	0.17%
	\$0	0.00%
OCCUPANCY COSTS	\$0	0.00%
Payroll - Property Management	\$75,616	0.37%
Payroll Taxes	\$6,516	0.03%
Office Cleaning	\$8,915	0.04%
Refuse Removal	\$7,904	0.04%
Rent and Real Estate Taxes	\$278,506	1.37%
Repairs and Maintenance	\$47,714	0.24%
Security Expense	\$8,024	0.04%
Utilities	\$67,297	0.33%
Total Selling, General & Administrative	\$7,038,294	34.70%
Operating Profit	\$2,707,610	13.35%

Table C-5: FYE 2012 Balance Sheet with Common Size Analysis for Tentex
Source: Ross & Company and Tentex's Financial Statements

Tentex Corp	As of 9/30/2012	Common Size Analysis
ASSETS	FYE 2012	FYE 2012
CURRENT ASSETS		
Cash	\$215,941	4.15%
Accounts Receivable, net of allowance for bad debts	\$2,038,648	39.16%
Inventory	\$2,542,305	48.83%
<i>Total Current Assets</i>	<i>\$4,796,894</i>	<i>92.14%</i>
PROPERTY, PLANT & EQUIPMENT		
Fixed Assets, net	\$145,538	2.80%
<i>Total Property, Plant & Equipment</i>	<i>\$145,538</i>	<i>2.80%</i>
OTHER ASSETS		
Intangible Assets	\$20,830	0.40%
Federal Tax Deposit	\$242,772	4.66%
<i>Total Other Assets</i>	<i>\$263,602</i>	<i>5.06%</i>
Total Assets	\$5,206,034	100.00%
Liabilities & Shareholder Equity		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$2,288,326	43.96%
Current Portion of Long-Term Liabilities	\$18,703	0.36%
Retirement Plan Payable	\$45,000	0.86%
Sales Tax Payable	\$4,165	0.08%
<i>Total Current Liabilities</i>	<i>\$2,356,194</i>	<i>45.26%</i>
LONG-TERM DEBT		
Long-Term Debt	\$7,792	0.15%
Loan Payable - Related Party	\$1,308,221	25.13%
<i>Total Long-Term Debt</i>	<i>\$1,316,013</i>	<i>25.28%</i>
SHAREHOLDER'S EQUITY		
Common Stock - \$1 par value, 70 shares authorized, issued and outstanding, stated at	\$70	0.00%
Additional Paid-In Capital	\$2,200,000	42.26%
Accumulated Deficit	(\$666,243)	-12.80%
<i>Total Shareholder's Equity</i>	<i>\$1,533,827</i>	<i>29.46%</i>
Total Liabilities and Shareholder's Equity	\$5,206,034	100.00%

APPENDIX D: DETAILED VALUATION CALCULATIONS

Table D-1: Valuation Results – Minority
Source: Ross & Company

Panor Corp. Discounted Cash Flow Analysis - Minority Equity Value								
Valuation Inputs:								
A	NOPAT Perpetuity Growth	2.5%						
B	WACC	22.32%						
C	Mid-Year Convention	0.5						
D	Valuation Date	9/30/2012						
Row		<-Actual--> Base Year	-----Projections----->					Perpetuity
			FYE 2013	FYE 2014	FYE 2015	FYE 2016	FYE 2017	
1	Revenue	\$20,283,197	\$23,325,677	\$25,658,244	\$28,224,069	\$29,635,272	\$31,117,036	
	Growth in Revenue		15%	10%	10%	5%	5%	
2	Cost of Goods Sold	\$10,537,293	\$12,117,887	\$13,329,676	\$14,662,643	\$15,395,775	\$16,165,564	
	Growth in Cost of Goods Sold		15%	10%	10%	5%	5%	
3	Gross Profits (R1 - R2)	\$9,745,904	\$11,207,790	\$12,328,569	\$13,561,425	\$14,239,497	\$14,951,472	
	Growth in Gross Profits		15%	10%	10%	5%	5%	
4	Total Operating Expenses	\$6,972,398	\$7,751,932	\$8,329,725	\$8,950,583	\$9,284,150	\$9,630,148	
	Growth in Operating Expenses		11%	7%	7%	4%	4%	
5	Interest Expense	\$65,896	\$65,896	\$65,896	\$65,896	\$65,896	\$65,896	
6	Other Income (Expense) Included in Valuation	\$0	\$0	\$0	\$0	\$0	\$0	
7	EBT Restated for Valuation (R3 - R4 - R5 + R6)	\$2,707,610	\$3,389,961	\$3,932,948	\$4,544,946	\$4,889,451	\$5,255,427	
8	Interest Expense	\$65,896	\$65,896	\$65,896	\$65,896	\$65,896	\$65,896	
9	EBIT Restated for Valuation (R7 + R8)	\$2,773,506	\$3,455,857	\$3,998,844	\$4,610,842	\$4,955,347	\$5,321,323	
	Growth in EBIT		25%	16%	15%	7%	7%	
10	Total Adjustments	\$20,353	\$22,629	\$24,315	\$26,127	\$27,101	\$28,111	
11	Reduction in Earnings Available to Minority Investors	(\$692,231)	(\$692,231)	(\$692,231)	(\$692,231)	(\$692,231)	(\$692,231)	
12	Adjusted EBIT Restated for Valuation (R9 + R10+ R11)	\$2,101,628	\$2,786,255	\$3,330,928	\$3,944,739	\$4,290,217	\$4,657,203	
13	Tax Rate as a C Corp.	40%	40%	40%	40%	40%	40%	
14	NOPAT (R12 * (1 - R13))		\$1,671,753	\$1,998,557	\$2,366,843	\$2,574,130	\$2,794,322	
15	Amortization Add-back	\$10,107	\$10,107	\$0	\$0	\$0	\$0	
16	Adjusted NOPAT (R14 + R15)		\$1,681,860	\$1,998,557	\$2,366,843	\$2,574,130	\$2,794,322	
17	Net Fixed Capital	\$145,538	\$189,199	\$227,039	\$272,447	\$299,692	\$329,661	
18	Change in Net Fixed Capital		\$43,661	\$37,840	\$45,408	\$27,245	\$29,969	
19	Working Capital	\$2,463,568	\$2,833,103	\$3,116,414	\$3,428,055	\$3,599,458	\$3,779,430	
20	Change in Working Capital		\$369,535	\$283,310	\$311,641	\$171,403	\$179,973	
21	Other Changes to Free Cash Flows (1)	\$0	\$0	\$0	\$0	\$0	\$0	Perpetuity Value (2)
22	Free Cash Flow (R16 - R18 - R20- R21)	\$0	\$1,268,663	\$1,677,407	\$2,009,794	\$2,375,483	\$2,584,380	\$14,452,340
23	Present Value Index (3)		0.90	0.74	0.60	0.49	0.40	0.40
24	Present Value Of Free Cash Flow (R22 * R23)		\$1,147,099	\$1,239,944	\$1,214,576	\$1,173,638	\$1,043,874	\$5,837,539
25	Value of Operations (Sum of R24)	\$11,656,671						
Notes:								
1) Other Changes to Free Cash Flows = None								
2) Perpetuity Value = Last Projection Year's NOPAT * (1 + Input A) / (Input B - Input A)								
3) Present Value Index = 1 / (1 + Input B) ^ (R23 - Input C)								

Business Valuation Report For Tentex Corp.

**Table D-2: Valuation of Tax Pass-through – Minority
Source: Ross & Company**

Row			FYE 2013	FYE 2014	FYE 2015	FYE 2016	FYE 2017	Perpetuity Value (1)
	Avoided tax on Dividends:							
1	Free Cash Flow		\$1,268,663	\$1,677,407	\$2,009,794	\$2,375,483	\$2,584,380	
2	Interest Expense		\$65,896	\$65,896	\$65,896	\$65,896	\$65,896	
3	Free Cash Flow Less Interest Expense		\$1,202,767	\$1,611,511	\$1,943,898	\$2,309,587	\$2,518,484	
4	Dividend Tax (R3 * Tax Rate)	20.00%	\$240,553	\$322,302	\$388,780	\$461,917	\$503,697	\$2,605,139
5	Present Value Index $(1 / (1 + \text{Input B}) ^ (\text{Input D} - \text{Input C}))$		0.90	0.74	0.60	0.49	0.40	
6	Present Value (R4 * R5)		\$217,503	\$238,247	\$234,951	\$228,216	\$203,451	\$1,052,259
7	Sum of Present Value		\$2,174,627					
8	Value of Tax Passthrough (R7)		\$2,174,627					
Notes:								
1) Perpetuity Value = Dividend Tax * (1+Input A) / (Input B - Input A)								

Table D-3: Tentex Credit Analysis Original Data
Source: Ross & Company and Tentex's financial statements & tax returns

Net Income	Depreciation and Amortization	Funds From Operation (FFO) (1)	Capital Expenditure		Value	Source
\$2,702,907	\$97,748	\$2,800,655	\$60,205	Unlevered Beta	1.24	Median Unlevered Beta for Public Comps
Current Assets (Current)	Current Liabilities (Current)	Current Assets (1 Year Ago)	Current Liabilities (1 Year Ago)	BV D/E Ratio	0.08	Median D/E for Public Comps
\$4,796,894	\$2,356,194	\$4,702,062	\$3,420,633	Levered Beta	1.30	Unlevered Beta * (1 + (BV D/E Ratio) * (1 - Tax Rate 40%))
Cash and Cash Equivalents (Current)	Short-term Debt (Current)	Cash and Cash Equivalents (1 Year Ago)	Short-term Debt (1 Year Ago)			
\$215,941	\$18,703	\$688,969	\$18,703			
Free Operating Cash Flow (2)	(1) FFO = Net Income + Depreciation and Amortization					
\$1,108,151	(2) Free Operating Cash Flow = FFO - capital expenditures - (+) increase (decrease) in working capital (excluding changes in cash, marketable securities, and short-term debt)					

Revenue	
\$20,283,197	

Scenario	Free Operating Cash Flow / Revenue (X1)	Unlevered Beta (X2)	Unlevered Beta * BV D/E (X3)	Revenue (X4)	Industrial
Security Credit Assessment	0.0546	1.24	0.10	\$20,283,197	9.7399

Table D-4: Tentex Credit Rating Analysis Coefficients
Source: Ross & Company

Ross & Company's Regression Model Coefficients	Free Operating Cash Flow / Revenue	Unlevered Beta	Unlevered Beta * BV D/E	Revenue	Industrial
Coefficient	-3.5490	2.5911	1.6733	-2.85E-11	9.7399

Table D-5: Tentex Credit Rating Analysis & Cost of Debt Calculation

Source: Ross & Company

Row	Industrial	X1 * -3.55	X2 * 2.5911	X3 * 1.6733	X4 * -3.05E-11
1	9.74	-0.19	3.21	0.17	0.00
Credit Scale (Sum of R1, R2 and R3)					13.00
Ross & Company Credit Rating					BB-
Risk-Free Rate (10YR Treasury)					1.65%
Corporate Yield Spread (10YR Maturity) in Basis Points					425
Yield Based on Ross & Company Credit Rating					5.90%

Table D-6: Yield Spreads

Source: BondsOnline

		Yield Spreads over like Maturity Treasuries: Basis Points								
Corporate Debt Rating as of	9/30/2012	Z Score	Segment: Industrials							30-year
			1-year	2-year	3-year	5-year	7-year	10-year		
Aaa/AAA		8.15	10	15	20	35	50	60	65	
Aa1/AA+		7.6	15	18	25	40	55	65	70	
Aa2/AA		7.3	20	20	30	45	70	70	75	
Aa3/AA-		7	25	25	35	50	80	75	80	
A1/A+		6.85	30	28	45	55	85	85	95	
A2/A		6.65	35	30	50	65	100	90	105	
A3/A-		6.4	45	70	85	115	145	115	135	
Baa1/BBB+		6.25	65	75	100	125	165	135	170	
Baa2/BBB		5.85	80	90	125	145	200	175	210	
Baa3/BBB-		5.65	135	125	170	210	260	225	235	
Ba1/BB+		5.25	250	275	325	350	375	300	325	
Ba2/BB		4.95	275	300	375	400	400	400	400	
Ba3/BB-		4.75	325	325	450	500	425	425	425	
B1/B+		4.5	350	400	525	550	500	500	450	
B2/B		4.15	425	475	600	625	600	525	475	
B3/B-		3.75	450	500	700	700	750	550	525	
Caa/CCC+		2.5	675	700	850	850	850	850	850	
Treasury			0.17	0.23	0.31	0.62	1.04	1.65	2.82	

Source: BondsOnline (<http://www.bondsonline.com>); FT Interactive Data

APPENDIX E: CERTIFICATION AND CONDITIONS

APPRAISAL CERTIFICATION

- Ross and Company CPA, PLLC hereby certify the following statements regarding this business valuation:
- We have not personally inspected the assets, properties, or business interests encompassed by this appraisal.
- We have no present or prospective future interest in the assets, properties, or business interests that are the subject of this business valuation.
- We have no personal interest or bias with respect to the subject matter of this report or the parties involved.
- Our compensation for making the appraisal is in no way contingent upon the value reported or upon any predetermined value.
- To the best of our knowledge and belief, the statements of facts contained in this report, upon which the analyses, conclusions, and opinions expressed herein are based, are true and correct
- Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice, as promulgated by The Appraisal Foundation, except where noted.
- Subject to certain limitations the reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of The Appraisal Institute, of the American Society of Appraisers, and of the other professional organizations, unless otherwise stated.
- We have performed a historical analysis of the business's financial statements. We assume that the financial and related information supplied by the firm's representative reflects the normal operation of the business. To the extent this is not an accurate representation, the analysis and conclusions drawn are not valid and shall not be represented in any context that implicitly or explicitly suggests that Ross and Company CPA, PLLC and its representatives believe the business valuation to be accurate.

STATEMENT OF CONTINGENT AND LIMITING CONDITIONS

This appraisal is made subject to these general contingent and limiting conditions:

- We assume no responsibility for the legal description or matters including legal or title considerations. Title to the subject assets, properties, or business interests is assumed to be good and marketable unless otherwise stated.
- The subject assets, properties, or business interests are appraised free and clear of any or all liens or encumbrances unless otherwise stated.
- We assume responsible ownership and competent management with respect to the subject assets, properties, or business interests
- The information furnished by others is believed to be reliable. However, we issue no warranty or other form of assurance regarding its accuracy.
- We assume no hidden or unapparent conditions regarding its accuracy.
- We assume that there is full compliance with all applicable federal, state, and local regulations and laws unless the lack of compliance is stated, defined, and considered in the appraisal report.
- We assume that all required licenses, certificates of occupancy, consents, or legislative or administrative authority from any local, state, or national government, or private entity or organization have been or can be obtained or reviewed for any use on which the opinion contained in this report is based.
- Unless otherwise stated in this report, we did not observe, and we have no knowledge of, the existence of hazardous materials with regard to the subject assets, properties, or business interests. However, we are not qualified to detect such substances. We assume no responsibility for such conditions or for any expertise required to discover them.
- Possession of this report does not carry with it the right of publication. It may not be used for any purpose by any person other than the client whom it is addressed without our written consent and, in any event, only with proper written qualifications and only its entirety.
- We, by reason of this opinion, are not required to furnish a complete valuation report, or to give testimony, or to be in attendance in court with reference to the assets, properties, or business interests in question unless arrangements have been previously made.
- Neither all nor any part of the contents of this report shall be disseminated to the public through advertising, public relations, news, sales, or other media without our prior written consent and approval.
- The analyses, opinions, and conclusions presented in this report apply to this engagement only and may not be used out of context presented herein. This report is valid only for the effective date(s) specified herein and only for the purpose(s) specified herein.

APPENDIX F: IRS REVENUE RULING 59-60

Rev. Rul. 59-60

1959-1 C.B. 237, Sec. 1001

Caution: Amplified by Rev. Rul. 83-120

Caution: Amplified by Rev. Rul. 80-213

Caution: Amplified by Rev. Rul. 77-287

Caution: Modified by Rev. Rul. 65-193

IRS Headnote

In valuing the stock of closely held corporations, or the stock of corporations where market quotations are not available, all other available financial data, as well as all relevant factors affecting the fair market value must be considered for estate tax and gift tax purposes. No general formula may be given that is applicable to the many different valuation situations arising in the valuation of such stock. However, the general approach, methods, and factors which must be considered in valuing such securities are outlined.

Revenue Ruling 54-77, C.B. 1954-1, 187, superseded.

SECTION 1. PURPOSE.

The purpose of this Revenue Ruling is to outline and review in general the approach, methods and factors to be considered in valuing shares of the capital stock of closely held corporations for estate tax and gift tax purposes. The methods discussed herein will apply likewise to the valuation of corporate stocks on which market quotations are either unavailable or are of such scarcity that they do not reflect the fair market value.

SECTION 2. BACKGROUND AND DEFINITIONS.

.01 All valuations must be made in accordance with the applicable provisions of the Internal Revenue Code of 1954 and the Federal Estate Tax and Gift Tax Regulations. Sections 2031(a), 2032 and 2512(a) of the 1954 Code (sections 811 and 1005 of the 1939 Code) require that the property to be included in the gross estate, or made the subject of a gift, shall be taxed on the basis of the value of the property at the time of death of the decedent, the alternate date if so elected, or the date of gift.

.02 Section 20.2031-1(b) of the Estate Tax Regulations (section 81.10 of the Estate Tax Regulations 105) and section 25.2512-1 of the Gift Tax Regulations (section 86.19 of Gift Tax Regulations 108) define fair market value, in effect, as the price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts. Court decisions frequently state in addition that the hypothetical buyer and seller are assumed to be able, as well as willing, to trade and to be well informed about the property and concerning the market for such property.

.03 Closely held corporations are those corporations the shares of which are owned by a relatively limited number of stockholders. Often the entire stock issue is held by one family. The result of this situation is that little, if any, trading in the shares takes place. There is, therefore, no established market for the stock and such sales as occur at irregular intervals seldom reflect all of the elements of a representative transaction as defined by the term 'fair market value.'

SECTION 3. APPROACH TO VALUATION.

.01 A determination of fair market value, being a question of fact, will depend upon the circumstances in each case. No formula can be devised that will be generally applicable to the multitude of different valuation issues arising in estate and gift tax cases. Often, an appraiser will find wide differences of opinion as to the

fair market value of a particular stock. In resolving such differences, he should maintain a reasonable attitude in recognition of the fact that valuation is not an exact science. A sound valuation will be based upon all the-relevant facts, but the elements of common sense, informed judgment and reasonableness must enter into the process of weighing those facts and determining their aggregate significance.

.02 The fair market value of specific shares of stock will vary as general economic conditions change from `normal' to `boom' or `depression,' that is, according to the degree of optimism or pessimism with which the investing public regards the future at the required date of appraisal. Uncertainty as to the stability or continuity of the future income from a property decreases its value by increasing the risk of loss of earnings and value in the future. The value of shares of stock of a company with very uncertain future prospects is highly speculative. The appraiser must exercise his judgment as to the degree of risk attaching to the business of the corporation which issued the stock, but that judgment must be related to all of the other factors affecting value.

.03 Valuation of securities is, in essence, a prophesy as to the future and must be based on facts available at the required date of appraisal. As a generalization, the prices of stocks which are traded in volume in a free and active market by informed persons best reflect the consensus of the investing public as to what the future holds for the corporations and industries represented. When a stock is closely held, is traded infrequently, or is traded in an erratic market, some other measure of value must be used. In many instances, the next best measure may be found in the prices at which the stocks of companies engaged in the same or a similar line of business are selling in a free and open market.

SECTION. 4. FACTORS TO CONSIDER.

.01 It is advisable to emphasize that in the valuation of the stock of closely held corporations or the stock of corporations where market quotations are either lacking or too scarce to be recognized, all available financial data, as well as all relevant factors affecting the fair market value, should be considered. The following factors, although not all-inclusive are fundamental and require careful analysis in each case:

- (a) The nature of the business and the history of the enterprise from its inception.
- (b) The economic outlook in general and the condition and outlook of the specific industry in particular.
- (c) The book value of the stock and the financial condition of the business.
- (d) The earning capacity of the company.
- (e) The dividend-paying capacity.
- (f) Whether or not the enterprise has goodwill or other intangible value.
- (g) Sales of the stock and the size of the block of stock to be valued.
- (h) The market price of stocks of corporations engaged in the same or a similar line of business having their stocks actively traded in a free and open market, either on an exchange or over-the-counter.

.02 The following is a brief discussion of each of the foregoing factors:

- (a) The history of a corporate enterprise will show its past stability or instability, its growth or lack of growth, the diversity or lack of diversity of its operations, and other facts needed to form an opinion of the degree of risk involved in the business. For an enterprise which changed its form of organization but carried on the same or closely similar operations of its predecessor, the history of the former enterprise should be considered. The detail to be considered should increase with approach to the required date of appraisal, since recent events are of greatest help in predicting the future; but a study of gross and net income, and of dividends covering a long prior period, is highly

Business Valuation Report For Tentex Corp.

desirable. The history to be studied should include, but need not be limited to, the nature of the business, its products or services, its operating and investment assets, capital structure, plant facilities, sales records and management, all of which should be considered as of the date of the appraisal, with due regard for recent significant changes. Events of the past that are unlikely to recur in the future should be discounted, since value has a close relation to future expectancy.

- (b) A sound appraisal of a closely held stock must consider current and prospective economic conditions as of the date of appraisal, both in the national economy and in the industry or industries with which the corporation is allied. It is important to know that the company is more or less successful than its competitors in the same industry, or that it is maintaining a stable position with respect to competitors. Equal or even greater significance may attach to the ability of the industry with which the company is allied to compete with other industries. Prospective competition which has not been a factor in prior years should be given careful attention. For example, high profits due to the novelty of its product and the lack of competition often lead to increasing competition. The public's appraisal of the future prospects of competitive industries or of competitors within an industry may be indicated by price trends in the markets for commodities and for securities. The loss of the manager of a so-called 'one-man' business may have a depressing effect upon the value of the stock of such business, particularly if there is a lack of trained personnel capable of succeeding to the management of the enterprise. In valuing the stock of this type of business, therefore, the effect of the loss of the manager on the future expectancy of the business, and the absence of management-succession potentialities are pertinent factors to be taken into consideration. On the other hand, there may be factors which offset, in whole or in part, the loss of the manager's services. For instance, the nature of the business and of its assets may be such that they will not be impaired by the loss of the manager. Furthermore, the loss may be adequately covered by life insurance, or competent management might be employed on the basis of the consideration paid for the former manager's services. These, or other offsetting factors, if found to exist, should be carefully weighed against the loss of the manager's services in valuing the stock of the enterprise.
- (c) Balance sheets should be obtained, preferably in the form of comparative annual statements for two or more years immediately preceding the date of appraisal, together with a balance sheet at the end of the month preceding that date, if corporate accounting will permit. Any balance sheet descriptions that are not self-explanatory, and balance sheet items comprehending diverse assets or liabilities, should be clarified in essential detail by supporting supplemental schedules. These statements usually will disclose to the appraiser (1) liquid position (ratio of current assets to current liabilities); (2) gross and net book value of principal classes of fixed assets; (3) working capital; (4) long-term indebtedness; (5) capital structure; and (6) net worth. Consideration also should be given to any assets not essential to the operation of the business, such as investments in securities, real estate, etc. In general, such nonoperating assets will command a lower rate of return than do the operating assets, although in exceptional cases the reverse may be true. In computing the book value per share of stock, assets of the investment type should be revalued on the basis of their market price and the book value adjusted accordingly. Comparison of the company's balance sheets over several years may reveal, among other facts, such developments as the acquisition of additional production facilities or subsidiary companies, improvement in financial position, and details as to recapitalizations and other changes in the capital structure of the corporation. If the corporation has more than one class of stock outstanding, the charter or certificate of incorporation should be examined to ascertain the explicit rights and privileges of the various stock issues including: (1) voting powers, (2) preference as to dividends, and (3) preference as to assets in the event of liquidation.
- (d) Detailed profit-and-loss statements should be obtained and considered for a representative period immediately prior to the required date of appraisal, preferably five or more years. Such statements should show (1) gross income by principal items; (2) principal deductions from gross income including major prior items of operating expenses, interest and other expense on each item of long-term debt, depreciation and depletion if such deductions are made, officers' salaries, in total if they appear to be reasonable or in detail if they seem to be excessive, contributions (whether or not deductible for tax purposes) that the nature of its business and its community position require the corporation to make, and taxes by principal items, including income and excess profits taxes; (3)

Business Valuation Report For Tentex Corp.

- net income available for dividends; (4) rates and amounts of dividends paid on each class of stock; (5) remaining amount carried to surplus; and (6) adjustments to, and reconciliation with, surplus as stated on the balance sheet. With profit and loss statements of this character available, the appraiser should be able to separate recurrent from nonrecurrent items of income and expense, to distinguish between operating income and investment income, and to ascertain whether or not any line of business in which the company is engaged is operated consistently at a loss and might be abandoned with benefit to the company. The percentage of earnings retained for business expansion should be noted when dividend-paying capacity is considered. Potential future income is a major factor in many valuations of closely-held stocks, and all information concerning past income which will be helpful in predicting the future should be secured. Prior earnings records usually are the most reliable guide as to the future expectancy, but resort to arbitrary five-or-ten-year averages without regard to current trends or future prospects will not produce a realistic valuation. If, for instance, a record of progressively increasing or decreasing net income is found, then greater weight may be accorded the most recent years' profits in estimating earning power. It will be helpful, in judging risk and the extent to which a business is a marginal operator, to consider deductions from income and net income in terms of percentage of sales. Major categories of cost and expense to be so analyzed include the consumption of raw materials and supplies in the case of manufacturers, processors and fabricators; the cost of purchased merchandise in the case of merchants; utility services; insurance; taxes; depletion or depreciation; and interest.
- (e) Primary consideration should be given to the dividend-paying capacity of the company rather than to dividends actually paid in the past. Recognition must be given to the necessity of retaining a reasonable portion of profits in a company to meet competition. Dividend-paying capacity is a factor that must be considered in an appraisal, but dividends actually paid in the past may not have any relation to dividend-paying capacity. Specifically, the dividends paid by a closely held family company may be measured by the income needs of the stockholders or by their desire to avoid taxes on dividend receipts, instead of by the ability of the company to pay dividends. Where an actual or effective controlling interest in a corporation is to be valued, the dividend factor is not a material element, since the payment of such dividends is discretionary with the controlling stockholders. The individual or group in control can substitute salaries and bonuses for dividends, thus reducing net income and understating the dividend-paying capacity of the company. It follows, therefore, that dividends are less reliable criteria of fair market value than other applicable factors.
- (f) In the final analysis, goodwill is based upon earning capacity. The presence of goodwill and its value, therefore, rests upon the excess of net earnings over and above a fair return on the net tangible assets. While the element of goodwill may be based primarily on earnings, such factors as the prestige and renown of the business, the ownership of a trade or brand name, and a record of successful operation over a prolonged period in a particular locality, also may furnish support for the inclusion of intangible value. In some instances it may not be possible to make a separate appraisal of the tangible and intangible assets of the business. The enterprise has a value as an entity. Whatever intangible value there is, which is supportable by the facts, may be measured by the amount by which the appraised value of the tangible assets exceeds the net book value of such assets.
- (g) Sales of stock of a closely held corporation should be carefully investigated to determine whether they represent transactions at arm's length. Forced or distress sales do not ordinarily reflect fair market value nor do isolated sales in small amounts necessarily control as the measure of value. This is especially true in the valuation of a controlling interest in a corporation. Since, in the case of closely held stocks, no prevailing market prices are available, there is no basis for making an adjustment for blockage. It follows, therefore, that such stocks should be valued upon a consideration of all the evidence affecting the fair market value. The size of the block of stock itself is a relevant factor to be considered. Although it is true that a minority interest in an unlisted corporation's stock is more difficult to sell than a similar block of listed stock, it is equally true that control of a corporation, either actual or in effect, representing as it does an added element of value, may justify a higher value for a specific block of stock.
- (h) Section 2031(b) of the Code states, in effect, that in valuing unlisted securities the value of stock or securities of corporations engaged in the same or a similar line of business which are listed on an

exchange should be taken into consideration along with all other factors. An important consideration is that the corporations to be used for comparisons have capital stocks which are actively traded by the public. In accordance with section 2031(b) of the Code, stocks listed on an exchange are to be considered first. However, if sufficient comparable companies whose stocks are listed on an exchange cannot be found, other comparable companies which have stocks actively traded in on the over-the-counter market also may be used. The essential factor is that whether the stocks are sold on an exchange or over-the-counter there is evidence of an active, free public market for the stock as of the valuation date. In selecting corporations for comparative purposes, care should be taken to use only comparable companies. Although the only restrictive requirement as to comparable corporations specified in the statute is that their lines of business be the same or similar, yet it is obvious that consideration must be given to other relevant factors in order that the most valid comparison possible will be obtained. For illustration, a corporation having one or more issues of preferred stock, bonds or debentures in addition to its common stock should not be considered to be directly comparable to one having only common stock outstanding. In like manner, a company with a declining business and decreasing markets is not comparable to one with a record of current progress and market expansion.

SECTION. 5. WEIGHT TO BE ACCORDED VARIOUS FACTORS.

The valuation of closely held corporate stock entails the consideration of all relevant factors as stated in section 4. Depending upon the circumstances in each case, certain factors may carry more weight than others because of the nature of the company's business. To illustrate:

- (i) Earnings may be the most important criterion of value in some cases whereas asset value will receive primary consideration in others. In general, the appraiser will accord primary consideration to earnings when valuing stocks of companies which sell products or services to the public; conversely, in the investment or holding type of company, the appraiser may accord the greatest weight to the assets underlying the security to be valued.
- (j) The value of the stock of a closely held investment or real estate holding company, whether or not family owned, is closely related to the value of the assets underlying the stock. For companies of this type the appraiser should determine the fair market values of the assets of the company. Operating expenses of such a company and the cost of liquidating it, if any, merit consideration when appraising the relative values of the stock and the underlying assets. The market values of the underlying assets give due weight to potential earnings and dividends of the particular items of property underlying the stock, capitalized at rates deemed proper by the investing public at the date of appraisal. A current appraisal by the investing public should be superior to the retrospective opinion of an individual. For these reasons, adjusted net worth should be accorded greater weight in valuing the stock of a closely held investment or real estate holding company, whether or not family owned, than any of the other customary yardsticks of appraisal, such as earnings and dividend paying capacity.

SECTION. 6. CAPITALIZATION RATES.

In the application of certain fundamental valuation factors, such as earnings and dividends, it is necessary to capitalize the average or current results at some appropriate rate. A determination of the proper capitalization rate presents one of the most difficult problems in valuation. That there is no ready or simple solution will become apparent by a cursory check of the rates of return and dividend yields in terms of the selling prices of corporate shares listed on the major exchanges of the country. Wide variations will be found even for companies in the same industry. Moreover, the ratio will fluctuate from year to year depending upon economic conditions. Thus, no standard tables of capitalization rates applicable to closely held corporations can be formulated. Among the more important factors to be taken into consideration in deciding upon a capitalization rate in a particular case are: (1) the nature of the business; (2) the risk involved; and (3) the stability or irregularity of earnings.

SECTION. 7. AVERAGE OF FACTORS.

Because valuations cannot be made on the basis of a prescribed formula, there is no means whereby the various applicable factors in a particular case can be assigned mathematical weights in deriving the fair market value. For this reason, no useful purpose is served by taking an average of several factors (for example, book value, capitalized earnings and capitalized dividends) and basing the valuation on the result. Such a process excludes active consideration of other pertinent factors, and the end result cannot be supported by a realistic application of the significant facts in the case except by mere chance.

SECTION. 8. RESTRICTIVE AGREEMENTS.

Frequently, in the valuation of closely held stock for estate and gift tax purposes, it will be found that the stock is subject to an agreement restricting its sale or transfer. Where shares of stock were acquired by a decedent subject to an option reserved by the issuing corporation to repurchase at a certain price, the option price is usually accepted as the fair market value for estate tax purposes. See Rev. Rul. 54-76, C.B. 1954-1, 194. However, in such case the option price is not determinative of fair market value for gift tax purposes. Where the option, or buy and sell agreement, is the result of voluntary action by the stockholders and is binding during the life as well as at the death of the stockholders, such agreement may or may not, depending upon the circumstances of each case, fix the value for estate tax purposes. However, such agreement is a factor to be considered, with other relevant factors, in determining fair market value. Where the stockholder is free to dispose of his shares during life and the option is to become effective only upon his death, the fair market value is not limited to the option price. It is always necessary to consider the relationship of the parties, the relative number of shares held by the decedent, and other material facts, to determine whether the agreement represents a bona fide business arrangement or is a device to pass the decedent's shares to the natural objects of his bounty for less than an adequate and full consideration in money or money's worth. In this connection see Rev. Rul. 157 C.B. 1953-2, 255, and Rev. Rul.189, C.B. 1953-2, 294.

SECTION. 9. EFFECT ON OTHER DOCUMENTS.

Revenue Ruling 54-77, C.B. 1954-1, 187, is hereby superseded.