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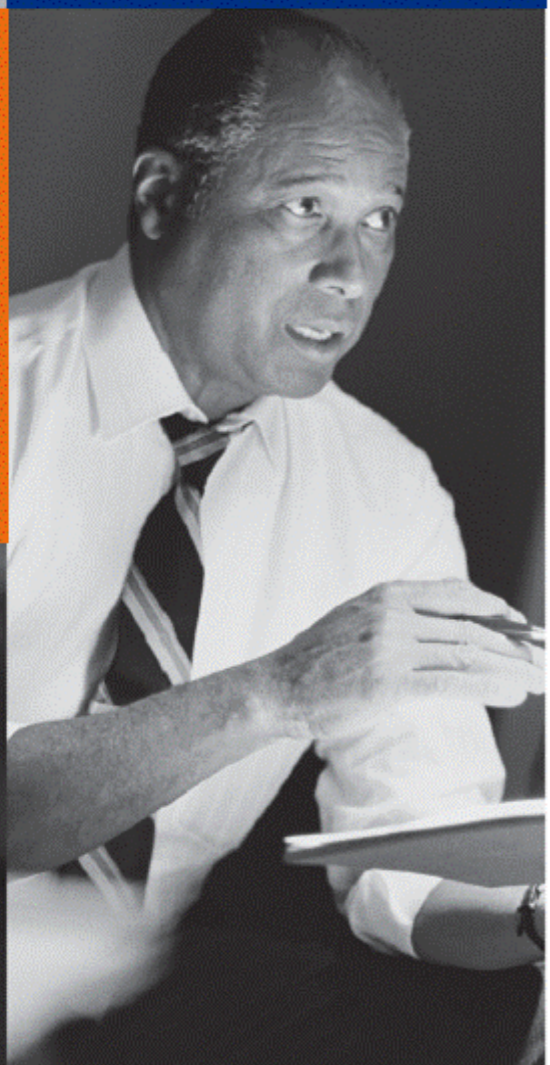
Calculation or Indication of Value

As of December 31st, 2012

XYZ Company, INC.



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ROCG

business exit & transition specialists

November 20th, 2013

Mr. John Smith & Mrs. Jane Smith
XYZ Company Inc.
1010 Shoreline West
Suite 2500
New York

Engagement

We have been engaged to provide consulting services regarding the valuation of 100% of the Common Stock of XYZ Company, Inc. as of December 31st, 2012.

On your instruction, we are to provide market value research using our expertise and transaction data bases to which we subscribe to provide a range of prices paid for similar businesses. This is not to be a complete and detailed study resulting in an opinion of value, but rather a range of values for your use in planning and negotiating the sale of your business to others. Additionally, we have been engaged to perform a Calculation of Value using the Capitalized Earnings method.

For the purpose of this calculation the definition of "fair market value" is:

> The price at which the property would change hands between a willing buyer and a willing seller, neither being under a compulsion to buy or sell and both having reasonable knowledge of relevant facts.

Although our engagement is intended to provide a value calculation, we assume no responsibility for a seller's or a buyer's inability to obtain a purchase contract in this range.

In performing this engagement, we have placed reliance on the accuracy and reliability of the financial statements and tax returns provided to us, as well as the information you provided to us as per our schedule of requested items and our questionnaire. Our engagement cannot be relied on to disclose errors, fraud, or other illegal acts that may exist.

We have performed a Calculation Engagement as defined in the Statement on Standards for Valuation Services (SVSS) of the American Institute of Certified Public Accountants for the purpose described above.

In a Calculation Engagement, the valuation analyst and the client agree on the specific valuation approaches and valuation methods the valuation analyst will use and the extent of valuation procedures the valuation analyst will perform to estimate the value of the subject interest. A Calculation Engagement does not include all of the procedures required in a Valuation Engagement as the term is defined in SVSS. Had a Valuation Engagement been performed, the results might have been different.

History

Smith Company, Inc. was incorporated under the_____on August 1, 1996. On October 22, 2007, its name was changed to XYZ Company, Inc. The Company provides consulting services and research in the fields of _____

_____
_____
_____
_____
_____
_____
_____
_____
_____

Adjustments to historical earnings

In performing this calculation of value we have considered the financial performance for the past five years. In order to normalize the operating performance and classify earnings to match earnings measures used in sale transaction databases, we have made certain adjustments to historical earnings. For purposes of this valuation we have assumed that the cost of compensation for the executive management team of the firm is $400,000 per year. Executive compensation in excess of $400,000 combined has been added back to earnings as a normalization adjustment.

We have eliminated discretionary individual pension plan contributions, life insurance premiums, personal auto leases and other travel expenses made on behalf of Mr. and Mrs. Smith. Additionally, we have adjusted professional fees to eliminate fees related to a large tax case which are unlikely to be incurred in the future. Historically, depreciation has been calculated and recorded in the accounts using accelerated methods. Management believes that the book value of the assets closely approximates their fair market value. Therefore no adjustment has been made. A schedule displaying the impact of these adjustments is included in Exhibit A.

The Company also holds a 1.25% interest in limited partnerships that is considered a non-operating asset. It is valued at equity ($75,000) and currently generates no investment income.

Indication of Market Value based on Transactions

We searched Bizcomps and Pratt's Stats databases for transactions using SIC code _____ (_____). We targeted transactions for companies with revenues between two and ten million dollars. We found no transactions in the Bizcomps database and 29 potential transactions in the initial run of Pratt's Stats. After reviewing business descriptions for similarities and the recorded data to be sure there were appropriate data points for the transactions, we selected a sample of ten transactions. Each of the businesses recorded sales between $2,000,000 and $10,000,000 and the reported information included MVIC/Revenue (all 10) and MVIC/EBITDA (6 of 10). The data on Exhibit A summarizes the transaction ranges.

In determining the multiplicands, we have considered the financial performance over the past five years. In this time frame sales have ranged from $3,735,825 to $6,440,002. Normalized earnings before taxes have ranged from $2,040,522 to $4,343,837. In calculating the value range using the range of multiples in Exhibit A, we assumed that the un-weighted 5 year average (2008 – 2012) results provide an appropriate multiplicand. Based on revenue multiples, the value of the equity (100% of stock) ranges from a low of $2,386,341 to a high of $13,102,557. Based on EBITDA multiples, the value of equity ranges from a low of $18,237,170 to a high of $45,449,849.

It is quite common to find a broad range when reviewing market transactions. Identifying an appropriate value range for XYZ Company, Inc. using the Market Method might require further analysis.

The market approach develops a value using the principle of substitution. This simply means that if one thing is similar to another and could be used (or in this case invested in) for the other, then they must be equal. Furthermore, the price of two like and similar items should approximate the value of one another. For the market approach to be used, there must be a sufficient number of comparable companies to make comparisons, or, alternatively, the industry composition must be such that meaningful comparisons can be made. With that being said, we did not find a meaningfully comparable company or data set. Therefore, we are using the Capitalized Earnings Method for the following Calculation of Value.

Calculation of Value based on Capitalized Earnings

The capitalization of earnings method calculates an indication of value based on historical earnings and the development of a capitalization rate that estimates the cost of capital risk of continuing the related cash flow stream. The cost of capital includes the cost of equity and interest bearing debt. Tabulations of the calculated ongoing earnings stream and the weighted average cost of capital (WACC) are included in Exhibit B.

As described in the previous section of this report, sustainable base earnings were calculated using the average of the past five years.

The cost of equity was estimated at 21.6% composed of a risk free rate of 2.41% based on U.S. 20-Year Treasury Notes, systematic equity risk premiums including small stock of 15.46%, and specific company risk of 3.73%.

Specific company risk is attributed to the difference in using systematic risk as determined using Morningstar/Ibbotson data and the size based risk using Duff & Phelps data. It is assumed that there are no quantifiable specific company risks outside of the risks attributed to this additional size premium.

Cost of debt was estimated at 6.0% and was modeled at 7% of the capital structure. Leverage was assumed at 75% of the accounts receivable. Accounts receivable were calculated based on sixty days sales outstanding, which is $1,074,000. Fixed assets were estimated at 40% of cost and debt capacity on that amount was assumed to be 75%. This amounted to $900,000 of debt, (7%) in the capital structure. Weighting the cost of equity at 93% and the after tax cost of debt at 7% yields a cost of capital of 20.39%

The next step in the process is to determine the rate at which the earnings will grow, which we have assumed to be 3%.

Capitalizing after tax earnings of $2,163,800 at a rate of 17.39% (with 3% assumed growth) is $12,916,460 for the capital structure, and after adding back $75,000 of non-operating, the equity value is $12,991,000.

Based on the foregoing data, the calculated operating value of XYZ Company, Inc. is approximately $13,000,000.

Summary

Based on the foregoing, the calculation of value of the Common Stock of XYZ Company, Inc. is in the $13,000,000 range as of December 31st, 2014.

We will be pleased to answer any questions you have regarding the contents of this report.

CPA/ABV, CM&AA

ROCG Americas, LLC

SOURCES OF INFORMATION

1. Financial Statements and Tax Returns for years ended December 31, 2008 – 2012
2. Financial and other documentation supplied by management
3. Interviews with management
4. *Stocks, Bonds, Bills and Inflation*, Valuation Edition, Ibbotsons & Associates
5. Industry data from Risk Management Associates
6. *Business Valuation Book of Knowledge*, Second Edition, by Shannon Pratt, Wiley Publications
7. *Statements on Standards for Valuation Services*, AICPA Consulting Services Executive Committee
8. Transaction Databases; Bizcomps, Pratt's Stats
9. Cost of Equity Calculator, Duff & Phelps 2012.

REPRESENTATION OF THE VALUATION ANALYST

The analyses and calculation of value included in the valuation report are subject to the specified assumptions and limiting conditions included herein.

The valuation engagement was performed in accordance with the American Institute of Certified Public Accountants Statement on Standards for Valuation Services.

Use of the valuation report is restricted to the owners of XYZ Company, Inc. and their advisors. The valuation report is not intended to be and should not be used by anyone other than such parties.

Our compensation is fee-based and is not contingent on the outcome of the valuation.

CPA/ABV, CM&AA

ROCG Americas, LLC

ASSUMPTIONS AND LIMITING CONDITIONS

This report has considered all the information referenced in it, whether specifically mentioned in the report or not. The various estimates and conclusions presented apply to this report only, and may not be used out of the context presented herein.

Possession of the original or copies of this report do not carry with it the right of publication of all or part of it. We prepared this report for the exclusive use of the client. It may not be used without the previous written consent of_____, or the client, and in any event, only with proper attribution. No copies of this report will be furnished to persons other than the client without the client's specific permission or direction unless ordered by a court of competent jurisdiction.

ROCG,_____, or its officers, and its staff have no present business interest in the company. No benefits will accrue to ROCG, and_____, as a result of this appraisal, other than the professional fees billed to the client. Fees paid to ROCG for the preparation of this calculation report are not dependent or contingent upon the occurrence of any transaction or upon the results of the appraisal.

ROCG, and_____, did not perform an audit, review, or compilation of the financial statements of XYZ Company, Inc. Therefore, we do not express an opinion or any other form of assurance on them. Accordingly, our work was not conducted in accordance with generally accepted auditing standards.

ROCG, and_____, did not prepare any of the federal income tax returns or financial statements used in the preparation of this report. We assumed that all tax return copies and financial statements given to us were true, correct, and complete copies.

This calculation report is valid only for the purposes stipulated and only for the valuation date specified. This appraisal was based on a specific period of time. Data for this period of time has been collected from several sources. The particular market environment may not be exhibited again in the future. We assume no responsibility for errors in data available from external sources.

Information, estimates, and other figures in the valuation report are generated based on sources considered to be reliable. However, we assume no liability for the accuracy of data provided by such sources.

We have not tried to confirm whether or not all of the assets of the business are free and clear of liens or encumbrances.

We have relied on the accuracy of the records furnished to us. These documents carry only the assurance and assertions of the individuals who furnished them.

We are not a guarantor of the value estimated. Estimating value is an imprecise undertaking and competent professionals can and usually do differ about the assumptions made and the inferences of value based on such assumptions.

We have assumed that XYZ Company, Inc. has no commitments or contingent liabilities, including those arising from litigation, claims, and assessments that have not been otherwise disclosed to us.

We have no obligation to update the report or the opinion of value for information that comes to our attention after the date of this report.

XYZ Company Inc.

Calculation of Value

Earnings Base and Market Transactions

	2012	2011	2010	2009	2008	Un-weighted Average
Calculation of Earnings Base						
Unadjusted data from financial statements						
Net revenues	6,440,002	5,006,267	6,211,751	4,871,390	3,735,825	**5,253,047**
Net Income Before Taxes	1,138,139	1,660,270	1,984,358	1,271,184	1,598,668	
Adjustments						
To normalize Jacob Roiz's compensation	1,547,000	605,000	600,000	350,000	500,000	
To normalize Rima and Elan Roiz's compensation	1,508,000	467,000	454,000	296,000	282,000	
To eliminate and normalize pension contributions	72,325	70,866	72,800	65,400	60,800	
To normalize and eliminate premium on Officer life policy	8,938	8,938	8,938	8,938	8,938	
To normalize travel	25,000	25,000	25,000	25,000	25,000	
To normalize for impact of large tax litigation case on professional fees	20,435	(41,788)	250,000	0	0	
To eliminate personal auto expenses	24,000	24,000	24,000	24,000	24,000	
Adjusted net income before Taxes	4,343,837	2,819,286	3,419,096	2,040,522	2,499,406	**3,024,429**
Calculation of adjusted EBITDA						
Add Amortization	1,162	1,136	1,136	1,136	1,136	
Add Interest Expense	0	0	0	0	0	
Add Depreciation	40,780	54,241	21,947	20,717	22,484	
	4,385,779	**2,874,663**	**3,442,179**	**2,062,375**	**2,523,026**	**3,057,604**
Weight to year	1	1	1	1	1	

Transaction Value Ranges:	Low	High	Median
Market Value of Invested Capital (MVIC)]			
Based on Weighted Average Revenues	**$ 5,253,047**	**$ 5,253,047**	**$ 5,253,047**
Multiple	0.44	2.48	1.04
Invested capital	2,311,341	13,027,557	5,463,169
Less interest bearing debt	-	-	-
Add non-operating assets	75,000	75,000	75,000
Market Value of Equity	**$ 2,386,341**	**$ 13,102,557**	**$ 5,538,169**
Based on Weighted Average EBITDA	**$ 3,057,604**	**$ 3,057,604**	**$ 3,057,604**
Multiple	5.94	14.84	10.82
Invested capital	18,162,170	45,374,849	33,083,280
Less interest bearing debt	-	-	-
Add non-operating assets	75,000	75,000	75,000
Market Value of Equity	**$ 18,237,170**	**$ 45,449,849**	**$ 33,158,280**

XYZ Company Inc.

Calculation of Value

Calculation of Value - Capitalized Earnings Method

	2012	2011	2010	2009	2008	Un-weighted Average
Calculation of Earnings Base						
Unadjusted data from financial statements						
Net revenues	6,440,002	5,006,267	6,211,751	4,871,390	3,735,825	5,253,047
Net Income Before Taxes	1,138,139	1,660,270	1,984,358	1,271,184	1,598,668	
Adjustments						
To normalize Jacob Roiz's compensation	1,547,000	605,000	600,000	350,000	500,000	
To normalize Rima and Elan Roiz's compensation	1,508,000	467,000	454,000	296,000	282,000	
To eliminate and normalize pension contributions	72,325	70,866	72,800	65,400	60,800	
To normalize and eliminate premium on Officer life policy	8,938	8,938	8,938	8,938	8,938	
To eliminate personal expenses included in travel	25,000	25,000	25,000	25,000	25,000	
To normalize for impact of large tax litigation case on professional fees	20,435	(41,788)	250,000	0	0	
To eliminate personal auto expenses	24,000	24,000	24,000	24,000	24,000	
Adjusted net income before Taxes	4,343,837	2,819,286	3,419,096	2,040,522	2,499,406	**3,024,429**
Calculation of adjusted EBITDA						
Add Amortization	1,162	1,136	1,136	1,136	1,136	
Add Interest Expense	0	0	0	0	0	
Add Depreciation	40,780	54,241	21,947	20,717	22,484	
	4,385,779	**2,874,663**	**3,442,179**	**2,062,375**	**2,523,026**	**3,057,604**
Weight to year	**1**	**1**	**1**	**1**	**1**	
Ongoing Earning Power				**3,024,429**		
Less Federal Taxes				836,625		
Calculated Ongoing Invested Capital After Tax Earnings				2,187,804.40		
SELECTED ONGOING INVESTED CAPITAL AFTER TAX EARNINGS				**2,163,800**		
Capitalization Rate						
Weight of debt			7.0%			
Cost of debt						
Long-Term Interest Rate		6.0%				
Tax Rate		28.0%				
One Minus Tax Rate		72.0%				
Total Cost of Debt			4.320%			
Weighted Cost of Debt				**0.30%**		
Weight of Equity			93.0%			
Risk-Free Rate of Return			2.41%			
Equity Risk Premium			6.70%			
Small Stock Risk Premium			8.76%			
Company Specific Premium			3.73%			
Net Cash Flow/ Earnings Discount Rate			21.6%			
Weghted Cost of Equity				**20.09%**		
WEIGHTED AVERAGE COST OF CAPITAL				**20.39%**		