FOXBORO CONSULTING GROUP, INC.

BUSINESS VALUATION - A TOOL TO ASSESS BUSINESS OWNERSHIP TRANSITION OPTIONS

Business owners will find themselves evaluating various ownership transfer options for their companies, especially as they near those golden years. Wise owners have planned for the transition of their businesses from the first day they stated their businesses.

Appropriate planning, well in advance of any contemplated transaction, will enable business owners to maximize overall company performance, as well as the rate of return on their investment. However, in reality, most business owners exit their businesses with less than six months of advanced planning. In addition, children of business owners are less likely to take over the family business, and they are facing little pressure from their parents to do so. Approximately one third (1/3) of family businesses are successfully transferred to the next generation, and a mere 13 percent are passed on to the third generation. Typical ownership transfer options usually take the following forms:

1.) Outright sale of the company to a third party;

2.) Sale of the company to key management via a leveraged buy-out;

3.) Buy/Sell of equity ownership interests between partners, shareholders, and member's ownership interests (partnership units, common stock/shares, member units),

4.) Transfer of minority ownership interests in company stock to family members utilizing estate tax planning strategies and mechanisms such as grantor retained annuity trusts (GRATs), family limited partnerships (FLPs), etc.;

5.) Sale of a minority ownership interest in the company to an equity investor;

6.) Issuance of stock appreciation rights (SARs), phantom stock, or stock options to key management members utilizing qualified and non-qualified stock options;

7.) Transfer of business to charitable trust, while benefiting from charitable giving, including charitable remainder trust (CRT), charitable lead trust (CLT), charitable lead annuity trust (CLAT), or charitable lead unitrust interest (CLUT), etc.; and

8.) Transfer of ownership interests in the company by means of an employee stock ownership plan (ESOP).

THE NEED FOR BUSINESS VALUATION TO ANALYZE THE OWNERSHIP TRANSFER OPTIONS

TRANSFER OF BUSINESS OWNERSHIP

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BUSINESS OWNERSHIP TRANSFER OPTIONS

EMPLOYEES	CHARITABLE TRUSTS	FAMILY MEMBERS	CO-OWNERS	OUTSIDE (Retire)	OUTSIDE (Continue)	PUBLIC
ESOPS	CRTs	Gifts	Buy/Sell	Negotiated One step Private Auction	Consolidate	IPO
Mgt. Buy-Outs	CRATs	GRATs	Dutch Auction	Two-step Public Auction	Roll-ups	Reverse Merger
Mgt. Buy-In	CRUTs	FLPs	Right of First Refusal		Recaps	Going Public
Stock Options	CLTs	Annuities			Buy and Build	
Phantom Stock	CLATs					
SARs	CLUTs					

Depending on the motivations for transferring control or minority ownership of the business, the valuation of the business will yield a range of valuation results. For example, the transfer of a minority interest in the business to employees via an employee stock ownership plan (ESOP), or gifting stock to family members for estate planning purposes through a grantor retained annuity trust (GRAT) or family limited partnership (FLP), or issuing stock options or stock appreciation rights (SARs) to incentivize key management members will usually be determined at "fair market value". Internal Revenue Service (IRS) Regulations define 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".

Business owners motivated to sell to the Company's management team or other outside interested parties will need to determine the Company's "investment value", or the value to a specific investor, which is defined as:

> Investment value is the value of an asset or business to a specific owner or prospective owner. Accordingly, this type of value considers the owner's or prospective owner's knowledge, abilities, expectations of risk and earning potential, revenue and cost synergies, and other factors.

An example of investment value is when a transaction provides unique motivators or synergies to a particular buyer that is unavailable to the typical buyer. In this situation, the transaction usually includes a synergistic or acquisition premium that reflects additional value to a particular buyer.

In the sale of the company or any ownership buy-out transaction, a business valuation is crucial information that will provide the business owner with the most leverage during the sale or any ownership transfer negotiation process.

FOXBORO CONSULTING GROUP's ENTERPRISE VALUATION REVIEW ("EVR") – AN ANALYTICAL VALUATION TOOL

Foxboro Consulting Group has developed the business Enterprise Valuation Review (EVR) to assist a business owner determine the value of their Company under various circumstances based on the business owner's transfer motivations and liquidity goals.

Through the utilization of the EVR, a business owner's motivation and purpose for transferring part or all of the business ownership interest is valued. A wide variety of transfer motives often leads to a correspondingly broad range of potential values for a business.

As part of our methodology, we utilize the income approach, market approach, asset approaches to business valuation. These valuation approaches are described as follows:

Income Approach

The income approach, as applied using the discounted cash flow ("DCF") method, measures the value of an asset by the present value of its future economic benefits. These benefits can include earnings, cost savings, tax deductions and proceeds from its disposition. When applied to equity interests in businesses, value indications are developed by discounting expected cash flows to their present value at a rate of return that incorporates the risk-free rate for the use of funds, the expected rate of inflation and risks associated with the particular investment. The discount rate selected is generally based on rates of return available from alternative investments of similar type and quality as of the date of value.

Market Approach

The market approach measures the value of an asset through the analysis of recent sales or offerings of comparable property. When applied to the valuation of equity interests, consideration is given to the financial conditions and operating performance of the company being valued relative to those of publicly traded companies operating in the same or similar lines of business, potentially subject to corresponding economic, environmental and political factors and considered to be reasonable investment alternatives. Income statement measures often used to develop pricing measures from guideline companies include the following:

- Earnings before interest and taxes;
- Net cash flow;
- Net income after taxes;
- Gross cash flow;
- Gross cash flows before taxes; and,
- Dividends or dividend-paying capacity.

Cost Approach

The cost approach recognizes that the value of an asset may be represented by the cost to reconstruct or replace it with another of like utility. To the extent that the utility of the asset appraised is less than that of a new asset, the cost of a new asset may be adjusted to reflect appropriate physical depreciation and functional and economic obsolescence.

<u>Premise of Value</u>

This value indication is appropriate using the premise of value in continued use, as a going concern basis. The reason for this is the public market prices or values stocks on the assumption that they will continue as a going concern.

Foxboro Consulting Group's Enterprise Valuation Review Complies with IRS Revenue Ruling 59-60

A business valuation should be prepared meeting the requirements of IRS Revenue Ruling 59-60, as one of these ownership transfer options will entail an income tax related event. Foxboro Consulting Group's EVR will meet the requirements of Internal Revenue Service (IRS) Revenue Ruling 59-60. The valuation of a company requires an investigation of essential factors affecting fair market value. This investigation will include consideration for the following:

- The nature of the business, the history of the enterprise and its growth opportunities;
- The outlook for the general economy and for the industrial fastener industry;
- The book value of the securities and the financial condition of the business;
- The historical earnings trend, earnings potential and dividend-paying capacity;
- The financial history of the Company as reflected in the financial statements for the past five years;
- The security market history of companies in the same or similar industries, with particular attention given to the ratio of price to sales, equity and earnings;
- The risk involved in the investment, as related to earnings stability, capital structure, competition and market potential;
- The marketability of the securities; and,
- The control characteristics of the current shareholder.

Enterprise Valuation Review Report

In conducting the EVR we would deliver a Complete Appraisal/ Summary Appraisal Report work product and written presentation, which would include a deliverable described as follows:

Discussions with Company management about history, other valuation issues and expectations about the future,

Consideration of many, but likely use of, and presentation of the actual mechanical calculations, under two (2) or three (3) approaches to estimate fair value:

Income Approach - Capitalization of Cash Flows Method
Income Approach - Discounted Cash Flow
Market Approach - M & A Transactions Method/Direct Market Data Method, and/or
Market Approach – Guideline Public Company Method, and
Cost/Asset Approach.

Description of the purpose of the valuation procedures, and Standard of Value utilized,

Identity the subject shareholder’s equity ownership interest,

The business interest's ownership control characteristics, degree of marketability,

Effective valuation date,

Report Date,

Type of report issued (USPAP – “Complete Appraisal/Summary Appraisal Report”)

Assumptions & Limiting Conditions,

Hypothetical conditions (if any) used in the report will be described. This includes our querying for, and determining "normalization adjustments,”

Appraiser Certifications,

If specialist used (probably will not have any) description of how specialist's work was used, etc.

We would meet with you to discuss our findings and conclusions.

The report would include the following elements:

- A letter identifying the fair value of the stockholders’ equity of the Company briefly, as well as the value of the company, and describing the nature and extent of the investigation, and presenting the conclusion(s) reached, a summary of the purpose and scope of the valuation-consulting service, a description of the Company, and the conclusion(s) reached, and

- Supporting exhibits.

We would be very interested in meeting with you to discuss the particular facts and circumstances of your situation.

We listen, work with, and counsel our clients throughout the process. Our reports document our observations and analysis of your company's financial performance, its management and ownership structure, its competitive advantages and the industry and economic outlook it faces. We adhere to the Uniform Standards of Professional Appraisal Practice (USPAP) as promulgated by The Appraisal Foundation. Finally, we work diligently with you to ensure that we understand all pertinent facts and circumstances before we arrive at our conclusion of value.

Our valuation reports and analyses have stood up to the highest scrutiny of courts, IRS, other government agencies, and fiduciaries. In short, when you work with us, you're in good hands.

For an Enterprise Valuation Review consultation, please call Ronald Adams, CPA, CVA, ABV, CBA, CFF, CGMA, Managing Director – Valuations, Foxboro Consulting Group, Inc. at (774) 719-2236; or on my cell at: (508) 878-8390; or by e-mail at: adams.r@foxboro-consulting.com. On the web at: www.foxboro-consulting.com