

# Sample Feasibility Study

Prepared by National ESOP Partners

June 2014



# Table of Contents

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Introducing National ESOP Partners	2
Introducing ESOPs	14
ESOP Planning for ServiceCo	28

# Introducing National ESOP Partners

- National ESOP Partners (“NEP”) is a leading consulting firm that provides corporate finance to middle market companies across the U.S. from our offices in New York, Naperville, Memphis, and Riverside.
- NEP specializes in devising succession strategies and creating liquidity for shareholders through the use of Employee Stock Ownership Plans (“ESOPs”).
- Our professionals apply their extensive expertise in ESOP consulting, investment banking, legal, and accounting to devise corporate strategies and financial solutions and to achieve superior outcomes for our clients.
- National ESOP Partners provides the following services:
  - Conducts feasibility studies
  - Devises transaction structures
  - Prepares offering memorandums
  - Secures appropriate financing
  - Negotiates transaction terms
  - Manages implementation processes
  - Leads employee communication
  - Provides “mature” ESOP consulting
- Our members have implemented Employee Stock Ownership Plans in over 50 cities located in 25 states.



New York, NY



Naperville, IL



Memphis, TN



Riverside, CA

National ESOP Partners is a full-service ESOP consulting firm.

# Our Team



**Kelly Finnell, J.D., CLU, AIF**  
**Managing Director**  
**Southern Territory**

KFinnell@nationalESOPpartners.com  
 (901) 259-7979

**Background and Experience**

- Published 12 ESOP articles and authored book entitled *The ESOP Coach: Using ESOPs in Ownership Succession Planning*
- Presented at over 300 ESOP-related speaking engagements
- Implemented first ESOP in 1984
  - 30 years of experience
  - Hundreds of ESOP clients

**Member**

- Business Enterprise Institute
- The ESOP Association
- National Center for Employee Ownership

**Education**

- B.A., University of Memphis, *Magna Cum Laude*
- J.D., University of Memphis Cecil C. Humphreys School of Law

**Community and Professional Involvement**

- Former President, Memphis FPA
- Former Church Board Member and Treasurer
- Former Director, Economic Club of Memphis
- Former Member, Christian Brothers University Dean's Advisory Council
- Director, Renasant Bank of Tennessee



**Maria Pencheva**  
**Managing Director**  
**Northeastern Territory**

MPencheva@nationalESOPpartners.com  
 (718) 619-8501

**Background and Experience**

- Co-owns an advisory firm that provides corporate finance solutions to small- and mid-cap companies nationwide
- Advises clients on ESOP transactions, leveraged buyouts, refinancings, and recapitalisations
- Utilizes a wide network of financial professionals developed while working at Barclays Capital to raise financing
- Evaluated, structured, and led the execution process on 20 successfully completed transactions throughout the lifecycle of an ESOP company

**Member**

- The ESOP Association
- ESOP Emerging Leaders Group
- National Center for Employee Ownership

**Education**

- B.A., Mount Holyoke College, *Magna Cum Laude*

**Licenses**

- Series 7, 63, and 79 FINRA licenses

**Community and Professional Involvement**

- Board of Directors, Mount Holyoke Club of New York City



**Cally Johnson**  
**Managing Director**  
**Midwestern Territory**

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 (718) 619-8502

**Background and Experience**

- Co-owns and manages a financial advisory firm specializing in ESOPs, mergers and acquisitions, and capital advisory
- Uses cross-disciplinary accounting and finance background to address the goals of shareholders and management team members of privately-held companies
- Designs and implements ownership transition strategies for businesses nationwide

**Member**

- The ESOP Association
- ESOP Emerging Leaders Group
- National Center for Employee Ownership
- National Society of Accountants

**Education**

- B.A., Boston University, *Summa Cum Laude*

**Licenses**

- Successfully passed all four parts of the Uniform CPA Examination



**Marcus R. Piquet, CPA**  
**Managing Director**  
**Western Territory**

MPiquet@nationalESOPpartners.com  
 (951) 779-1124

**Background and Experience**

- Owns and manages an ESOP third-party administration ("TPA") firm with nationwide clientele and serves as a tax partner at a full-service CPA firm
- Contributes to various ESOP-specific technical publications as an expert on GAAP ESOP accounting and ESOP-related tax issues
- Presented at dozens of speaking engagements at regional and national ESOP conferences

**Member**

- The ESOP Association
  - Finance Committee
  - Interdisciplinary Committee on Fiduciary Issues

- Employee-Owned S Corporations of America
- National Center for Employee Ownership
- American Society of Pension Professionals & Actuaries ("ASPPA")
  - ESOP Curriculum Working Group

**Education**

- B.A., Brigham Young University

**Community and Professional Involvement**

- Board Chair, United Way of the Inland Valleys
- Varsity Coach, Boy Scouts of America

## Our Team (continued)

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**Andrew Holmes**  
**Legal Counsel**  
**Southern Territory**

AHolmes@nationalESOPpartners.com  
(901) 259-7900

### **Background and Experience**

- Completed ESOP transactions involving common stock and preferred stock, and ranging in size from \$6 to \$30 million
- Acts in the capacity of Legal Counsel at a consulting firm specializing in ESOPs
- Evaluates potential candidates and designs various transaction structures
- Negotiates with ESOP trustees and ESOP lenders on behalf of companies and selling shareholders
- Drafts ESOP documents and management incentive plan documents
- Conducts monthly webinars as part of ongoing ESOP webinar series
- Assists clients in preparing employee communication materials

### **Member**

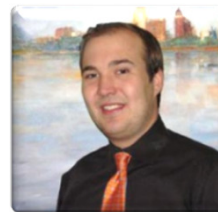
- Tennessee Bar Association (admitted 2010)
- Memphis Bar Association (admitted 2009)

### **Education**

- B.S., Accounting, University of Tennessee
- J.D., Mississippi College School of Law
- LL.M., Washington University in St. Louis

### **Community and Professional Involvement**

- Moot Court Board
- Order of Barristers



**Benjamin Schultz**  
**Financial Analyst**  
**Southern Territory**

BSchultz@nationalESOPpartners.com  
(901) 259-7981

### **Background and Experience**

- Acts in the capacity of a Financial Analyst at a consulting firm specializing in ESOPs
- Reviews company financial information to calculate valuation metrics
- Conducts preliminary determinations of company value for ESOP transaction purposes
- Prepares amortization schedules for ESOP debt and financial models for company debt service
- Prepares semi-annual investment reviews on the performance of Plan assets
- Quantifies a mature ESOP company's future repurchase obligation liability

### **Education**

- B.S., Business Administration, Christian Brothers University
- Completed Certified Financial Planner (CFP®) Course Work, Kaplan University

### **Community and Professional Involvement**

- Advisor for Phoenix Club of Memphis

# Selected Transactions

National ESOP Partners' members have over 70 years of combined ESOP transaction experience successfully closing over 50 transactions.



**Second-Stage Sale to an ESOT**  
December 2013  
Company Advisor



**Sale of a Minority Interest to an ESOT**  
October 2013  
Company Advisor



**Sale of a Majority Interest to an ESOT**  
December 2012  
Company Advisor



**Sale of a Minority Interest to an ESOT**  
December 2012  
Company Advisor



**Sale of a Minority Interest to an ESOT**  
December 2012  
Company Advisor



**Second-Stage Sale to an ESOT**  
December 2012  
Company Advisor



**Sale of a Majority Interest to an ESOT**  
December 2012  
Company Advisor



**Sale of a Majority Interest to an ESOT**  
January 2012  
Company Advisor



**Sale of a Minority Interest to an ESOT**  
January 2010  
Company Advisor

# Selected Transactions (cont'd)



Midlands Carrier Transcold

**Sale of a Minority Interest to an ESOT**  
 January 2010  
 Company Advisor



Security Seed & Chemical  
 Freedom to Prosper, the Confidence to Grow!

**Sale of a Majority Interest to an ESOT**  
 January 2010  
 Company Advisor



**Sale of a Minority Interest to an ESOT**  
 January 2010  
 Company Advisor



**Sale of a Minority Interest to an ESOT**  
 November 2009  
 Company Advisor



Michael Hatcher  
 & Associates

**Sale of a Minority Interest to an ESOT**  
 January 2009  
 Company Advisor



**Sale of a Minority Interest to an ESOT**  
 January 2009  
 Company Advisor



Barksdale Bonding and Insurance, Inc.

**Sale of a Majority Interest to an ESOT**  
 January 2009  
 Company Advisor



**Sale of a Minority Interest to an ESOT**  
 April 2007  
 Company Advisor



**Sale of a Majority Interest to an ESOT**  
 January 2007  
 Company Advisor

## Our Observations

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### Tax Efficiency

There are unique provisions in the tax code that are solely applicable to ESOPs. These provisions can result in higher after-tax proceeds in sales to an ESOP in comparison to an M&A transaction.

### Liquidity and Diversification

ESOPs allow for partial liquidity events, which enable selling shareholders to diversify their holdings while participating in future value increases of the company.

### Control

In contrast to a strategic sale, shareholders can maintain operating control of the company post-ESOP implementation. As a result, ESOPs are a very popular liquidity option for privately-held companies.

### Estate Planning

An ESOP creates an opportunity to reduce estate taxes as the equity value is temporarily decreased immediately post-transaction.

### Legacy

ESOPs provide business and employee continuity. Through selling to an ESOP, companies can maintain independence, ultimately perpetuating company legacies and protecting employee jobs.



# Our Role

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## Expertise and Execution

As there are many intricacies involved in implementing an ESOP, using an experienced financial advisor is fundamental. NEP has developed expertise to run a seamless transaction process and negotiate terms that comply with ERISA regulations while providing market-based returns to transaction participants.

## Analysis and Structuring

In order to determine whether an ESOP is the best strategy to address a business owner's succession planning goals, National ESOP Partners performs a comprehensive feasibility analysis that addresses the following topics:

- Equity valuation range;
- Debt service capacity and indicative financing terms in the current market conditions;
- Alternative ESOP structures;
- Management incentive plans; and
- Sensitivity analysis illustrating pro forma performance under different operating scenarios.

## Project Management

Once a company decides to implement an ESOP, National ESOP Partners serves as Project Manager.

In this capacity, we:

- Interview potential transaction parties to help our client select ESOP professionals and negotiate terms of engagement;
- Prepare a Confidential Information Memorandum that provides information regarding the company and outlines the indicative transaction structure;
- Create an implementation timeline that outlines the responsibilities of all ESOP professionals;
- Establish an online data room and coordinate and chair regularly scheduled conference calls;
- Provide the company with regular implementation status updates;
- Negotiate transaction terms with the trustee team;
- Negotiate financing terms, covenants, and inter-creditor agreements with the ESOP lender and ensure that all documentation reflects those terms;
- Assist company legal counsel with review of Stock Purchase Agreement and Plan Documents; and
- Schedule and coordinate transaction closing.

## Our Role (cont'd)

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### Transaction Financing

National ESOP Partners maintains relationships with an extensive network of financing sources from senior lenders to private equity funds.

In raising capital, we:

- Prepare marketing materials that highlight the company's strengths and discuss mitigants to major investment risks;
- Create a competitive lending environment;
- Solicit and evaluate term sheets;
- Educate the company's incumbent lender on the effect the contemplated transaction would have on the company's financials;
- Select a group of lenders to move forward with on-site interviews;
- Prepare financial models that illustrate the effect that the selected financing options would have on the company's projected cash flows (including financial covenant analysis);
- Negotiate and finalize most favorable terms with the selected lender; and
- Assist the company's legal counsel in reviewing lender documents and subordination agreements.

### Post-Transaction Services

We support our clients post-implementation and provide ongoing consulting services to management, shareholders, and employees. NEP offers company CPAs support with the various journal entries and financial statement line items resulting from the ESOP transaction. We help management with the selection of an ESOP Third-Party Administrator ("TPA") that specializes in ESOP administration and assist with the transfer of data and documents to the TPA.

### Employee Communication

The key to a successful ESOP is proper ESOP plan communication to employees. National ESOP Partners works with the management team to design a presentation that effectively explains what the ESOP is, how it works, and how it affects the employees. We educate employees regarding the additional benefits to ESOP participants in on-site presentations and workshops. We also prepare quarterly communication bulletins that touch on various aspects of the ESOP for the company to circulate throughout the year.

# We Have Established Relationships with the Following Lenders

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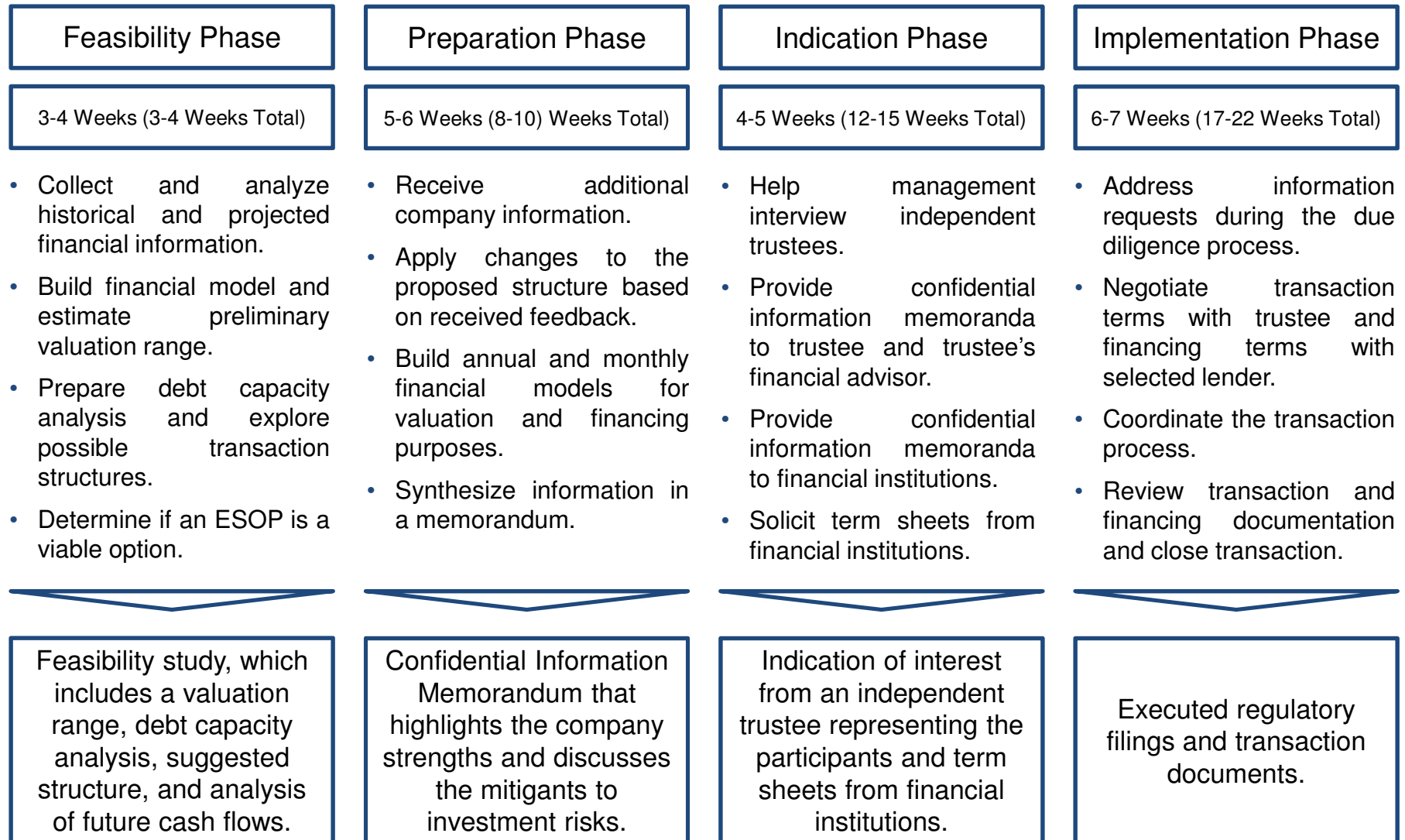
# ESOP Transaction Professionals

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National ESOP Partners coordinates all communication among transaction parties.

ESOP Consultant	Trustee	Valuation Firm	Trustee Counsel	Company Counsel
<ul style="list-style-type: none"><li>• Develops financial models to evaluate capital structures</li><li>• Designs capital structure</li><li>• Interviews ESOP professionals</li><li>• Prepares marketing materials</li><li>• Raises transaction financing</li><li>• Manages transaction process</li><li>• Negotiates transaction and financing terms</li><li>• Educates employees post-transaction</li></ul>	<ul style="list-style-type: none"><li>• Selects and engages valuation firm and trustee legal counsel</li><li>• Conducts due diligence</li><li>• Negotiates transaction terms</li><li>• Reviews and approves drafted plan documents</li><li>• Holds committee meeting to review information</li><li>• Approves ESOP transaction and executes documents</li><li>• Safeguards ESOP assets</li></ul>	<ul style="list-style-type: none"><li>• Performs financial due diligence and evaluates suggested transaction terms</li><li>• Provides trustee with a valuation range</li><li>• Negotiates transaction terms with the company and its financial advisor</li><li>• Prepares valuation report for Trustee committee members</li><li>• Presents findings at committee meeting</li><li>• Issues fairness opinion at closing</li></ul>	<ul style="list-style-type: none"><li>• Performs legal due diligence</li><li>• Reviews information provided by the company and its legal counsel</li><li>• Reviews ESOP plan and trust documents</li><li>• Negotiates transaction terms with the company and its legal counsel</li><li>• Documents transaction approval</li></ul>	<ul style="list-style-type: none"><li>• Compiles legal due diligence information</li><li>• Provides tax, ERISA, and securities advice</li><li>• Prepares transaction documents</li><li>• Assists in transaction structuring</li><li>• Drafts subordination agreements</li><li>• Negotiates and reviews financing documentation</li><li>• Prepares internal loan documentation</li><li>• Furnishes legal opinion at closing</li></ul>

# ESOP Transaction Timeline



# Table of Contents

---

Introducing National ESOP Partners 2

---

Introducing ESOPs 14

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ESOP Planning for ServiceCo 28

## What is an ESOP?

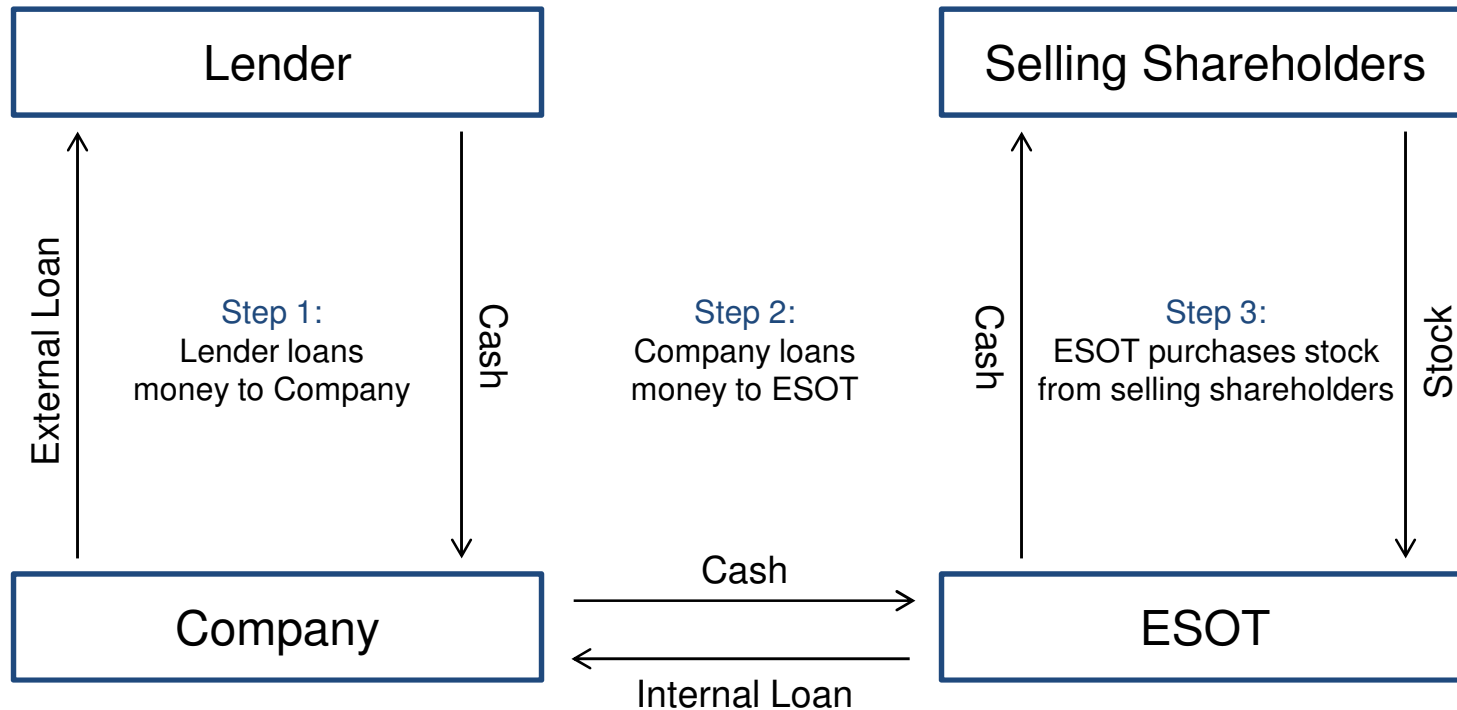
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An ESOP is a qualified retirement plan designed to invest primarily in the stock of the sponsoring employer.

- For **owners** of closely-held companies, an ESOP is a succession planning tool that allows them to transition ownership of their companies to employees on a tax-advantaged basis while continuing their legacy.
- To a **company**, an ESOP is a corporate finance vehicle that can create tax benefits not available anywhere else in the Internal Revenue Code.
- From an **employee** perspective, an ESOP is a defined contribution retirement plan designed to provide eligible employees with beneficial ownership of shares of company stock.

## How Does A Leveraged ESOP Work?

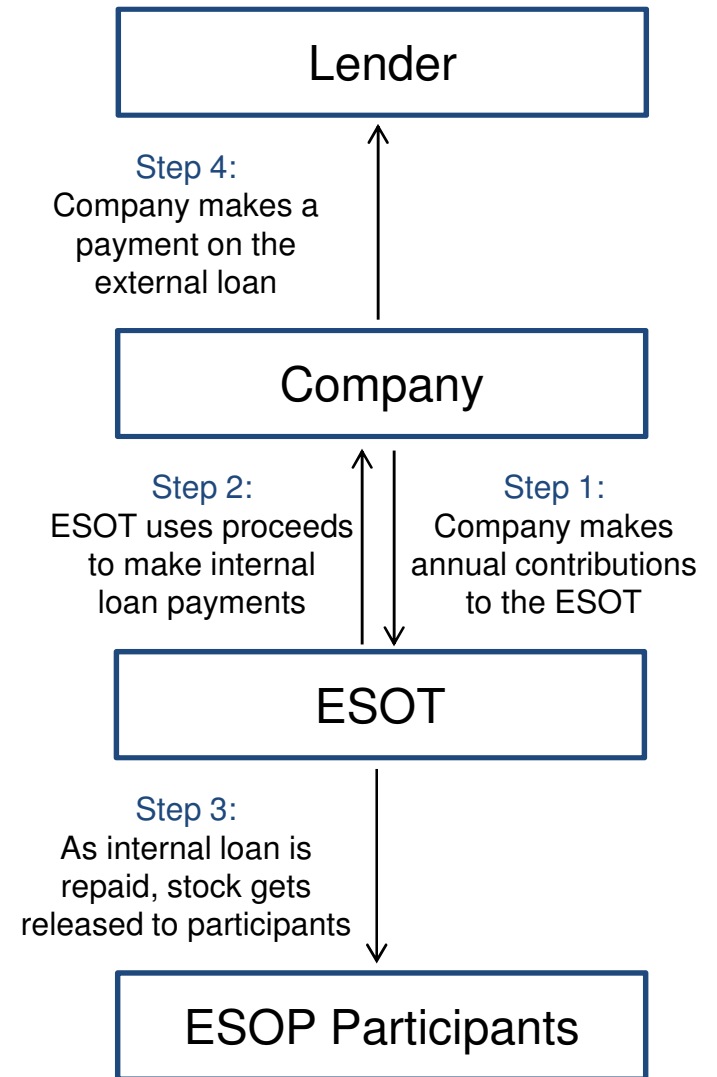
- Step 1: The company borrows money from a third party (the “External Loan”).
- Step 2: The company loans the money to the Employee Stock Ownership Trust (“ESOT”) and receives a note in exchange (the “Internal Loan”).
- Step 3: The ESOT uses the internal loan proceeds to purchase stock from the selling shareholders.





## How Does A Leveraged ESOP Work? (cont'd)

- Step 1:** Similar to contributions to other retirement plans, the company makes a tax-deductible annual contribution to the ESOT.
- Step 2:** Immediately after receiving the wire transfer with the annual contribution, the ESOT wires the money to the company as a repayment of the internal loan.
- Step 3:** The repayment of a portion of the internal loan triggers a proportionate allocation of shares to the accounts of eligible ESOP participants.
- Step 4:** The company can use its enhanced cash flows to service the external loan.



## Reasons to Sell to an ESOP

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- Provide liquidity and diversification for business owners.
- Maximize value for shareholders by minimizing taxes on transaction proceeds and generating significant tax deductions for the Company.
- Create an additional productivity incentive by increasing benefits to eligible employees.
- Develop a management and ownership succession plan while preserving the shareholders' legacy.

# ESOP-Related Tax Benefits

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- For the Company
  - Contribution Deduction
    - Corporations may make a tax-deductible payroll contribution to the ESOP in an amount up to equal to 25% of eligible payroll.
    - S-Corporation distributions and C-Corporation dividends (if any) are not subject to the 25%-of-payroll limitation.
    - The ESOT can use the proceeds from the payroll contributions and any dividends/distributions to make payments on the internal loan.
  - If a company is (or converts to) an S-Corporation, and the company is 100% owned by an ESOP, it effectively eliminates federal and most state income taxes.
    - As a qualified retirement plan, an ESOP is a tax-exempt entity.
    - Since S-Corporation income is passed through to the shareholders for tax purposes, a company with a tax-exempt entity as its sole shareholder does not have to make distributions for tax purposes.
- For the Shareholders
  - In some instances, the capital gains taxes due on the sale proceeds of C corporation stock to an ESOT can be deferred (or eliminated) with Section 1042 election.
  - In most instances, the sale proceeds of S corporation stock to an ESOT are subject to long-term capital gains taxes.

## ESOP-Related Tax Benefits (cont'd)

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What is Section 1042?

- Like-kind exchange provision in the Internal Revenue Code.
- §1042 Requirements (only available to C Corporation shareholders):
  - The ESOT must own at least 30% of company stock immediately after the ESOT sale.
  - Selling shareholders must have held the stock for a minimum of 3 years.
  - Selling shareholders must reinvest in Qualified Replacement Property (“QRP”) within 15 months of the ESOP sale.
- Utilizing Section 1042 allows the selling shareholders to defer capital gains taxes until the QRP is sold.
- If QRP is held until death, heir gets step-up in basis and can sell the QRP without paying taxes, effectively eliminating capital gains taxes on the proceeds.

## ESOP-Related Tax Benefits (cont'd)

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What is Qualified Replacement Property?

### Eligible

Common Stock

Convertible Stock

Corporate Fixed Rate Bonds

Corporate Floating Rate Notes  
("FRNs")

### Not Eligible

U.S. Government Bonds

Municipal Bonds

Foreign Securities

REITs

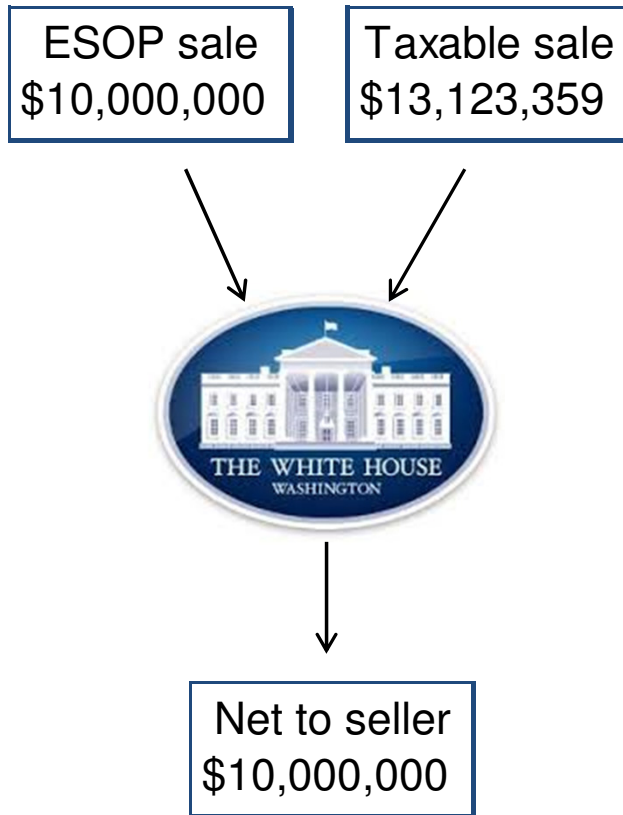
CDs

Mutual Funds

# ESOP-Related Tax Benefits (cont'd)

## Section 1042 Example

Capital gains taxed at 23.8%



C Corporation Asset Sale Taxed at 35%



Note: The asset sale illustration above is based on the assumption that the selling shareholders have no tax basis in the assets.

## Introducing ESOPs: FAQs (cont'd)

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### How are Companies Valued for ESOP Transactions?

- ESOP valuations are determined by a negotiation process with an independent trustee and its financial advisor (a third-party valuation company).
- As there is no single standard or specific mathematical formula for valuing a business, the particular valuation approach and the factors to consider will vary in each case.
- Per ERISA, the ESOP cannot pay more than an “adequate consideration” for the acquired stock, defined as fair market value.

# Introducing ESOPs: FAQs (cont'd)

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## How are Companies Valued for ESOP Transactions?

### Income Approach

- Discounted cash flow method
- Capitalized cash flow method

#### Overview of Approach

The earnings-based approach is appropriate where the business being valued is earning a fair return on its capital employed and the hypothetical purchaser wishes to acquire the future indicated earnings generated by the enterprise.

### Market Approach

- Prior transactions in company stock
- Guideline public company method
- Guideline transaction method

#### Overview of Approach

Based on prices determined by the financial market.

Estimates the value of the business based upon evidence of prices investors are willing to pay for companies in similar lines of businesses.

### Asset Approach

- Net asset value method
- Liquidation analysis

#### Overview of Approach

Used as a valuation methodology when liquidation is contemplated because the business is not viable as an ongoing operation.

Asset values constitute the prime determinant of business worth (inventory, receivables, property and equipment, etc.) as opposed to cash flows generated by such assets.

As ServiceCo is a going concern business, this approach is not applicable.



## Introducing ESOPs: FAQs (cont'd)

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### What Major Items Affect a Company's Valuation?

- Enterprise value
  - Historical and projected performance
  - Current industry trends
  - Current economic trends
  - Shareholder compensation
  - Non-recurring expenses
  - Weighted average cost of capital
  - Change in working capital
  - Depreciation and amortization
  - Capital expenditures
- Equity value
  - Excess cash and investments
  - Debt and other liabilities on the company's balance sheet
- Price per share
  - Control premium and marketability discount
  - Number of shares outstanding

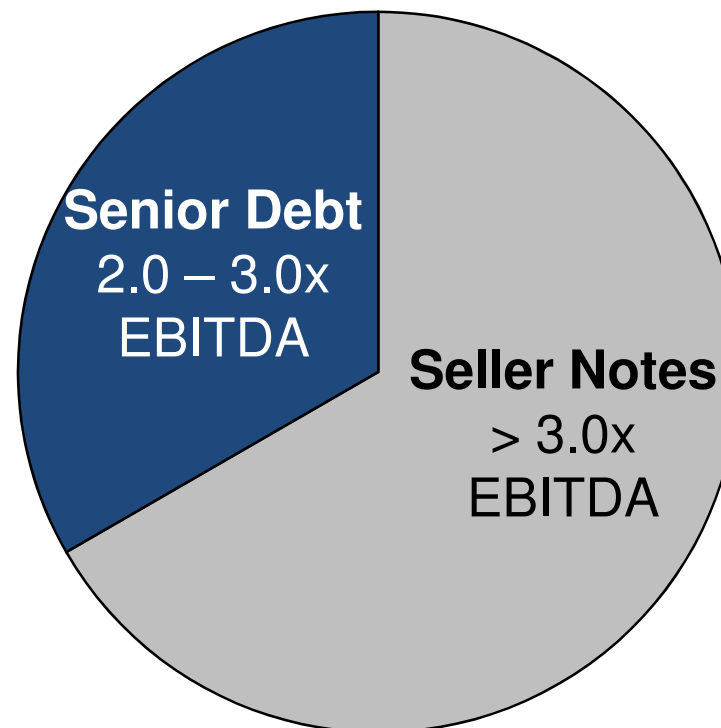
## Introducing ESOPs: FAQs (cont'd)

How are ESOPs financed?

The table below illustrates the various financing sources available for ESOP transactions:

Type	Description	Term	Pricing
Senior debt	Debt secured by the company's assets	3-4 years	LIBOR + 150 - 350bps
Subordinated debt	Secured debt, cash flow-based lending	5-7 years	8-10% cash interest
Seller notes	Promissory notes to the shareholders	5-10 years	2-10% cash interest, depending on subordination and
Company cash	Non-operating cash the Company loans to the ESOP	3-20 years	AFR
Royalty financing	Unsecured, subordinated debt with a royalty component	8-10 years	5-12% cash and PIK interest and royalties to get to 18-22% IRR
Mezzanine debt	Unsecured, subordinated debt with an equity component	8-10 years	5-12% cash and PIK interest and warrants to get to 18-22% IRR

This chart illustrates the amount of debt available to ServiceCo:



## Introducing ESOPs: FAQs (cont'd)

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### Who Has Operating Control in an ESOP-Owned Company?

- Board of Directors makes strategic business decisions for the company.
  - Appointed prior to transaction.
  - Appoints and oversees officers and trustees.
- Executive Management reports to the Board of Directors.
  - Same as pre-ESOP.
- The ESOP Trustee is typically a “directed trustee”, which votes on most corporate matters as directed by the Board of Directors.
- “Pass-Through” vote to Employees on corporate merger or consolidation, recapitalization, reclassification, liquidation, dissolution, sale of substantially all assets of a trade or business or such similar transaction.
- Absent fraudulent activity, the ESOP Trustee does not participate in corporate governance.

# Table of Contents

---

Introducing National ESOP Partners	2
Introducing ESOPs	14
ESOP Planning for ServiceCo	28

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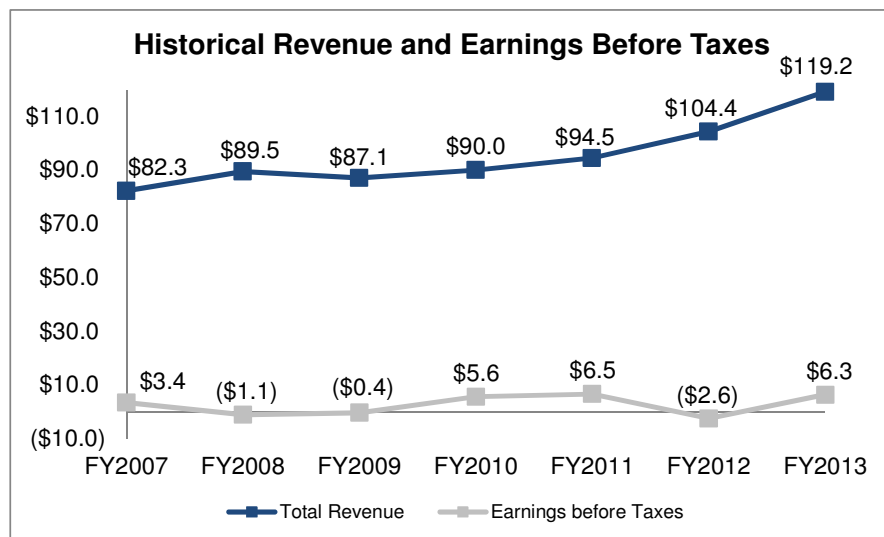
## Statement of Planning Objectives

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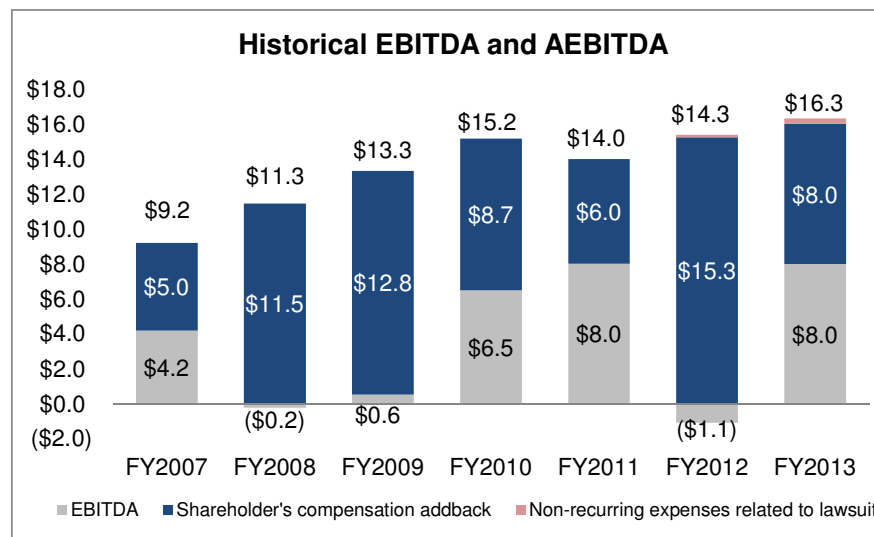
- Formalize an ownership succession plan that addresses:
  - The future ownership of ServiceCo stock; and
  - The methodology for determining the value of ServiceCo stock today and in the future.
- Align the financial interests of the owner and the employees of ServiceCo, with special equity-based incentives for the company's senior management team.
- Maximize the value of the company's stock by minimizing the impact of taxes on the Company's income.
- Maintain the company's independence, which will protect employees' jobs and perpetuate the company's legacy.
- Continue the company's current governance and control structure.
- Maintain planning flexibility.
- Integrate ESOP planning into John's estate plan to ensure an effective and tax-efficient transfer of company equity.

# ServiceCo Historical Financial Data

(in \$MM's)



(in \$MM's)



## FY2009 FY2010 FY2011 FY2012 FY2013

<b>Total Revenue</b>	\$87.1	\$90.0	\$94.5	\$104.4	\$119.2
<i>Growth</i>	-2.7%	3.4%	5.0%	10.4%	14.2%
<b>Earnings before Taxes</b>	(\$0.4)	\$5.6	\$6.5	(\$2.6)	\$6.3
<i>% of Revenue</i>	-0.5%	6.2%	6.9%	-2.5%	5.3%
<b>AEBITDA</b>	\$13.3	\$15.2	\$14.0	\$14.3	\$16.3
<i>% of Revenue</i>	15.3%	16.9%	14.8%	13.7%	13.7%

## Summary

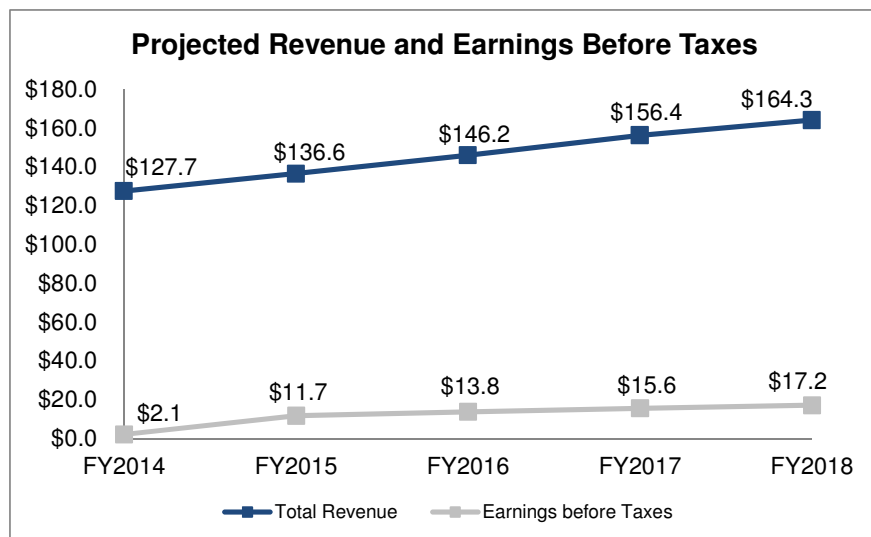
FY2007 - FY2013 Revenue Compound Annual Growth Rate: **6.4%**  
 FY2007 - FY2013 AEBITDA Compound Annual Growth Rate: **10.0%**

AEBITDA Adjustments:

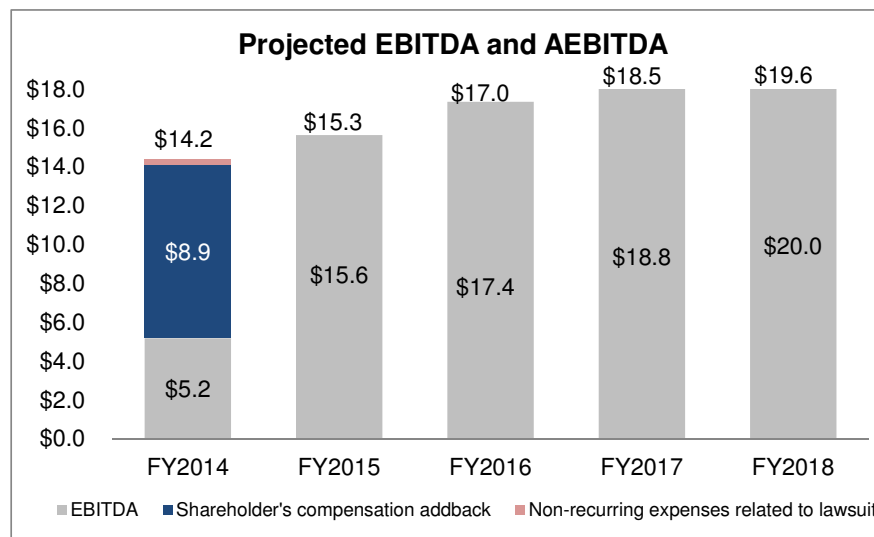
Non-recurring expenses related to lawsuit  
 Shareholder's compensation addback

# ServiceCo Projected Financial Data

(in \$MM's)



(in \$MM's)



## FY2014 FY2015 FY2016 FY2017 FY2018

<b>Total Revenue</b>	\$127.7	\$136.6	\$146.2	\$156.4	\$164.3
<i>Growth</i>	7.1%	7.0%	7.0%	7.0%	5.0%
<b>Earnings before Taxes</b>	\$2.1	\$11.7	\$13.8	\$15.6	\$17.2
<i>% of Revenue</i>	1.6%	8.6%	9.4%	10.0%	10.4%
<b>AEBITDA</b>	\$14.4	\$15.6	\$17.4	\$18.8	\$20.0
<i>% of Revenue</i>	11.3%	11.4%	11.9%	12.0%	12.1%

## Summary

FY2014 - FY2018 Revenue Compound Annual Growth Rate: **6.5%**  
 FY2014 - FY2018 AEBITDA Compound Annual Growth Rate: **7.4%**

AEBITDA Adjustments:

Non-recurring expenses related to lawsuit  
 Shareholder's compensation addback

## Discounted Cash Flow Methodology

Enterprise value as derived by DCF method: \$96.4MM to \$105.6MM.

(\$ in 000's)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
<b>Total revenue</b>	<b>127,697</b>	<b>136,636</b>	<b>146,201</b>	<b>156,435</b>	<b>164,256</b>
COGS	(94,097)	(100,036)	(106,673)	(114,140)	(119,847)
Operating expenses	(19,723)	(20,259)	(21,597)	(23,028)	(24,122)
<b>Earnings before taxes</b>	<b>13,878</b>	<b>16,341</b>	<b>17,931</b>	<b>19,267</b>	<b>20,287</b>
Corporate tax rate at 40%	(5,551)	(6,536)	(7,172)	(7,707)	(8,115)
<b>Net operating profit after taxes</b>	<b>8,327</b>	<b>9,805</b>	<b>10,759</b>	<b>11,560</b>	<b>12,172</b>
Depreciation and amortization	1,716	1,845	1,974	2,112	2,217
Capital expenditures	(1,660)	(1,776)	(1,901)	(2,034)	(2,135)
Change in working capital	415	(402)	(389)	(396)	(212)
<b>Free cash flow</b>	<b>8,798</b>	<b>9,471</b>	<b>10,443</b>	<b>11,242</b>	<b>12,043</b>

	Low end	Middle end	High end
Present value of cash flows	37,180	37,573	37,974
Present value of terminal value	59,197	63,200	67,628
Total enterprise value	96,377	100,773	105,602
<b>Rounded enterprise value</b>	<b>96,400</b>	<b>100,800</b>	<b>105,600</b>



## Equity Value

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- Equity value equals enterprise value less liabilities plus company cash not needed to fund operating expenses and net non-operating assets.

$$\begin{aligned} & \text{Enterprise value} \\ & - \text{Liabilities} \\ & + \text{Excess cash} \\ & + \text{Net non-operating assets} \\ & = \text{Equity value} \end{aligned}$$

## Estimated Equity Value

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- By taking the middle of the range for the company's enterprise value and adding to it net non-operating assets, we estimated ServiceCo's equity value on a nonmarketable basis at \$91.0MM.

(in \$000's)

Enterprise value	\$100,800
Plus: CSV of life insurance	1,079
Plus: Value of aircraft	9,455
Less: Present value of deferred comp liability	(5,060)
Equity value before distribution of AAA	\$106,274
Less: AAA notes	(10,500)
Equity value (marketable)	\$95,774
5.0% discount for lack of marketability	(4,789)
Equity value (nonmarketable)	\$90,985
<b>Equity value (nonmarketable, rounded)</b>	<b>\$91,000</b>

Note: Value of aircraft currently estimated based on book value.

- John's total proceeds for a sale of 100% of ServiceCo's equity are estimated at \$101.5MM (\$10.5MM AAA distribution and \$91.0MM equity value).

## Structures to Consider

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- We modeled five potential planning scenarios and have the capacity to model many more for the company to consider.
- In the pages that follow, you will find models of the two planning scenarios we believe are most consistent with your goals.
- We have established a “baseline” for comparison purposes. The baseline scenario assumes that the company will implement a leveraged recapitalization, distribute John’s AAA basis of \$10.5MM, and then continue its normal operations.

## Structures to Consider: 49% ESOP Sale

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- The company uses a portion of the new senior bank debt to distribute its AAA (estimated at \$10.5MM).
- The company goes through a recapitalization that results in:
  - An exchange of 49% of John’s common stock for convertible preferred stock (“CPS”) that is subject to a valuation **premium** that can mitigate the valuation **discount** inherent in the sale of minority interest of common stock and
  - Revoking of the company’s subchapter S election.
- Therefore, the recapitalization:
  - Enables John to sell 49% of his stock to the ESOT for approximately \$48.5MM and
  - Allows John to defer capital gains taxes on the sale proceeds under Section 1042 reinvestment, resulting in **tax savings of approximately \$11.5MM.**

(\$ in 000's)

Sources		Uses	
Term loan	\$24,500	Purchase price	\$48,500
Seller notes	35,100	Distribution of AAA account	10,500
		ESOP fees	600
<b>Total sources</b>	<b>\$59,600</b>	<b>Total uses</b>	<b>\$59,600</b>

- The company can re-elect Subchapter S status after five years.
  - In the meantime, the company can minimize corporate taxes by the use of ESOP payroll contributions and dividends on the preferred stock purchased by the ESOT.

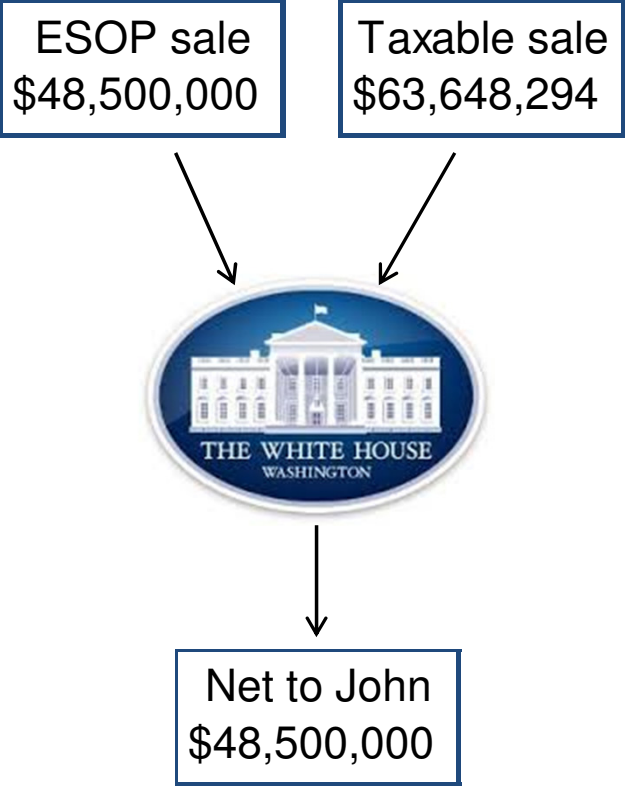
## Structures to Consider: 49% ESOP Sale (cont'd)

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- This approach maximizes future planning flexibility.
- If the Company sells to a third party during the first five years, the sale proceeds will first be allocated to repay the ESOP loan (including John's seller note) and the present value of future dividend payments due on the CPS. John will likely receive more than 51% of the remaining sale proceeds as only a portion of the ESOP stock will be allocated by the time of the sale.
- If at the end of five years the ESOP debt has been repaid but the Company has not been sold, John could sell his common stock to the ESOP. Following the sale, the Company could re-elect Subchapter S status and operate on a federal and state tax-exempt basis.

# Structures to Consider: 49% ESOP Sale (cont'd)

Capital Gains Taxed at 23.8%



Tax-Affected AEBITDA Multiples

Multiple	Tax Rate	
	<u>0.0%</u>	<u>23.8%</u>
4.0	4.0	5.25
4.5	4.5	5.91
5.0	5.0	6.56
5.5	5.5	7.22
6.2	6.2	8.14
6.5	6.5	8.53
7.0	7.0	9.19

## 49% ESOP – After-Tax Proceeds to John

(\$ in 000's)	At Closing	FY2014	FY2015	FY2016	FY2017	FY2018	Total
Compensation to John	\$0	\$10,037	\$1,100	\$1,100	\$1,100	\$1,100	\$14,437
Distribution at closing	10,500	-	-	-	-	-	10,500
Repayment of seller notes	13,400	3,464	6,025	7,167	8,300	9,321	47,678
Interest on seller notes	-	715	1,104	894	644	354	3,710
<b>Pre-tax proceeds to John</b>	<b>\$23,900</b>	<b>\$14,216</b>	<b>\$8,230</b>	<b>\$9,161</b>	<b>\$10,043</b>	<b>\$10,775</b>	<b>\$76,325</b>
Taxes on compensation	-	(3,975)	(436)	(436)	(436)	(436)	(5,717)
Taxes on distribution at closing	-	-	-	-	-	-	-
Taxes on proceeds on seller notes	-	-	-	-	-	-	-
Taxes on interest on seller notes	-	(283)	(437)	(354)	(255)	(140)	(1,469)
<b>Taxes on proceeds to John</b>	<b>\$0</b>	<b>(\$4,258)</b>	<b>(\$873)</b>	<b>(\$790)</b>	<b>(\$690)</b>	<b>(\$576)</b>	<b>(\$7,186)</b>
<b>After-tax proceeds to John</b>	<b>\$23,900</b>	<b>\$9,958</b>	<b>\$7,357</b>	<b>\$8,371</b>	<b>\$9,353</b>	<b>\$10,200</b>	<b>\$69,139</b>

## Structures to Consider: 80% Sale → 100% ESOP-Owned S Corp

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- The company uses a portion of the new senior bank debt to distribute its AAA (estimated at \$10.5MM).
- John sells 80% of his stock (800,000 shares) for approximately \$72.8MM.
- The purchase price is financed by \$13.4MM of cash from the senior debt facility and \$59.4MM of seller notes.
- John also receives warrants for 45% of the Company stock on a fully-diluted basis as a combination of proceeds in exchange for the remaining 20% of equity and additional return on the seller notes due to their subordination to senior debt.

(\$ in 000's)

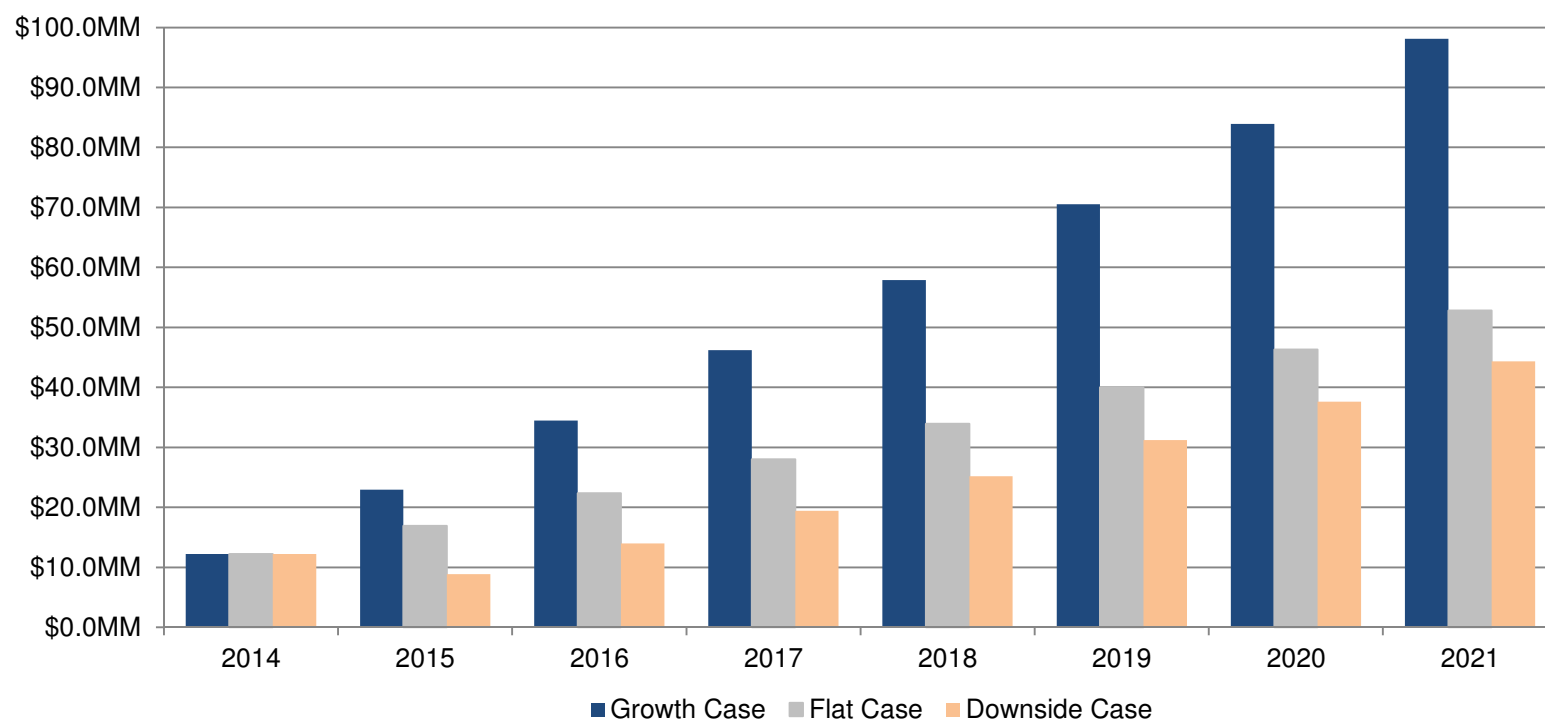
Sources		Uses	
Term loan	\$24,500	Purchase price	\$72,800
Seller notes	59,400	Distribution of AAA account	10,500
		ESOP fees	600
Total sources	\$83,900	Total uses	\$83,900

- In the 100% ESOP scenario, the Company will retain its Subchapter S status. As the ESOP will own 100% of the outstanding Company stock post-transaction and the ESOP is a federal tax-exempt entity, the Company will not have to make distributions for federal tax purposes post-transaction.



## Structures to Consider: 80% Sale → 100% ESOP-Owned S Corp

- Estimated value of warrants for 45% of the Company's equity



- The warrants are estimated to have a value of ~\$98MM in eight years under the growth case operating assumptions. This implies sale proceeds to John of ~\$157MM.

## 100% ESOP – After-Tax Proceeds to John

(\$ in 000's)	At Closing	FY2014	FY2015	FY2016	FY2017	FY2018	Total
Compensation to John	\$0	\$10,037	\$1,100	\$1,100	\$1,100	\$1,100	\$14,437
Distribution at closing	10,500	-	-	-	-	-	10,500
Repayment of seller notes	13,400	4,504	8,707	10,752	12,735	14,527	64,624
Interest on seller notes	-	1,209	1,916	1,612	1,237	792	6,766
<b>Pre-tax proceeds to John</b>	<b>\$23,900</b>	<b>\$15,750</b>	<b>\$11,723</b>	<b>\$13,464</b>	<b>\$15,071</b>	<b>\$16,419</b>	<b>\$96,327</b>
Taxes on compensation	-	(3,975)	(436)	(436)	(436)	(436)	(5,717)
Taxes on distribution at closing	-	-	-	-	-	-	-
Taxes on proceeds on seller notes	(3,189)	(1,072)	(2,072)	(2,559)	(3,031)	(3,457)	(15,380)
Taxes on interest on seller notes	-	(479)	(759)	(638)	(490)	(314)	(2,679)
<b>Taxes on proceeds to John</b>	<b>(\$3,189)</b>	<b>(\$5,526)</b>	<b>(\$3,266)</b>	<b>(\$3,633)</b>	<b>(\$3,956)</b>	<b>(\$4,207)</b>	<b>(\$23,777)</b>
<b>After-tax proceeds to John</b>	<b>\$20,711</b>	<b>\$10,225</b>	<b>\$8,456</b>	<b>\$9,831</b>	<b>\$11,115</b>	<b>\$12,213</b>	<b>\$72,550</b>

## Structures to Consider: Leveraged Recapitalization (Baseline)

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- The company raises a new term loan in order to distribute its AAA (estimated at \$10.5MM).
- Proceeds from the leveraged recapitalization are not subject to capital gains taxes due to John's approximate \$10.5MM in AAA basis.

(\$ in 000's)

Sources		Uses	
Term loan	\$10,500	Distribution	\$10,500
Total sources	\$10,500	Total uses	\$10,500

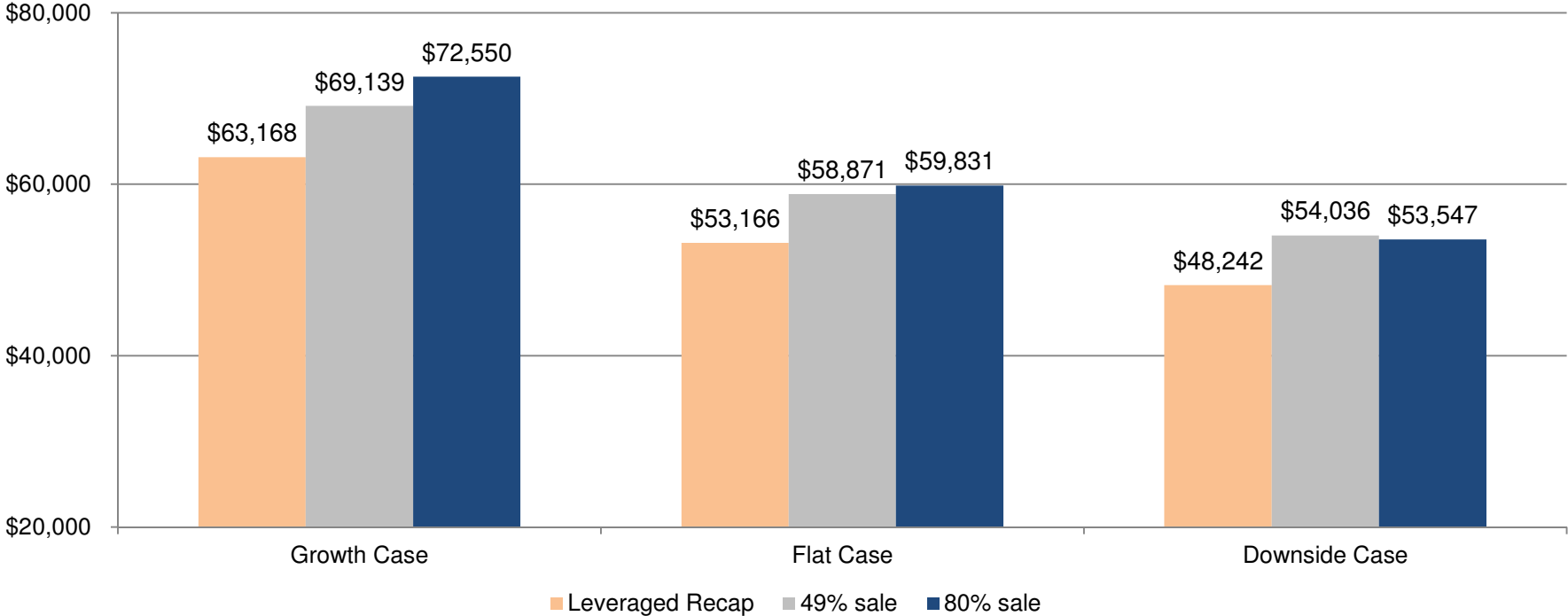
## Leveraged Recapitalization – After-Tax Proceeds to John

(\$ in 000's)	At Closing	FY2014	FY2015	FY2016	FY2017	FY2018	Total
Compensation to John	\$0	\$17,768	\$15,121	\$16,722	\$18,190	\$19,398	\$87,199
Distribution at closing	10,500	-	-	-	-	-	10,500
Pre-tax proceeds to John	\$10,500	\$17,768	\$15,121	\$16,722	\$18,190	\$19,398	\$97,699
Taxes on compensation	-	(7,036)	(5,988)	(6,622)	(7,203)	(7,681)	(34,531)
Taxes on distribution at closing	-	-	-	-	-	-	-
Taxes on proceeds to John	\$0	(\$7,036)	(\$5,988)	(\$6,622)	(\$7,203)	(\$7,681)	(\$34,531)
<b>After-tax proceeds to John</b>	<b>\$10,500</b>	<b>\$10,732</b>	<b>\$9,133</b>	<b>\$10,100</b>	<b>\$10,987</b>	<b>\$11,716</b>	<b>\$63,168</b>

# Summary of Findings

- The graph below illustrates the total after-tax proceeds to John over the next five years in the various structures to consider.

### Comparison of 5-year After-Tax Proceeds to John



Growth Case assumes: FY2014-FY2018 Revenue Compound Annual Growth Rate of 6.50%  
 Downside Case assumes: FY2014-FY2018 Revenue Compound Annual Growth Rate of -3.07%  
 Please note that 80% sale scenario does **not** include the value of the warrants

## Planning Objectives Revisited

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- Formalize an ownership succession plan
  - Both ESOP structures achieve the goals of creating a plan for the future ownership of ServiceCo stock and the methodology for valuing the stock. The “49% ESOP Sale” does so while retaining more economic upside for John and his family if the Company is subsequently sold to a third party.
- Align the financial interests of John and the employees of ServiceCo
  - Both structures achieve this goal. The interests of all employees are aligned through the ESOP and the Company’s senior management team will have additional equity-based incentives through the Stock Appreciation Rights and/or Phantom Stock Plans.
- Maximize the value of the Company’s stock by minimizing the impact of taxes on the Company’s income
  - The “49% ESOP Sale” generates very significant tax deductions for Company contributions and dividends that are used to service the ESOP debt. The “80% ESOP Sale → 100% ESOP-owned S Corporation” eliminates all federal income tax and most state income tax. These tax savings will enhance the Company’s value.
- Maintain the Company’s independence which will protect employees’ jobs and perpetuate the Company’s legacy
  - Both structures will be extremely effective in achieving this goal, although the “80% ESOP Sale → 100% ESOP-owned S Corporation” provides greater assurance to employees that the Company will not be sold to a third party.

## Planning Objectives Revisited

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- Continue the Company's current governance/control structure
  - Both structures will be effective in allowing John to continue having operational control of the Company. However, the shareholder only maintains voting control in the "49% ESOP Sale" scenario.
- Maintain planning flexibility
  - Both structures will be effective in allowing John and the Company to retain flexibility for the future but the "49% ESOP Sale" will maximize future flexibility.
- Integrate ESOP planning into John's estate plan to ensure the effective and tax-efficient transfer of Company equity
  - Under the "49% ESOP Sale," John can take advantage of the temporary decrease in equity value resulting from the additional debt on the Company's balance sheet and gift all or a portion of the remaining stock immediately post-transaction. For more information on this subject see Appendix B.
  - Similarly, under the "80% ESOP Sale → 100% ESOP-owned S Corporation," John can take advantage of the temporary decrease in the value of the warrants immediately post-transaction.
  - Under either scenario, John could make a gift of stock to charity - either directly or through a foundation - and have the ESOP purchase the stock from the charity or the foundation.

## Appendix

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A. Convertible Preferred Stock

B. Post-Transaction Temporary Decrease in Equity Value

C. Description of Modeling Assumptions

D. “Growth Case” Model

- 49% ESOP Sale
- 80% ESOP Sale → 100% ESOP-Owned S Corporation
- Leveraged Recapitalization

E. “Flat Case” Model

- 49% ESOP Sale
- 80% ESOP Sale → 100% ESOP-Owned S Corporation
- Leveraged Recapitalization

F. “Downside Case” Model

- 49% ESOP Sale
- 80% ESOP Sale → 100% ESOP-Owned S Corporation
- Leveraged Recapitalization



# C-Corporation Convertible Preferred Stock

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## Challenge

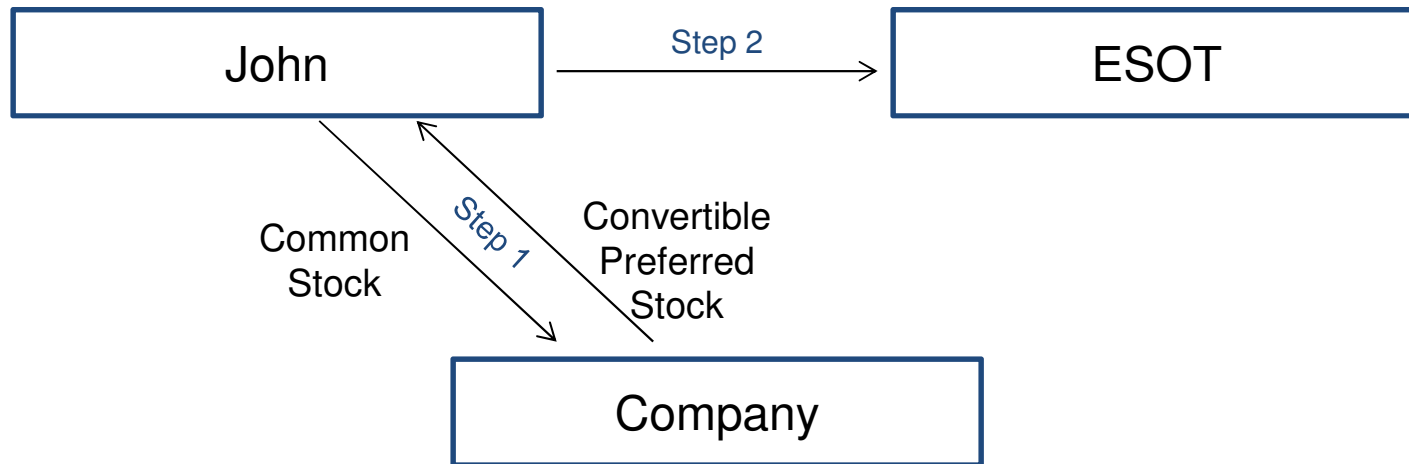
- A sale of a minority interest (less than 50% of a company's stock) results in a valuation discount, the Minority Interest Discount ("MID").
  - A non-controlling interest is worth less than a controlling interest.
  - The discount generally ranges between 15-30%.
- Assuming ServiceCo's total equity value prior to the AAA distribution is \$106.3M, and assuming a 20% MID, after making the AAA distribution:
  - 51% of the company's stock would have a value of \$48.86M, while 49% of the company's stock would have a value of \$37.55M.

## Solution

- Since ESOP trustees are limited to paying no more than fair market value for the stock they purchase, there is no way to avoid the MID in an ESOP transaction.
- However, using Convertible Preferred Stock ("CPS") which can mitigate the effect of the minority interest discount.
- Selling shareholders exchange their common shares for newly created CPS.
- The ESOP purchases CPS at a pricing premium to underlying common stock.
  - The pricing premium is substantiated by the dividend rates on the CPS and its liquidation preference.

## C-Corporation Convertible Preferred Stock

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- Step 0** John receives a AAA distribution in the amount of \$10.5MM.
- Step 1** The company is recapitalized and John exchanges his stock for 510,000 shares of common stock and 490,000 shares of CPS, paying an annual dividend of 6% for 6 years.
- Step 2** John sells 490,000 shares of CPS to the ESOT for \$48.5MM. Total transaction proceeds of \$59.0MM.  
The sale of CPS to the ESOT qualifies for IRC Section 1042 treatment.

## C-Corporation Convertible Preferred Stock

(in \$000's)

49% Sale to 3rd Party	
Company equity value	106.30
AAA distribution	(10.50)
Minority interest discount (20%)	(19.16)
Net company equity value	76.64
3rd party sales price (49%)	37.55
Tax (23.8%)	(8.94)
Net after-tax 3rd party proceeds	28.61
Net after-tax 3rd party sales proceeds	28.61
AAA distribution	10.50
Total net transaction proceeds	39.11
Implied AEBITDA multiple	4.88

(in \$000's)

ESOP Advantage	
Company equity value	106.30
AAA distribution	(10.50)
Minority interest discount (20%)	(19.16)
Net company equity value	76.64
49% of net company equity value	37.55
CPS Premium	10.95
ESOP sales price	48.50
Tax	-
Net after-tax ESOP sales proceeds	48.50
ESOP advantage	69.53%
Net after-tax ESOP sales proceeds	48.50
AAA distribution	10.50
Total net transaction proceeds	59.00
Implied AEBITDA multiple	7.36

## Post-Transaction Temporary Decrease in Equity Value

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- Implementing an ESOP also creates a tax-efficient estate planning opportunity.
- The shareholder(s) could gift the remaining equity or warrants immediately after the ESOP implementation while the company's equity value is temporarily depressed as a result of the new debt on the balance sheet.
- The value of the gifted equity or warrants increases faster than the equity of non-ESOP companies as the ESOP-related tax savings enable the company to delever faster.

(\$ in MM)

Pre-ESOP		Post-ESOP
\$106.3	Enterprise value	\$106.3
-	Debt	49.1
-	AAA distribution	10.5
\$106.3	Equity value	\$46.7

## Description of Modeling Assumptions

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- Growth Case
  - Revenue increases from \$127.7MM in FY2014 to \$164.3MM in FY2018 at a CAGR of 6.5%.
  - EBITDA increases from \$16.5MM in FY2014 to \$22.5MM in FY2018.
- Flat Case
  - Revenue and EBITDA remain flat at \$126.4MM and \$16.3MM, respectively throughout the projected period.
- Downside Case
  - Revenue decreases from \$127.7MM in FY2014 to \$106.2MM in FY2015 and then increases gradually to \$112.7MM in FY2018.
  - EBITDA decreases from \$16.5MM in FY2014 to \$13.5MM in FY2015 and then increases gradually to \$14.3MM by FY2018.

## 49% ESOP (Growth Case): Balance Sheet

(\$ in 000's)	FY2014	FY2015	FY2016	FY2017	FY2018	EOP
Cash and cash equivalents	\$5,500	\$5,500	\$5,500	\$5,500	\$5,500	\$5,500
Trade receivables	10,496	10,856	11,215	11,572	11,700	11,700
Prepaid expenses and other current assets	305	335	358	383	402	402
Prepaid supplies	537	590	631	676	709	709
<b>Total current assets</b>	<b>\$16,838</b>	<b>\$17,281</b>	<b>\$17,705</b>	<b>\$18,131</b>	<b>\$18,312</b>	<b>\$18,312</b>
Property and equipment	22,974	24,750	26,651	28,685	30,820	30,820
Less accumulated depreciation	(10,601)	(12,446)	(14,420)	(16,532)	(18,749)	(18,749)
Net property and equipment	12,373	12,304	12,231	12,153	12,071	12,071
Cash surrender value of life insurance	1,021	1,125	1,225	1,325	1,425	1,425
<b>Total assets</b>	<b>\$30,232</b>	<b>\$30,710</b>	<b>\$31,161</b>	<b>\$31,609</b>	<b>\$31,808</b>	<b>\$31,808</b>
Line of credit	\$0	\$0	\$0	\$0	\$0	\$0
Current portion of term loan	4,900	4,900	4,900	4,900	2,042	2,042
Account payables	387	411	438	469	493	493
Accrued expenses and other current liabilities	2,190	2,207	2,215	2,214	2,160	2,160
<b>Total current liabilities</b>	<b>\$7,477</b>	<b>\$7,518</b>	<b>\$7,554</b>	<b>\$7,583</b>	<b>\$4,695</b>	<b>\$4,695</b>
Term loan, less current portion	16,742	11,842	6,942	2,042	-	-
Seller notes	31,636	25,611	18,444	10,144	822	822
Deferred compensation liability	5,503	6,041	6,464	6,916	7,262	7,262
<b>Total liabilities</b>	<b>\$61,358</b>	<b>\$51,012</b>	<b>\$39,403</b>	<b>\$26,685</b>	<b>\$12,779</b>	<b>\$12,779</b>
Common stock par value	1	1	1	1	1	1
Unearned ESOP shares	(45,294)	(39,797)	(34,300)	(28,804)	(23,307)	(23,307)
Retained earnings	14,166	19,494	26,057	33,726	42,334	42,334
<b>Total liabilities and stockholder's equity</b>	<b>\$30,232</b>	<b>\$30,710</b>	<b>\$31,161</b>	<b>\$31,609</b>	<b>\$31,808</b>	<b>\$31,808</b>

## 49% ESOP (Growth Case): Cash Flows

(\$ in 000's)	FY2014	FY2015	FY2016	FY2017	FY2018	EOP
<b>Revenue</b>	<b>\$127,697</b>	<b>\$136,636</b>	<b>\$146,201</b>	<b>\$156,435</b>	<b>\$164,256</b>	<b>\$731,225</b>
Cost to provide services	(94,097)	(100,036)	(106,673)	(114,140)	(119,847)	(534,793)
<b>Gross profit</b>	<b>\$33,601</b>	<b>\$36,600</b>	<b>\$39,528</b>	<b>\$42,295</b>	<b>\$44,409</b>	<b>\$196,432</b>
Shareholder's salary	(10,037)	(1,100)	(1,100)	(1,100)	(1,100)	(14,437)
Other operating expenses	(18,623)	(19,159)	(20,497)	(21,928)	(23,022)	(103,228)
<b>Operating income</b>	<b>\$4,941</b>	<b>\$16,341</b>	<b>\$17,931</b>	<b>\$19,267</b>	<b>\$20,287</b>	<b>\$78,767</b>
Interest expense on term loan	(673)	(960)	(715)	(470)	(225)	(3,041)
Interest expense on seller notes	(715)	(1,104)	(894)	(644)	(354)	(3,710)
Payroll contribution	(1,509)	(2,587)	(2,587)	(2,587)	(2,587)	(11,856)
Other income / expense	40	40	40	40	40	201
<b>Earnings before taxes</b>	<b>\$2,084</b>	<b>\$11,731</b>	<b>\$13,776</b>	<b>\$15,607</b>	<b>\$17,162</b>	<b>\$60,360</b>
Provision for income taxes	(1,535)	(3,493)	(4,303)	(5,028)	(5,644)	(20,002)
<b>Net income / (loss)</b>	<b>\$550</b>	<b>\$8,238</b>	<b>\$9,473</b>	<b>\$10,579</b>	<b>\$11,518</b>	<b>\$40,358</b>
Depreciation	1,716	1,845	1,974	2,112	2,217	9,864
Change in working capital	915	33	(66)	(44)	34	873
<b>Net cash (used in) provided by operating activities</b>	<b>\$3,181</b>	<b>\$10,115</b>	<b>\$11,381</b>	<b>\$12,647</b>	<b>\$13,770</b>	<b>\$51,094</b>
Purchases of property and equipment	(1,660)	(1,776)	(1,901)	(2,034)	(2,135)	(9,506)
<b>Net cash (used in) provided by investing activities</b>	<b>(\$1,660)</b>	<b>(\$1,776)</b>	<b>(\$1,901)</b>	<b>(\$2,034)</b>	<b>(\$2,135)</b>	<b>(\$9,506)</b>
Repayment on term loan	21,642	(4,900)	(4,900)	(4,900)	(4,900)	2,042
Repayment of seller notes	31,636	(6,025)	(7,167)	(8,300)	(9,321)	822
Purchase price of ESOP shares	(48,500)	-	-	-	-	(48,500)
ESOP note payable	3,206	5,497	5,497	5,497	5,497	25,193
Distribution to shareholders	(10,500)	-	-	-	-	(10,500)
Preferred stock dividends	(1,698)	(2,910)	(2,910)	(2,910)	(2,910)	(13,338)
<b>Net cash (used in) provided by financing activities</b>	<b>(\$4,213)</b>	<b>(\$8,339)</b>	<b>(\$9,481)</b>	<b>(\$10,613)</b>	<b>(\$11,635)</b>	<b>(\$44,280)</b>
Cash and cash equivalents at beginning of period	\$8,192	\$5,500	\$5,500	\$5,500	\$5,500	\$8,192
Net increase (decrease) in cash	(2,692)	(0)	-	-	-	(2,692)
<b>Cash and cash equivalents at end of period</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>

## 49% ESOP (Growth Case): Proceeds to John

(\$ in 000's)	At Closing	FY2014	FY2015	FY2016	FY2017	FY2018	Total
Compensation to John	\$0	\$10,037	\$1,100	\$1,100	\$1,100	\$1,100	\$14,437
Distribution at closing	10,500	-	-	-	-	-	10,500
Repayment of seller notes	13,400	3,464	6,025	7,167	8,300	9,321	47,678
Interest on seller notes	-	715	1,104	894	644	354	3,710
<b>Pre-tax proceeds to John</b>	<b>\$23,900</b>	<b>\$14,216</b>	<b>\$8,230</b>	<b>\$9,161</b>	<b>\$10,043</b>	<b>\$10,775</b>	<b>\$76,325</b>
Taxes on compensation	-	(3,975)	(436)	(436)	(436)	(436)	(5,717)
Taxes on distribution at closing	-	-	-	-	-	-	-
Taxes on proceeds on seller notes	-	-	-	-	-	-	-
Taxes on interest on seller notes	-	(283)	(437)	(354)	(255)	(140)	(1,469)
<b>Taxes on proceeds to John</b>	<b>\$0</b>	<b>(\$4,258)</b>	<b>(\$873)</b>	<b>(\$790)</b>	<b>(\$690)</b>	<b>(\$576)</b>	<b>(\$7,186)</b>
<b>After-tax proceeds to John</b>	<b>\$23,900</b>	<b>\$9,958</b>	<b>\$7,357</b>	<b>\$8,371</b>	<b>\$9,353</b>	<b>\$10,200</b>	<b>\$69,139</b>



## 100% ESOP (Growth Case): Balance Sheet

(\$ in 000's)	FY2014	FY2015	FY2016	FY2017	FY2018	EOP
Cash and cash equivalents	\$5,500	\$5,500	\$5,500	\$5,500	\$5,500	\$5,500
Trade receivables	10,496	10,856	11,215	11,572	11,700	11,700
Prepaid expenses and other current assets	305	335	358	383	402	402
Prepaid supplies	537	590	631	676	709	709
<b>Total current assets</b>	<b>\$16,838</b>	<b>\$17,281</b>	<b>\$17,705</b>	<b>\$18,131</b>	<b>\$18,312</b>	<b>\$18,312</b>
Property and equipment	22,974	24,750	26,651	28,685	30,820	30,820
Less accumulated depreciation	(10,601)	(12,446)	(14,420)	(16,532)	(18,749)	(18,749)
Net property and equipment	12,373	12,304	12,231	12,153	12,071	12,071
Cash surrender value of life insurance	1,021	1,125	1,225	1,325	1,425	1,425
<b>Total assets</b>	<b>\$30,232</b>	<b>\$30,710</b>	<b>\$31,161</b>	<b>\$31,609</b>	<b>\$31,808</b>	<b>\$31,808</b>
Line of credit	\$0	\$0	\$0	\$0	\$0	\$0
Current portion of term loan	4,900	4,900	4,900	4,900	2,042	2,042
Account payables	387	411	438	469	493	493
Accrued expenses and other current liabilities	2,190	2,207	2,215	2,214	2,160	2,160
<b>Total current liabilities</b>	<b>\$7,477</b>	<b>\$7,518</b>	<b>\$7,554</b>	<b>\$7,583</b>	<b>\$4,695</b>	<b>\$4,695</b>
Term loan, less current portion	16,742	11,842	6,942	2,042	-	-
Seller notes	54,896	46,190	35,438	22,703	8,176	8,176
Deferred compensation liability	5,503	6,041	6,464	6,916	7,262	7,262
<b>Total liabilities</b>	<b>\$84,618</b>	<b>\$71,591</b>	<b>\$56,397</b>	<b>\$39,244</b>	<b>\$20,133</b>	<b>\$20,133</b>
Common stock par value	1	1	1	1	1	1
Unearned ESOP shares	(71,101)	(68,189)	(65,277)	(62,365)	(59,453)	(59,453)
Retained earnings	16,714	27,308	40,040	54,728	71,127	71,127
<b>Total liabilities and stockholder's equity</b>	<b>\$30,232</b>	<b>\$30,710</b>	<b>\$31,161</b>	<b>\$31,609</b>	<b>\$31,808</b>	<b>\$31,808</b>

## 100% ESOP (Growth Case): Cash Flows

(\$ in 000's)	FY2014	FY2015	FY2016	FY2017	FY2018	EOP
<b>Revenue</b>	<b>\$127,697</b>	<b>\$136,636</b>	<b>\$146,201</b>	<b>\$156,435</b>	<b>\$164,256</b>	<b>\$731,225</b>
Cost to provide services	(94,097)	(100,036)	(106,673)	(114,140)	(119,847)	(534,793)
<b>Gross profit</b>	<b>\$33,601</b>	<b>\$36,600</b>	<b>\$39,528</b>	<b>\$42,295</b>	<b>\$44,409</b>	<b>\$196,432</b>
Shareholder's salary	(10,037)	(1,100)	(1,100)	(1,100)	(1,100)	(14,437)
Other operating expenses	(18,623)	(19,159)	(20,497)	(21,928)	(23,022)	(103,228)
<b>Operating income</b>	<b>\$4,941</b>	<b>\$16,341</b>	<b>\$17,931</b>	<b>\$19,267</b>	<b>\$20,287</b>	<b>\$78,767</b>
Interest expense on term loan	(673)	(960)	(715)	(470)	(225)	(3,041)
Interest expense on seller notes	(1,209)	(1,916)	(1,612)	(1,237)	(792)	(6,766)
Payroll contribution	(1,699)	(2,912)	(2,912)	(2,912)	(2,912)	(13,347)
Other income / expense	40	40	40	40	40	201
<b>Earnings before taxes</b>	<b>\$1,400</b>	<b>\$10,594</b>	<b>\$12,732</b>	<b>\$14,688</b>	<b>\$16,399</b>	<b>\$55,813</b>
Provision for income taxes	-	-	-	-	-	-
<b>Net income / (loss)</b>	<b>\$1,400</b>	<b>\$10,594</b>	<b>\$12,732</b>	<b>\$14,688</b>	<b>\$16,399</b>	<b>\$55,813</b>
Depreciation	1,716	1,845	1,974	2,112	2,217	9,864
Change in working capital	915	33	(66)	(44)	34	873
<b>Net cash (used in) provided by operating activities</b>	<b>\$4,031</b>	<b>\$12,471</b>	<b>\$14,641</b>	<b>\$16,756</b>	<b>\$18,650</b>	<b>\$66,550</b>
Purchases of property and equipment	(1,660)	(1,776)	(1,901)	(2,034)	(2,135)	(9,506)
<b>Net cash (used in) provided by investing activities</b>	<b>(\$1,660)</b>	<b>(\$1,776)</b>	<b>(\$1,901)</b>	<b>(\$2,034)</b>	<b>(\$2,135)</b>	<b>(\$9,506)</b>
Repayment on term loan	21,642	(4,900)	(4,900)	(4,900)	(4,900)	2,042
Repayment of seller notes	54,896	(8,707)	(10,752)	(12,735)	(14,527)	8,176
Purchase price of ESOP shares	(72,800)	-	-	-	-	(72,800)
ESOP note payable	1,699	2,912	2,912	2,912	2,912	13,347
Distribution to shareholders	(10,500)	-	-	-	-	(10,500)
Preferred stock dividends	-	-	-	-	-	-
<b>Net cash (used in) provided by financing activities</b>	<b>(\$5,063)</b>	<b>(\$10,695)</b>	<b>(\$12,740)</b>	<b>(\$14,723)</b>	<b>(\$16,515)</b>	<b>(\$59,735)</b>
Cash and cash equivalents at beginning of period	\$8,192	\$5,500	\$5,500	\$5,500	\$5,500	\$8,192
Net increase (decrease) in cash	(2,692)	(0)	-	-	-	(2,692)
<b>Cash and cash equivalents at end of period</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>

## 100% ESOP (Growth Case): Proceeds to John

(\$ in 000's)	At Closing	FY2014	FY2015	FY2016	FY2017	FY2018	Total
Compensation to John	\$0	\$10,037	\$1,100	\$1,100	\$1,100	\$1,100	\$14,437
Distribution at closing	10,500	-	-	-	-	-	10,500
Repayment of seller notes	13,400	4,504	8,707	10,752	12,735	14,527	64,624
Interest on seller notes	-	1,209	1,916	1,612	1,237	792	6,766
<b>Pre-tax proceeds to John</b>	<b>\$23,900</b>	<b>\$15,750</b>	<b>\$11,723</b>	<b>\$13,464</b>	<b>\$15,071</b>	<b>\$16,419</b>	<b>\$96,327</b>
Taxes on compensation	-	(3,975)	(436)	(436)	(436)	(436)	(5,717)
Taxes on distribution at closing	-	-	-	-	-	-	-
Taxes on proceeds on seller notes	(3,189)	(1,072)	(2,072)	(2,559)	(3,031)	(3,457)	(15,380)
Taxes on interest on seller notes	-	(479)	(759)	(638)	(490)	(314)	(2,679)
<b>Taxes on proceeds to John</b>	<b>(\$3,189)</b>	<b>(\$5,526)</b>	<b>(\$3,266)</b>	<b>(\$3,633)</b>	<b>(\$3,956)</b>	<b>(\$4,207)</b>	<b>(\$23,777)</b>
<b>After-tax proceeds to John</b>	<b>\$20,711</b>	<b>\$10,225</b>	<b>\$8,456</b>	<b>\$9,831</b>	<b>\$11,115</b>	<b>\$12,213</b>	<b>\$72,550</b>

## Leveraged Recap (Growth Case): Balance Sheet

(\$ in 000's)	FY2014	FY2015	FY2016	FY2017	FY2018	EOP
Cash and cash equivalents	\$5,500	\$5,500	\$5,500	\$5,500	\$5,500	\$5,500
Trade receivables	10,496	10,856	11,215	11,572	11,700	11,700
Prepaid expenses and other current assets	305	335	358	383	402	402
Prepaid supplies	537	590	631	676	709	709
<b>Total current assets</b>	<b>\$16,838</b>	<b>\$17,281</b>	<b>\$17,705</b>	<b>\$18,131</b>	<b>\$18,312</b>	<b>\$18,312</b>
Property and equipment	22,974	24,750	26,651	28,685	30,820	30,820
Less accumulated depreciation	(10,601)	(12,446)	(14,420)	(16,532)	(18,749)	(18,749)
<b>Net property and equipment</b>	<b>12,373</b>	<b>12,304</b>	<b>12,231</b>	<b>12,153</b>	<b>12,071</b>	<b>12,071</b>
Cash surrender value of life insurance	1,021	1,125	1,225	1,325	1,425	1,425
<b>Total assets</b>	<b>\$30,232</b>	<b>\$30,710</b>	<b>\$31,161</b>	<b>\$31,609</b>	<b>\$31,808</b>	<b>\$31,808</b>
Line of credit	\$0	\$0	\$0	\$0	\$0	\$0
Current portion of term loan	2,100	2,100	2,100	2,100	875	875
Account payables	387	411	438	469	493	493
Accrued expenses and other current liabilities	2,190	2,207	2,215	2,214	2,160	2,160
<b>Total current liabilities</b>	<b>\$4,677</b>	<b>\$4,718</b>	<b>\$4,754</b>	<b>\$4,783</b>	<b>\$3,528</b>	<b>\$3,528</b>
Term loan, less current portion	7,175	5,075	2,975	875	-	-
Deferred compensation liability	5,503	6,041	6,464	6,916	7,262	7,262
<b>Total liabilities</b>	<b>\$17,355</b>	<b>\$15,834</b>	<b>\$14,193</b>	<b>\$12,575</b>	<b>\$10,790</b>	<b>\$10,790</b>
Common stock par value	1	1	1	1	1	1
Retained earnings	12,876	14,875	16,967	19,033	21,017	21,017
<b>Total liabilities and stockholder's equity</b>	<b>\$30,232</b>	<b>\$30,710</b>	<b>\$31,161</b>	<b>\$31,609</b>	<b>\$31,808</b>	<b>\$31,808</b>

## Leveraged Recap (Growth Case): Cash Flows

(\$ in 000's)	FY2014	FY2015	FY2016	FY2017	FY2018	EOP
<b>Revenue</b>	<b>\$127,697</b>	<b>\$136,636</b>	<b>\$146,201</b>	<b>\$156,435</b>	<b>\$164,256</b>	<b>\$731,225</b>
Cost to provide services	(94,097)	(100,036)	(106,673)	(114,140)	(119,847)	(534,793)
<b>Gross profit</b>	<b>\$33,601</b>	<b>\$36,600</b>	<b>\$39,528</b>	<b>\$42,295</b>	<b>\$44,409</b>	<b>\$196,432</b>
Shareholder's salary	(17,768)	(15,121)	(16,722)	(18,190)	(19,398)	(87,199)
Other operating expenses	(18,023)	(19,109)	(20,447)	(21,878)	(22,972)	(102,428)
<b>Operating income</b>	<b>(\$2,190)</b>	<b>\$2,370</b>	<b>\$2,359</b>	<b>\$2,227</b>	<b>\$2,040</b>	<b>\$6,805</b>
Interest expense on term loan	(288)	(411)	(306)	(201)	(96)	(1,303)
Other income / expense	40	40	40	40	40	201
<b>Earnings before taxes</b>	<b>(\$2,438)</b>	<b>\$1,999</b>	<b>\$2,093</b>	<b>\$2,066</b>	<b>\$1,984</b>	<b>\$5,703</b>
Provision for income taxes	-	-	-	-	-	-
<b>Net income / (loss)</b>	<b>(\$2,438)</b>	<b>\$1,999</b>	<b>\$2,093</b>	<b>\$2,066</b>	<b>\$1,984</b>	<b>\$5,703</b>
Depreciation	1,716	1,845	1,974	2,112	2,217	9,864
Change in working capital	915	33	(66)	(44)	34	873
<b>Net cash (used in) provided by operating activities</b>	<b>\$193</b>	<b>\$3,876</b>	<b>\$4,001</b>	<b>\$4,134</b>	<b>\$4,235</b>	<b>\$16,439</b>
Purchases of property and equipment	(1,660)	(1,776)	(1,901)	(2,034)	(2,135)	(9,506)
<b>Net cash (used in) provided by investing activities</b>	<b>(\$1,660)</b>	<b>(\$1,776)</b>	<b>(\$1,901)</b>	<b>(\$2,034)</b>	<b>(\$2,135)</b>	<b>(\$9,506)</b>
Repayment on term loan	9,275	(2,100)	(2,100)	(2,100)	(2,100)	875
Distribution to shareholders	(10,500)	-	-	-	-	(10,500)
<b>Net cash (used in) provided by financing activities</b>	<b>(\$1,225)</b>	<b>(\$2,100)</b>	<b>(\$2,100)</b>	<b>(\$2,100)</b>	<b>(\$2,100)</b>	<b>(\$9,625)</b>
Cash and cash equivalents at beginning of period	\$8,192	\$5,500	\$5,500	\$5,500	\$5,500	\$8,192
Net increase (decrease) in cash	(2,692)	(0)	0	-	-	(2,692)
<b>Cash and cash equivalents at end of period</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>

## Leveraged Recap (Growth Case): Proceeds to John

(\$ in 000's)	At Closing	FY2014	FY2015	FY2016	FY2017	FY2018	Total
Compensation to John	\$0	\$17,768	\$15,121	\$16,722	\$18,190	\$19,398	\$87,199
Distribution at closing	10,500	-	-	-	-	-	10,500
Pre-tax proceeds to John	\$10,500	\$17,768	\$15,121	\$16,722	\$18,190	\$19,398	\$97,699
Taxes on compensation	-	(7,036)	(5,988)	(6,622)	(7,203)	(7,681)	(34,531)
Taxes on distribution at closing	-	-	-	-	-	-	-
Taxes on proceeds to John	\$0	(\$7,036)	(\$5,988)	(\$6,622)	(\$7,203)	(\$7,681)	(\$34,531)
<b>After-tax proceeds to John</b>	<b>\$10,500</b>	<b>\$10,732</b>	<b>\$9,133</b>	<b>\$10,100</b>	<b>\$10,987</b>	<b>\$11,716</b>	<b>\$63,168</b>

## 49% ESOP (Flat Case): Balance Sheet

(\$ in 000's)	FY2014	FY2015	FY2016	FY2017	FY2018	EOP
Cash and cash equivalents	\$5,500	\$5,500	\$5,500	\$5,500	\$5,500	\$5,500
Trade receivables	10,496	10,393	10,393	10,393	10,393	10,393
Prepaid expenses and other current assets	305	310	310	310	310	310
Prepaid supplies	537	546	546	546	546	546
<b>Total current assets</b>	<b>\$16,838</b>	<b>\$16,748</b>	<b>\$16,748</b>	<b>\$16,748</b>	<b>\$16,748</b>	<b>\$16,748</b>
Property and equipment	22,974	24,618	26,262	27,905	29,549	29,549
Less accumulated depreciation	(10,601)	(12,330)	(14,059)	(15,788)	(17,517)	(17,517)
Net property and equipment	12,373	12,288	12,202	12,117	12,032	12,032
Cash surrender value of life insurance	1,021	1,121	1,221	1,321	1,421	1,421
<b>Total assets</b>	<b>\$30,232</b>	<b>\$30,157</b>	<b>\$30,172</b>	<b>\$30,187</b>	<b>\$30,201</b>	<b>\$30,201</b>
Line of credit	\$0	\$0	\$0	\$0	\$0	\$0
Current portion of term loan	4,900	4,900	4,900	4,900	2,042	2,042
Account payables	387	383	383	383	383	383
Accrued expenses and other current liabilities	2,190	2,042	1,916	1,790	1,663	1,663
<b>Total current liabilities</b>	<b>\$7,477</b>	<b>\$7,325</b>	<b>\$7,199</b>	<b>\$7,073</b>	<b>\$4,088</b>	<b>\$4,088</b>
Term loan, less current portion	16,742	11,842	6,942	2,042	-	-
Seller notes	31,636	26,822	21,911	16,748	11,328	11,328
Deferred compensation liability	5,503	5,590	5,590	5,590	5,590	5,590
<b>Total liabilities</b>	<b>\$61,358</b>	<b>\$51,580</b>	<b>\$41,642</b>	<b>\$31,453</b>	<b>\$21,006</b>	<b>\$21,006</b>
Common stock par value	1	1	1	1	1	1
Unearned ESOP shares	(45,294)	(39,797)	(34,300)	(28,804)	(23,307)	(23,307)
Retained earnings	14,166	18,373	22,829	27,537	32,501	32,501
<b>Total liabilities and stockholder's equity</b>	<b>\$30,232</b>	<b>\$30,157</b>	<b>\$30,172</b>	<b>\$30,187</b>	<b>\$30,201</b>	<b>\$30,201</b>

## 49% ESOP (Flat Case): Cash Flows

(\$ in 000's)	FY2014	FY2015	FY2016	FY2017	FY2018	EOP
<b>Revenue</b>	<b>\$127,697</b>	<b>\$126,443</b>	<b>\$126,443</b>	<b>\$126,443</b>	<b>\$126,443</b>	<b>\$633,471</b>
Cost to provide services	(94,097)	(93,206)	(93,206)	(93,206)	(93,206)	(466,919)
<b>Gross profit</b>	<b>\$33,601</b>	<b>\$33,238</b>	<b>\$33,238</b>	<b>\$33,238</b>	<b>\$33,238</b>	<b>\$166,551</b>
Shareholder's salary	(10,037)	(1,100)	(1,100)	(1,100)	(1,100)	(14,437)
Other operating expenses	(18,623)	(17,653)	(17,653)	(17,653)	(17,653)	(89,234)
<b>Operating income</b>	<b>\$4,941</b>	<b>\$14,485</b>	<b>\$14,485</b>	<b>\$14,485</b>	<b>\$14,485</b>	<b>\$62,880</b>
Interest expense on term loan	(673)	(960)	(715)	(470)	(225)	(3,041)
Interest expense on seller notes	(715)	(1,104)	(936)	(765)	(584)	(4,104)
Payroll contribution	(1,509)	(2,587)	(2,587)	(2,587)	(2,587)	(11,856)
Other income / expense	40	40	40	40	40	201
<b>Earnings before taxes</b>	<b>\$2,084</b>	<b>\$9,875</b>	<b>\$10,288</b>	<b>\$10,704</b>	<b>\$11,129</b>	<b>\$44,080</b>
Provision for income taxes	(1,535)	(2,758)	(2,922)	(3,086)	(3,255)	(13,555)
<b>Net income / (loss)</b>	<b>\$550</b>	<b>\$7,117</b>	<b>\$7,366</b>	<b>\$7,618</b>	<b>\$7,874</b>	<b>\$30,524</b>
Depreciation	1,716	1,729	1,729	1,729	1,729	8,632
Change in working capital	915	(74)	(226)	(226)	(226)	162
<b>Net cash (used in) provided by operating activities</b>	<b>\$3,181</b>	<b>\$8,771</b>	<b>\$8,869</b>	<b>\$9,120</b>	<b>\$9,377</b>	<b>\$39,318</b>
Purchases of property and equipment	(1,660)	(1,644)	(1,644)	(1,644)	(1,644)	(8,235)
<b>Net cash (used in) provided by investing activities</b>	<b>(\$1,660)</b>	<b>(\$1,644)</b>	<b>(\$1,644)</b>	<b>(\$1,644)</b>	<b>(\$1,644)</b>	<b>(\$8,235)</b>
Repayment on term loan	21,642	(4,900)	(4,900)	(4,900)	(4,900)	2,042
Repayment of seller notes	31,636	(4,814)	(4,911)	(5,163)	(5,420)	11,328
Purchase price of ESOP shares	(48,500)	-	-	-	-	(48,500)
ESOP note payable	3,206	5,497	5,497	5,497	5,497	25,193
Distribution to shareholders	(10,500)	-	-	-	-	(10,500)
Preferred stock dividends	(1,698)	(2,910)	(2,910)	(2,910)	(2,910)	(13,338)
<b>Net cash (used in) provided by financing activities</b>	<b>(\$4,213)</b>	<b>(\$7,127)</b>	<b>(\$7,225)</b>	<b>(\$7,476)</b>	<b>(\$7,733)</b>	<b>(\$33,775)</b>
Cash and cash equivalents at beginning of period	\$8,192	\$5,500	\$5,500	\$5,500	\$5,500	\$8,192
Net increase (decrease) in cash	(2,692)	(0)	-	-	-	(2,692)
<b>Cash and cash equivalents at end of period</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>



## 49% ESOP (Flat Case): Proceeds to John

(\$ in 000's)	At Closing	FY2014	FY2015	FY2016	FY2017	FY2018	Total
Compensation to John	\$0	\$10,037	\$1,100	\$1,100	\$1,100	\$1,100	\$14,437
Distribution at closing	10,500	-	-	-	-	-	10,500
Repayment of seller notes	13,400	3,464	4,814	4,911	5,163	5,420	37,172
Interest on seller notes	-	715	1,104	936	765	584	4,104
<b>Pre-tax proceeds to John</b>	<b>\$23,900</b>	<b>\$14,216</b>	<b>\$7,018</b>	<b>\$6,947</b>	<b>\$7,028</b>	<b>\$7,104</b>	<b>\$66,213</b>
Taxes on compensation	-	(3,975)	(436)	(436)	(436)	(436)	(5,717)
Taxes on distribution at closing	-	-	-	-	-	-	-
Taxes on proceeds on seller notes	-	-	-	-	-	-	-
Taxes on interest on seller notes	-	(283)	(437)	(371)	(303)	(231)	(1,625)
<b>Taxes on proceeds to John</b>	<b>\$0</b>	<b>(\$4,258)</b>	<b>(\$873)</b>	<b>(\$806)</b>	<b>(\$738)</b>	<b>(\$667)</b>	<b>(\$7,342)</b>
<b>After-tax proceeds to John</b>	<b>\$23,900</b>	<b>\$9,958</b>	<b>\$6,145</b>	<b>\$6,141</b>	<b>\$6,289</b>	<b>\$6,437</b>	<b>\$58,871</b>

## 100% ESOP (Flat Case): Balance Sheet

(\$ in 000's)	FY2014	FY2015	FY2016	FY2017	FY2018	EOP
Cash and cash equivalents	\$5,500	\$5,500	\$5,500	\$5,500	\$5,500	\$5,500
Trade receivables	10,496	10,393	10,393	10,393	10,393	10,393
Prepaid expenses and other current assets	305	310	310	310	310	310
Prepaid supplies	537	546	546	546	546	546
<b>Total current assets</b>	<b>\$16,838</b>	<b>\$16,748</b>	<b>\$16,748</b>	<b>\$16,748</b>	<b>\$16,748</b>	<b>\$16,748</b>
Property and equipment	22,974	24,618	26,262	27,905	29,549	29,549
Less accumulated depreciation	(10,601)	(12,330)	(14,059)	(15,788)	(17,517)	(17,517)
Net property and equipment	12,373	12,288	12,202	12,117	12,032	12,032
Cash surrender value of life insurance	1,021	1,121	1,221	1,321	1,421	1,421
<b>Total assets</b>	<b>\$30,232</b>	<b>\$30,157</b>	<b>\$30,172</b>	<b>\$30,187</b>	<b>\$30,201</b>	<b>\$30,201</b>
Line of credit	\$0	\$0	\$0	\$0	\$0	\$0
Current portion of term loan	4,900	4,900	4,900	4,900	2,042	2,042
Account payables	387	383	383	383	383	383
Accrued expenses and other current liabilities	2,190	2,042	1,916	1,790	1,663	1,663
<b>Total current liabilities</b>	<b>\$7,477</b>	<b>\$7,325</b>	<b>\$7,199</b>	<b>\$7,073</b>	<b>\$4,088</b>	<b>\$4,088</b>
Term loan, less current portion	16,742	11,842	6,942	2,042	-	-
Seller notes	54,896	48,136	41,047	33,466	25,375	25,375
Deferred compensation liability	5,503	5,590	5,590	5,590	5,590	5,590
<b>Total liabilities</b>	<b>\$84,618</b>	<b>\$72,894</b>	<b>\$60,778</b>	<b>\$48,170</b>	<b>\$35,053</b>	<b>\$35,053</b>
Common stock par value	1	1	1	1	1	1
Unearned ESOP shares	(71,101)	(68,189)	(65,277)	(62,365)	(59,453)	(59,453)
Retained earnings	16,714	25,451	34,670	44,381	54,601	54,601
<b>Total liabilities and stockholder's equity</b>	<b>\$30,232</b>	<b>\$30,157</b>	<b>\$30,172</b>	<b>\$30,187</b>	<b>\$30,201</b>	<b>\$30,201</b>

## 100% ESOP (Flat Case): Cash Flows

(\$ in 000's)	FY2014	FY2015	FY2016	FY2017	FY2018	EOP
<b>Revenue</b>	<b>\$127,697</b>	<b>\$126,443</b>	<b>\$126,443</b>	<b>\$126,443</b>	<b>\$126,443</b>	<b>\$633,471</b>
Cost to provide services	(94,097)	(93,206)	(93,206)	(93,206)	(93,206)	(466,919)
<b>Gross profit</b>	<b>\$33,601</b>	<b>\$33,238</b>	<b>\$33,238</b>	<b>\$33,238</b>	<b>\$33,238</b>	<b>\$166,551</b>
Shareholder's salary	(10,037)	(1,100)	(1,100)	(1,100)	(1,100)	(14,437)
Other operating expenses	(18,623)	(17,653)	(17,653)	(17,653)	(17,653)	(89,234)
<b>Operating income</b>	<b>\$4,941</b>	<b>\$14,485</b>	<b>\$14,485</b>	<b>\$14,485</b>	<b>\$14,485</b>	<b>\$62,880</b>
Interest expense on term loan	(673)	(960)	(715)	(470)	(225)	(3,041)
Interest expense on seller notes	(1,209)	(1,916)	(1,680)	(1,433)	(1,168)	(7,406)
Payroll contribution	(1,699)	(2,912)	(2,912)	(2,912)	(2,912)	(13,347)
Other income / expense	40	40	40	40	40	201
<b>Earnings before taxes</b>	<b>\$1,400</b>	<b>\$8,737</b>	<b>\$9,218</b>	<b>\$9,711</b>	<b>\$10,220</b>	<b>\$39,287</b>
Provision for income taxes	-	-	-	-	-	-
<b>Net income / (loss)</b>	<b>\$1,400</b>	<b>\$8,737</b>	<b>\$9,218</b>	<b>\$9,711</b>	<b>\$10,220</b>	<b>\$39,287</b>
Depreciation	1,716	1,729	1,729	1,729	1,729	8,632
Change in working capital	915	(74)	(226)	(226)	(226)	162
<b>Net cash (used in) provided by operating activities</b>	<b>\$4,031</b>	<b>\$10,392</b>	<b>\$10,721</b>	<b>\$11,213</b>	<b>\$11,723</b>	<b>\$48,080</b>
Purchases of property and equipment	(1,660)	(1,644)	(1,644)	(1,644)	(1,644)	(8,235)
<b>Net cash (used in) provided by investing activities</b>	<b>(\$1,660)</b>	<b>(\$1,644)</b>	<b>(\$1,644)</b>	<b>(\$1,644)</b>	<b>(\$1,644)</b>	<b>(\$8,235)</b>
Repayment on term loan	21,642	(4,900)	(4,900)	(4,900)	(4,900)	2,042
Repayment of seller notes	54,896	(6,760)	(7,089)	(7,581)	(8,091)	25,375
Purchase price of ESOP shares	(72,800)	-	-	-	-	(72,800)
ESOP note payable	1,699	2,912	2,912	2,912	2,912	13,347
Distribution to shareholders	(10,500)	-	-	-	-	(10,500)
Preferred stock dividends	-	-	-	-	-	-
<b>Net cash (used in) provided by financing activities</b>	<b>(\$5,063)</b>	<b>(\$8,748)</b>	<b>(\$9,077)</b>	<b>(\$9,569)</b>	<b>(\$10,079)</b>	<b>(\$42,537)</b>
Cash and cash equivalents at beginning of period	\$8,192	\$5,500	\$5,500	\$5,500	\$5,500	\$8,192
Net increase (decrease) in cash	(2,692)	-	-	-	-	(2,692)
<b>Cash and cash equivalents at end of period</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>

## 100% ESOP (Flat Case): Proceeds to John

(\$ in 000's)	At Closing	FY2014	FY2015	FY2016	FY2017	FY2018	Total
Compensation to John	\$0	\$10,037	\$1,100	\$1,100	\$1,100	\$1,100	\$14,437
Distribution at closing	10,500	-	-	-	-	-	10,500
Repayment of seller notes	13,400	4,504	6,760	7,089	7,581	8,091	47,425
Interest on seller notes	-	1,209	1,916	1,680	1,433	1,168	7,406
<b>Pre-tax proceeds to John</b>	<b>\$23,900</b>	<b>\$15,750</b>	<b>\$9,776</b>	<b>\$9,869</b>	<b>\$10,114</b>	<b>\$10,359</b>	<b>\$79,768</b>
Taxes on compensation	-	(3,975)	(436)	(436)	(436)	(436)	(5,717)
Taxes on distribution at closing	-	-	-	-	-	-	-
Taxes on proceeds on seller notes	(3,189)	(1,072)	(1,609)	(1,687)	(1,804)	(1,926)	(11,287)
Taxes on interest on seller notes	-	(479)	(759)	(665)	(567)	(463)	(2,933)
<b>Taxes on proceeds to John</b>	<b>(\$3,189)</b>	<b>(\$5,526)</b>	<b>(\$2,803)</b>	<b>(\$2,788)</b>	<b>(\$2,807)</b>	<b>(\$2,824)</b>	<b>(\$19,937)</b>
<b>After-tax proceeds to John</b>	<b>\$20,711</b>	<b>\$10,225</b>	<b>\$6,973</b>	<b>\$7,081</b>	<b>\$7,307</b>	<b>\$7,535</b>	<b>\$59,831</b>

## Leveraged Recap (Flat Case): Balance Sheet

(\$ in 000's)	FY2014	FY2015	FY2016	FY2017	FY2018	EOP
Cash and cash equivalents	\$5,500	\$5,500	\$5,500	\$5,500	\$5,500	\$5,500
Trade receivables	10,496	10,393	10,393	10,393	10,393	10,393
Prepaid expenses and other current assets	305	310	310	310	310	310
Prepaid supplies	537	546	546	546	546	546
<b>Total current assets</b>	<b>\$16,838</b>	<b>\$16,748</b>	<b>\$16,748</b>	<b>\$16,748</b>	<b>\$16,748</b>	<b>\$16,748</b>
Property and equipment	22,974	24,618	26,262	27,905	29,549	29,549
Less accumulated depreciation	(10,601)	(12,330)	(14,059)	(15,788)	(17,517)	(17,517)
Net property and equipment	12,373	12,288	12,202	12,117	12,032	12,032
Cash surrender value of life insurance	1,021	1,121	1,221	1,321	1,421	1,421
<b>Total assets</b>	<b>\$30,232</b>	<b>\$30,157</b>	<b>\$30,172</b>	<b>\$30,187</b>	<b>\$30,201</b>	<b>\$30,201</b>
Line of credit	\$0	\$0	\$0	\$0	\$0	\$0
Current portion of term loan	2,100	2,100	2,100	2,100	875	875
Account payables	387	383	383	383	383	383
Accrued expenses and other current liabilities	2,190	2,042	1,916	1,790	1,663	1,663
<b>Total current liabilities</b>	<b>\$4,677</b>	<b>\$4,525</b>	<b>\$4,399</b>	<b>\$4,273</b>	<b>\$2,921</b>	<b>\$2,921</b>
Term loan, less current portion	7,175	5,075	2,975	875	-	-
Deferred compensation liability	5,503	5,590	5,590	5,590	5,590	5,590
<b>Total liabilities</b>	<b>\$17,355</b>	<b>\$15,191</b>	<b>\$12,964</b>	<b>\$10,738</b>	<b>\$8,512</b>	<b>\$8,512</b>
Common stock par value	1	1	1	1	1	1
Retained earnings	12,876	14,965	17,206	19,448	21,689	21,689
<b>Total liabilities and stockholder's equity</b>	<b>\$30,232</b>	<b>\$30,157</b>	<b>\$30,172</b>	<b>\$30,187</b>	<b>\$30,201</b>	<b>\$30,201</b>

## Leveraged Recap (Flat Case): Cash Flows

(\$ in 000's)	FY2014	FY2015	FY2016	FY2017	FY2018	EOP
<b>Revenue</b>	<b>\$127,697</b>	<b>\$126,443</b>	<b>\$126,443</b>	<b>\$126,443</b>	<b>\$126,443</b>	<b>\$633,471</b>
Cost to provide services	(94,097)	(93,206)	(93,206)	(93,206)	(93,206)	(466,919)
<b>Gross profit</b>	<b>\$33,601</b>	<b>\$33,238</b>	<b>\$33,238</b>	<b>\$33,238</b>	<b>\$33,238</b>	<b>\$166,551</b>
Shareholder's salary	(17,768)	(13,175)	(13,127)	(13,232)	(13,337)	(70,640)
Other operating expenses	(18,023)	(17,603)	(17,603)	(17,603)	(17,603)	(88,434)
<b>Operating income</b>	<b>(\$2,190)</b>	<b>\$2,460</b>	<b>\$2,507</b>	<b>\$2,402</b>	<b>\$2,297</b>	<b>\$7,477</b>
Interest expense on term loan	(288)	(411)	(306)	(201)	(96)	(1,303)
Other income / expense	40	40	40	40	40	201
<b>Earnings before taxes</b>	<b>(\$2,438)</b>	<b>\$2,089</b>	<b>\$2,241</b>	<b>\$2,241</b>	<b>\$2,241</b>	<b>\$6,375</b>
Provision for income taxes	-	-	-	-	-	-
<b>Net income / (loss)</b>	<b>(\$2,438)</b>	<b>\$2,089</b>	<b>\$2,241</b>	<b>\$2,241</b>	<b>\$2,241</b>	<b>\$6,375</b>
Depreciation	1,716	1,729	1,729	1,729	1,729	8,632
Change in working capital	915	(74)	(226)	(226)	(226)	162
<b>Net cash (used in) provided by operating activities</b>	<b>\$193</b>	<b>\$3,744</b>	<b>\$3,744</b>	<b>\$3,744</b>	<b>\$3,744</b>	<b>\$15,168</b>
Purchases of property and equipment	(1,660)	(1,644)	(1,644)	(1,644)	(1,644)	(8,235)
<b>Net cash (used in) provided by investing activities</b>	<b>(\$1,660)</b>	<b>(\$1,644)</b>	<b>(\$1,644)</b>	<b>(\$1,644)</b>	<b>(\$1,644)</b>	<b>(\$8,235)</b>
Repayment on term loan	9,275	(2,100)	(2,100)	(2,100)	(2,100)	875
Distribution to shareholders	(10,500)	-	-	-	-	(10,500)
<b>Net cash (used in) provided by financing activities</b>	<b>(\$1,225)</b>	<b>(\$2,100)</b>	<b>(\$2,100)</b>	<b>(\$2,100)</b>	<b>(\$2,100)</b>	<b>(\$9,625)</b>
Cash and cash equivalents at beginning of period	\$8,192	\$5,500	\$5,500	\$5,500	\$5,500	\$8,192
Net increase (decrease) in cash	(2,692)	(0)	-	(0)	(0)	(2,692)
<b>Cash and cash equivalents at end of period</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>

## Leveraged Recap (Flat Case): Proceeds to John

(\$ in 000's)	At Closing	FY2014	FY2015	FY2016	FY2017	FY2018	Total
Compensation to John	\$0	\$17,768	\$13,175	\$13,127	\$13,232	\$13,337	\$70,640
Distribution at closing	10,500	-	-	-	-	-	10,500
Pre-tax proceeds to John	\$10,500	\$17,768	\$13,175	\$13,127	\$13,232	\$13,337	\$81,140
Taxes on compensation	-	(7,036)	(5,217)	(5,198)	(5,240)	(5,282)	(27,973)
Taxes on distribution at closing	-	-	-	-	-	-	-
Taxes on proceeds to John	\$0	(\$7,036)	(\$5,217)	(\$5,198)	(\$5,240)	(\$5,282)	(\$27,973)
<b>After-tax proceeds to John</b>	<b>\$10,500</b>	<b>\$10,732</b>	<b>\$7,957</b>	<b>\$7,929</b>	<b>\$7,992</b>	<b>\$8,056</b>	<b>\$53,166</b>

## 49% ESOP (Downside Case): Balance Sheet

(\$ in 000's)	FY2014	FY2015	FY2016	FY2017	FY2018	EOP
Cash and cash equivalents	\$5,500	\$5,500	\$5,500	\$5,500	\$5,500	\$5,500
Trade receivables	10,496	8,729	8,904	9,082	9,264	9,264
Prepaid expenses and other current assets	305	260	265	271	276	276
Prepaid supplies	537	459	468	477	487	487
<b>Total current assets</b>	<b>\$16,838</b>	<b>\$14,948</b>	<b>\$15,137</b>	<b>\$15,330</b>	<b>\$15,526</b>	<b>\$15,526</b>
Property and equipment	22,974	24,355	25,763	27,200	28,665	28,665
Less accumulated depreciation	(10,601)	(12,025)	(13,476)	(14,957)	(16,467)	(16,467)
Net property and equipment	12,373	12,330	12,287	12,243	12,198	12,198
Cash surrender value of life insurance	1,021	1,121	1,221	1,321	1,421	1,421
<b>Total assets</b>	<b>\$30,232</b>	<b>\$28,399</b>	<b>\$28,645</b>	<b>\$28,893</b>	<b>\$29,145</b>	<b>\$29,145</b>
Line of credit	\$0	\$0	\$0	\$0	\$0	\$0
Current portion of term loan	4,900	4,900	4,900	4,900	2,042	2,042
Account payables	387	322	328	335	341	341
Accrued expenses and other current liabilities	2,190	1,716	1,641	1,564	1,482	1,482
<b>Total current liabilities</b>	<b>\$7,477</b>	<b>\$6,937</b>	<b>\$6,870</b>	<b>\$6,799</b>	<b>\$3,865</b>	<b>\$3,865</b>
Term loan, less current portion	16,742	11,842	6,942	2,042	-	-
Seller notes	31,636	27,854	24,391	20,549	16,317	16,317
Deferred compensation liability	5,503	4,696	4,790	4,885	4,983	4,983
<b>Total liabilities</b>	<b>\$61,358</b>	<b>\$51,329</b>	<b>\$42,991</b>	<b>\$34,274</b>	<b>\$25,166</b>	<b>\$25,166</b>
Common stock par value	1	1	1	1	1	1
Unearned ESOP shares	(45,294)	(39,797)	(34,300)	(28,804)	(23,307)	(23,307)
Retained earnings	14,166	16,866	19,953	23,422	27,285	27,285
<b>Total liabilities and stockholder's equity</b>	<b>\$30,232</b>	<b>\$28,399</b>	<b>\$28,645</b>	<b>\$28,893</b>	<b>\$29,145</b>	<b>\$29,145</b>



## 49% ESOP (Downside Case): Cash Flows

(\$ in 000's)	FY2014	FY2015	FY2016	FY2017	FY2018	EOP
<b>Revenue</b>	<b>\$127,697</b>	<b>\$106,206</b>	<b>\$108,330</b>	<b>\$110,497</b>	<b>\$112,706</b>	<b>\$565,436</b>
Cost to provide services	(94,097)	(78,288)	(79,854)	(81,451)	(83,080)	(416,769)
<b>Gross profit</b>	<b>\$33,601</b>	<b>\$27,918</b>	<b>\$28,476</b>	<b>\$29,046</b>	<b>\$29,627</b>	<b>\$148,667</b>
Shareholder's salary	(10,037)	(1,100)	(1,100)	(1,100)	(1,100)	(14,437)
Other operating expenses	(18,623)	(14,828)	(15,123)	(15,425)	(15,732)	(79,731)
<b>Operating income</b>	<b>\$4,941</b>	<b>\$11,990</b>	<b>\$12,253</b>	<b>\$12,521</b>	<b>\$12,794</b>	<b>\$54,499</b>
Interest expense on term loan	(673)	(960)	(715)	(470)	(225)	(3,041)
Interest expense on seller notes	(715)	(1,104)	(972)	(851)	(717)	(4,359)
Payroll contribution	(1,509)	(2,587)	(2,587)	(2,587)	(2,587)	(11,856)
Other income / expense	40	40	40	40	40	201
<b>Earnings before taxes</b>	<b>\$2,084</b>	<b>\$7,380</b>	<b>\$8,020</b>	<b>\$8,654</b>	<b>\$9,306</b>	<b>\$35,444</b>
Provision for income taxes	(1,535)	(1,770)	(2,023)	(2,274)	(2,533)	(10,135)
<b>Net income / (loss)</b>	<b>\$550</b>	<b>\$5,610</b>	<b>\$5,996</b>	<b>\$6,379</b>	<b>\$6,773</b>	<b>\$25,308</b>
Depreciation	1,716	1,423	1,452	1,481	1,510	7,582
Change in working capital	915	443	(263)	(268)	(274)	554
<b>Net cash (used in) provided by operating activities</b>	<b>\$3,181</b>	<b>\$7,476</b>	<b>\$7,185</b>	<b>\$7,592</b>	<b>\$8,010</b>	<b>\$33,444</b>
Purchases of property and equipment	(1,660)	(1,381)	(1,408)	(1,436)	(1,465)	(7,351)
<b>Net cash (used in) provided by investing activities</b>	<b>(\$1,660)</b>	<b>(\$1,381)</b>	<b>(\$1,408)</b>	<b>(\$1,436)</b>	<b>(\$1,465)</b>	<b>(\$7,351)</b>
Repayment on term loan	21,642	(4,900)	(4,900)	(4,900)	(4,900)	2,042
Repayment of seller notes	31,636	(3,782)	(3,464)	(3,842)	(4,231)	16,317
Purchase price of ESOP shares	(48,500)	-	-	-	-	(48,500)
ESOP note payable	3,206	5,497	5,497	5,497	5,497	25,193
Distribution to shareholders	(10,500)	-	-	-	-	(10,500)
Preferred stock dividends	(1,698)	(2,910)	(2,910)	(2,910)	(2,910)	(13,338)
<b>Net cash (used in) provided by financing activities</b>	<b>(\$4,213)</b>	<b>(\$6,095)</b>	<b>(\$5,777)</b>	<b>(\$6,155)</b>	<b>(\$6,545)</b>	<b>(\$28,786)</b>
Cash and cash equivalents at beginning of period	\$8,192	\$5,500	\$5,500	\$5,500	\$5,500	\$8,192
Net increase (decrease) in cash	(2,692)	(0)	-	-	-	(2,692)
<b>Cash and cash equivalents at end of period</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>

## 49% ESOP (Downside Case): Proceeds to John

(\$ in 000's)	At Closing	FY2014	FY2015	FY2016	FY2017	FY2018	Total
Compensation to John	\$0	\$10,037	\$1,100	\$1,100	\$1,100	\$1,100	\$14,437
Distribution at closing	10,500	-	-	-	-	-	10,500
Repayment of seller notes	13,400	3,464	3,782	3,464	3,842	4,231	32,183
Interest on seller notes	-	715	1,104	972	851	717	4,359
<b>Pre-tax proceeds to John</b>	<b>\$23,900</b>	<b>\$14,216</b>	<b>\$5,986</b>	<b>\$5,536</b>	<b>\$5,793</b>	<b>\$6,049</b>	<b>\$61,479</b>
Taxes on compensation	-	(3,975)	(436)	(436)	(436)	(436)	(5,717)
Taxes on distribution at closing	-	-	-	-	-	-	-
Taxes on proceeds on seller notes	-	-	-	-	-	-	-
Taxes on interest on seller notes	-	(283)	(437)	(385)	(337)	(284)	(1,726)
<b>Taxes on proceeds to John</b>	<b>\$0</b>	<b>(\$4,258)</b>	<b>(\$873)</b>	<b>(\$821)</b>	<b>(\$773)</b>	<b>(\$720)</b>	<b>(\$7,443)</b>
<b>After-tax proceeds to John</b>	<b>\$23,900</b>	<b>\$9,958</b>	<b>\$5,113</b>	<b>\$4,715</b>	<b>\$5,021</b>	<b>\$5,329</b>	<b>\$54,036</b>

## 100% ESOP (Downside Case): Balance Sheet

(\$ in 000's)	FY2014	FY2015	FY2016	FY2017	FY2018	EOP
Cash and cash equivalents	\$5,500	\$5,500	\$5,500	\$5,500	\$5,500	\$5,500
Trade receivables	10,496	8,729	8,904	9,082	9,264	9,264
Prepaid expenses and other current assets	305	260	265	271	276	276
Prepaid supplies	537	459	468	477	487	487
<b>Total current assets</b>	<b>\$16,838</b>	<b>\$14,948</b>	<b>\$15,137</b>	<b>\$15,330</b>	<b>\$15,526</b>	<b>\$15,526</b>
Property and equipment	22,974	24,355	25,763	27,200	28,665	28,665
Less accumulated depreciation	(10,601)	(12,025)	(13,476)	(14,957)	(16,467)	(16,467)
Net property and equipment	12,373	12,330	12,287	12,243	12,198	12,198
Cash surrender value of life insurance	1,021	1,121	1,221	1,321	1,421	1,421
<b>Total assets</b>	<b>\$30,232</b>	<b>\$28,399</b>	<b>\$28,645</b>	<b>\$28,893</b>	<b>\$29,145</b>	<b>\$29,145</b>
Line of credit	\$0	\$0	\$0	\$0	\$0	\$0
Current portion of term loan	4,900	4,900	4,900	4,900	2,042	2,042
Account payables	387	322	328	335	341	341
Accrued expenses and other current liabilities	2,190	1,716	1,641	1,564	1,482	1,482
<b>Total current liabilities</b>	<b>\$7,477</b>	<b>\$6,937</b>	<b>\$6,870</b>	<b>\$6,799</b>	<b>\$3,865</b>	<b>\$3,865</b>
Term loan, less current portion	16,742	11,842	6,942	2,042	-	-
Seller notes	54,896	50,156	45,447	40,066	33,983	33,983
Deferred compensation liability	5,503	4,696	4,790	4,885	4,983	4,983
<b>Total liabilities</b>	<b>\$84,618</b>	<b>\$73,631</b>	<b>\$64,048</b>	<b>\$53,791</b>	<b>\$42,831</b>	<b>\$42,831</b>
Common stock par value	1	1	1	1	1	1
Unearned ESOP shares	(71,101)	(68,189)	(65,277)	(62,365)	(59,453)	(59,453)
Retained earnings	16,714	22,957	29,873	37,466	45,766	45,766
<b>Total liabilities and stockholder's equity</b>	<b>\$30,232</b>	<b>\$28,399</b>	<b>\$28,645</b>	<b>\$28,893</b>	<b>\$29,145</b>	<b>\$29,145</b>

## 100% ESOP (Downside Case): Cash Flows

(\$ in 000's)	FY2014	FY2015	FY2016	FY2017	FY2018	EOP
<b>Revenue</b>	<b>\$127,697</b>	<b>\$106,206</b>	<b>\$108,330</b>	<b>\$110,497</b>	<b>\$112,706</b>	<b>\$565,436</b>
Cost to provide services	(94,097)	(78,288)	(79,854)	(81,451)	(83,080)	(416,769)
<b>Gross profit</b>	<b>\$33,601</b>	<b>\$27,918</b>	<b>\$28,476</b>	<b>\$29,046</b>	<b>\$29,627</b>	<b>\$148,667</b>
Shareholder's salary	(10,037)	(1,100)	(1,100)	(1,100)	(1,100)	(14,437)
Other operating expenses	(18,623)	(14,828)	(15,123)	(15,425)	(15,732)	(79,731)
<b>Operating income</b>	<b>\$4,941</b>	<b>\$11,990</b>	<b>\$12,253</b>	<b>\$12,521</b>	<b>\$12,794</b>	<b>\$54,499</b>
Interest expense on term loan	(673)	(960)	(715)	(470)	(225)	(3,041)
Interest expense on seller notes	(1,209)	(1,916)	(1,750)	(1,586)	(1,398)	(7,860)
Payroll contribution	(1,699)	(2,912)	(2,912)	(2,912)	(2,912)	(13,347)
Other income / expense	40	40	40	40	40	201
<b>Earnings before taxes</b>	<b>\$1,400</b>	<b>\$6,243</b>	<b>\$6,916</b>	<b>\$7,593</b>	<b>\$8,300</b>	<b>\$30,452</b>
Provision for income taxes	-	-	-	-	-	-
<b>Net income / (loss)</b>	<b>\$1,400</b>	<b>\$6,243</b>	<b>\$6,916</b>	<b>\$7,593</b>	<b>\$8,300</b>	<b>\$30,452</b>
Depreciation	1,716	1,423	1,452	1,481	1,510	7,582
Change in working capital	915	443	(263)	(268)	(274)	554
<b>Net cash (used in) provided by operating activities</b>	<b>\$4,031</b>	<b>\$8,109</b>	<b>\$8,105</b>	<b>\$8,806</b>	<b>\$9,536</b>	<b>\$38,588</b>
Purchases of property and equipment	(1,660)	(1,381)	(1,408)	(1,436)	(1,465)	(7,351)
<b>Net cash (used in) provided by investing activities</b>	<b>(\$1,660)</b>	<b>(\$1,381)</b>	<b>(\$1,408)</b>	<b>(\$1,436)</b>	<b>(\$1,465)</b>	<b>(\$7,351)</b>
Repayment on term loan	21,642	(4,900)	(4,900)	(4,900)	(4,900)	2,042
Repayment of seller notes	54,896	(4,740)	(4,709)	(5,382)	(6,083)	33,983
Purchase price of ESOP shares	(72,800)	-	-	-	-	(72,800)
ESOP note payable	1,699	2,912	2,912	2,912	2,912	13,347
Distribution to shareholders	(10,500)	-	-	-	-	(10,500)
Preferred stock dividends	-	-	-	-	-	-
<b>Net cash (used in) provided by financing activities</b>	<b>(\$5,063)</b>	<b>(\$6,728)</b>	<b>(\$6,697)</b>	<b>(\$7,370)</b>	<b>(\$8,071)</b>	<b>(\$33,929)</b>
Cash and cash equivalents at beginning of period	\$8,192	\$5,500	\$5,500	\$5,500	\$5,500	\$8,192
Net increase (decrease) in cash	(2,692)	(0)	-	-	-	(2,692)
<b>Cash and cash equivalents at end of period</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>

## 100% ESOP (Downside Case): Proceeds to John

(\$ in 000's)	At Closing	FY2014	FY2015	FY2016	FY2017	FY2018	Total
Compensation to John	\$0	\$10,037	\$1,100	\$1,100	\$1,100	\$1,100	\$14,437
Distribution at closing	10,500	-	-	-	-	-	10,500
Repayment of seller notes	13,400	4,504	4,740	4,709	5,382	6,083	38,817
Interest on seller notes	-	1,209	1,916	1,750	1,586	1,398	7,860
<b>Pre-tax proceeds to John</b>	<b>\$23,900</b>	<b>\$15,750</b>	<b>\$7,756</b>	<b>\$7,559</b>	<b>\$8,068</b>	<b>\$8,581</b>	<b>\$71,615</b>
Taxes on compensation	-	(3,975)	(436)	(436)	(436)	(436)	(5,717)
Taxes on distribution at closing	-	-	-	-	-	-	-
Taxes on proceeds on seller notes	(3,189)	(1,072)	(1,128)	(1,121)	(1,281)	(1,448)	(9,239)
Taxes on interest on seller notes	-	(479)	(759)	(693)	(628)	(554)	(3,113)
<b>Taxes on proceeds to John</b>	<b>(\$3,189)</b>	<b>(\$5,526)</b>	<b>(\$2,323)</b>	<b>(\$2,249)</b>	<b>(\$2,345)</b>	<b>(\$2,437)</b>	<b>(\$18,068)</b>
<b>After-tax proceeds to John</b>	<b>\$20,711</b>	<b>\$10,225</b>	<b>\$5,434</b>	<b>\$5,310</b>	<b>\$5,723</b>	<b>\$6,144</b>	<b>\$53,547</b>

## Leveraged Recap (Downside Case): Balance Sheet

(\$ in 000's)	FY2014	FY2015	FY2016	FY2017	FY2018	EOP
Cash and cash equivalents	\$5,500	\$5,500	\$5,500	\$5,500	\$5,500	\$5,500
Trade receivables	10,496	8,729	8,904	9,082	9,264	9,264
Prepaid expenses and other current assets	305	260	265	271	276	276
Prepaid supplies	537	459	468	477	487	487
<b>Total current assets</b>	<b>\$16,838</b>	<b>\$14,948</b>	<b>\$15,137</b>	<b>\$15,330</b>	<b>\$15,526</b>	<b>\$15,526</b>
Property and equipment	22,974	24,355	25,763	27,200	28,665	28,665
Less accumulated depreciation	(10,601)	(12,025)	(13,476)	(14,957)	(16,467)	(16,467)
<b>Net property and equipment</b>	<b>12,373</b>	<b>12,330</b>	<b>12,287</b>	<b>12,243</b>	<b>12,198</b>	<b>12,198</b>
Cash surrender value of life insurance	1,021	1,121	1,221	1,321	1,421	1,421
<b>Total assets</b>	<b>\$30,232</b>	<b>\$28,399</b>	<b>\$28,645</b>	<b>\$28,893</b>	<b>\$29,145</b>	<b>\$29,145</b>
Line of credit	\$0	\$0	\$0	\$0	\$0	\$0
Current portion of term loan	2,100	2,100	2,100	2,100	875	875
Account payables	387	322	328	335	341	341
Accrued expenses and other current liabilities	2,190	1,716	1,641	1,564	1,482	1,482
<b>Total current liabilities</b>	<b>\$4,677</b>	<b>\$4,137</b>	<b>\$4,070</b>	<b>\$3,999</b>	<b>\$2,699</b>	<b>\$2,699</b>
Term loan, less current portion	7,175	5,075	2,975	875	-	-
Deferred compensation liability	5,503	4,696	4,790	4,885	4,983	4,983
<b>Total liabilities</b>	<b>\$17,355</b>	<b>\$13,908</b>	<b>\$11,834</b>	<b>\$9,759</b>	<b>\$7,682</b>	<b>\$7,682</b>
Common stock par value	1	1	1	1	1	1
Retained earnings	12,876	14,490	16,809	19,133	21,462	21,462
<b>Total liabilities and stockholder's equity</b>	<b>\$30,232</b>	<b>\$28,399</b>	<b>\$28,645</b>	<b>\$28,893</b>	<b>\$29,145</b>	<b>\$29,145</b>

## Leveraged Recap (Downside Case): Cash Flows

(\$ in 000's)	FY2014	FY2015	FY2016	FY2017	FY2018	EOP
<b>Revenue</b>	<b>\$127,697</b>	<b>\$106,206</b>	<b>\$108,330</b>	<b>\$110,497</b>	<b>\$112,706</b>	<b>\$565,436</b>
Cost to provide services	(94,097)	(78,288)	(79,854)	(81,451)	(83,080)	(416,769)
<b>Gross profit</b>	<b>\$33,601</b>	<b>\$27,918</b>	<b>\$28,476</b>	<b>\$29,046</b>	<b>\$29,627</b>	<b>\$148,667</b>
Shareholder's salary	(17,768)	(11,155)	(10,818)	(11,186)	(11,560)	(62,486)
Other operating expenses	(18,023)	(14,778)	(15,073)	(15,375)	(15,682)	(78,931)
<b>Operating income</b>	<b>(\$2,190)</b>	<b>\$1,986</b>	<b>\$2,585</b>	<b>\$2,485</b>	<b>\$2,385</b>	<b>\$7,251</b>
Interest expense on term loan	(288)	(411)	(306)	(201)	(96)	(1,303)
Other income / expense	40	40	40	40	40	201
<b>Earnings before taxes</b>	<b>(\$2,438)</b>	<b>\$1,614</b>	<b>\$2,319</b>	<b>\$2,324</b>	<b>\$2,329</b>	<b>\$6,148</b>
Provision for income taxes	-	-	-	-	-	-
<b>Net income / (loss)</b>	<b>(\$2,438)</b>	<b>\$1,614</b>	<b>\$2,319</b>	<b>\$2,324</b>	<b>\$2,329</b>	<b>\$6,148</b>
Depreciation	1,716	1,423	1,452	1,481	1,510	7,582
Change in working capital	915	443	(263)	(268)	(274)	554
<b>Net cash (used in) provided by operating activities</b>	<b>\$193</b>	<b>\$3,481</b>	<b>\$3,508</b>	<b>\$3,536</b>	<b>\$3,565</b>	<b>\$14,284</b>
Purchases of property and equipment	(1,660)	(1,381)	(1,408)	(1,436)	(1,465)	(7,351)
<b>Net cash (used in) provided by investing activities</b>	<b>(\$1,660)</b>	<b>(\$1,381)</b>	<b>(\$1,408)</b>	<b>(\$1,436)</b>	<b>(\$1,465)</b>	<b>(\$7,351)</b>
Repayment on term loan	9,275	(2,100)	(2,100)	(2,100)	(2,100)	875
Distribution to shareholders	(10,500)	-	-	-	-	(10,500)
<b>Net cash (used in) provided by financing activities</b>	<b>(\$1,225)</b>	<b>(\$2,100)</b>	<b>(\$2,100)</b>	<b>(\$2,100)</b>	<b>(\$2,100)</b>	<b>(\$9,625)</b>
Cash and cash equivalents at beginning of period	\$8,192	\$5,500	\$5,500	\$5,500	\$5,500	\$8,192
Net increase (decrease) in cash	(2,692)	(0)	-	-	-	(2,692)
<b>Cash and cash equivalents at end of period</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>	<b>\$5,500</b>

## Leveraged Recap (Downside Case): Proceeds to John

(\$ in 000's)	At Closing	FY2014	FY2015	FY2016	FY2017	FY2018	Total
Compensation to John	\$0	\$17,768	\$11,155	\$10,818	\$11,186	\$11,560	\$62,486
Distribution at closing	10,500	-	-	-	-	-	10,500
<b>Pre-tax proceeds to John</b>	<b>\$10,500</b>	<b>\$17,768</b>	<b>\$11,155</b>	<b>\$10,818</b>	<b>\$11,186</b>	<b>\$11,560</b>	<b>\$72,986</b>
Taxes on compensation	-	(7,036)	(4,417)	(4,284)	(4,430)	(4,578)	(24,744)
Taxes on distribution at closing	-	-	-	-	-	-	-
<b>Taxes on proceeds to John</b>	<b>\$0</b>	<b>(\$7,036)</b>	<b>(\$4,417)</b>	<b>(\$4,284)</b>	<b>(\$4,430)</b>	<b>(\$4,578)</b>	<b>(\$24,744)</b>
<b>After-tax proceeds to John</b>	<b>\$10,500</b>	<b>\$10,732</b>	<b>\$6,737</b>	<b>\$6,534</b>	<b>\$6,756</b>	<b>\$6,982</b>	<b>\$48,242</b>



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