FARRELL ADVISORY INC.

M&A ▪ RESTRUCTURING ▪ CFO

PROJECT SPICE – DUE DILIGENCE WORKBOOK - DRAFT

October 12th, 2017

Limits on Report Access and Distribution

- This report ("Report") has been prepared for Client ("Client") pursuant to the terms of engagement between Farrell Advisory Inc. ("FAI") and Client in relation to the proposed acquisition ("Acquisition" or "Transaction") of Company A Inc. and subsidiaries (together called "Company A", "Company" or "Target"). This Report is not to be referred to or quoted, in whole or in part, in any registration statement, prospectus, public filing, fund raising, loan agreement, or other agreement or any other document without the prior written approval of FAI.
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April 8, 2015

Client Address

Dear Client:

Farrell Advisory Inc. ("FAI") was asked by you to perform analyses of certain financial, tax and IT information on Company A Inc. and subsidiaries (together called "Company A", "Target" or the "Company") to assist you with your due diligence investigation of Company A in connection with Client Full name ("Client") proposed acquisition ("Acquisition" or "Transaction") of Company A. Our Due Diligence services have been limited to the procedures outlined at Appendix A.

Statement of Limitation

Information with respect to the Company A's operations, account balances and accounting and operating procedures purported to be in effect and described in our report was obtained through analyses provided by Company A's management ("Management") and discussions with Management. FAI's analysis was restricted to the information provided by Company A's Management during our visit on April 5 and 6, 2015 at the Company's corporate head office and follow up conversations through April 8, 2015.

Our work did not constitute an audit conducted in accordance with generally accepted auditing standards, an examination of internal controls or other attestation or review services in accordance with standards established by the American Institute of Certified Public Accountants ("AICPA"). Accordingly, FAI does not express an opinion or any other form of assurance on the financial statements of Company A or any financial or other information, or operating and internal controls of the Company.

With respect to prospective accounting, business, and industry information relative to Company A referenced throughout this Report, FAI did not examine, compile or apply agreed-upon procedures to such information in accordance with standards established by the AICPA and FAI does not express any assurances of any kind on such information. There will usually be differences between estimated and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. FAI takes no responsibility for the achievability of the expected results anticipated by the Management of Company A.

FAI makes no representation regarding the sufficiency of the work either for purposes for which this Report has been requested or for any other purpose. The sufficiency of the work FAI performed is solely the responsibility of Client and neither FAI's work nor its findings shall in any way constitute a recommendation whether Client should or should not consummate the Transaction. Had FAI been requested to perform additional work, additional matters might have come to FAI's attention that would have been reported to you.

Statement of Limitation, continued

It is understood that this Report is solely for the information of the management of Client. This Report, or portions thereof, should not be referred or distributed to any other persons or entity, other than Client's legal counsel or other professional advisors associated with this Transaction. The Report is not to be referred to or quoted, in whole or in part, in any registration statement, public filing, loan agreement or document without FAI's prior written approval, which may require that FAI performs additional work.

Tax Disclosure

In compliance with Treasury Regulations, FAI informs you that any tax advice contained in this Report was not intended or prepared by FAI to be used, and cannot be used, by you or anyone else for the purpose of avoiding penalties imposed under the Internal Revenue Code or applicable state or local tax laws. The advice was not written to support recommending, promoting or marketing the transaction or matter addressed by the written tax advice. Persons other than Client should seek advice based on their particular circumstances from an independent tax advisor.

Should you require clarification of any of the matters contained in this Report or any further information, FAI would be pleased to extend its work as you consider necessary. FAI has no responsibility to update this Report for events and circumstances occurring after the date of this letter.

Yours Very Truly,

Draft

Farrell Advisory Inc.

The contacts at Farrell Advisory Inc. associated with this Report are:

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I. DEFINITION OF TERMS
Abbreviations and Definitions

ABBREVIATIONS	DEFINITIONS
ACP	Average cost per home
Adjusted or Pro Forma EBITDA	EBITDA after Management's and FAI's adjustments
Adjusted or Pro Forma NWC	Net working capital after Management's and FAI's adjustments
Adjusted or Forma Revenue	Revenue after Management's and FAI's adjustments
AICPA	American Institute of Certified Public Accountants
ANWC	Adjusted Net Working Capital
AP	Accounts payable
AR	Accounts receivable
ASC	Accounting Standards Codification
ASF	Average square foot per house
ASP	Average selling price per house
BS	Balance sheet
CAO	Chief Administrative Officer, name
Carve-Out Adjustments	Adjustments disaggregating financial results
Carve-Out Financial Statements	The disaggregation of the Group's financial statements to analyze the Business
CEO	Chief Executive Officer, name

ABBREVIATIONS	DEFINITIONS
CIM	Confidential information memorandum dated January 5, 2015
Chairman	Chairman, name
Company, Company A or Target	[Name]
Controller	Controller, name
D.XX	Due diligence adjustment to EBITDA number XX
Dec10	As of December 31, 2010
Dec11	As of December 31, 2011
Dec12	As of December 31, 2012
Dec13	As of December 31, 2013
Dec14F	As of December 31, 2014 (Forecasted)
DPO	Days accounts payable Outstanding
DOH	Days on hand for inventory
DSO	Days sales outstanding
EBITDA	Earnings before interest, taxes, depreciation and amortization
Engagement Letter	Engagement letter dated January 8, 2015
External Tax Advisor	[Name]

I. DEFINITION OF TERMS
Abbreviations and Definitions, cont.

ABBREVIATIONS	DEFINITIONS
FAI	Farrell Advisory Inc.
Free Cash Flow	EBITDA less (1) Capex; and (2) increase/(decrease) in NWC
FTE	Full Time Employees
FY10	Twelve months ended December 31, 2010
FY11	Twelve months ended December 31, 2011
FY12	Twelve months ended December 31, 2012
FY13	Twelve months ended December 31, 2013
FY14F	Forecast twelve months ending December 31, 2014 as received on March 5, 2014
GAAP	Accounting Principles Generally Accepted in the United States of America
Historical Balance Sheet Dates	Dec12 and Dec13
Historical Periods	FY12 and FY13
IRS	Internal Revenue Service
KPI	Key Performance Indicator
Historical Balance Sheet Dates	Dec12 and Dec13
Historical Periods	FY12 and FY13
IRS	Internal Revenue Service
KPI	Key Performance Indicator

ABBREVIATIONS	DEFINITIONS
LOI	Draft letter of intent dated [Date]
LLC	Limited Liability Company
Management	Chairman, CEO, CFO, CAO, CP, Land, VP, Operations, VP, Marketing, VP, Sales and Controller
Management EBITDA	EBITDA after Management's adjustments
Management NWC	Net Working Capital after Management's adjustments
Multifamily Business	Related party business which builds town houses and multi-family rental condominiums
M.XX	Management adjustment to EBITDA number XX
NBV	Net book value
N/A	Not available
NWC	Net working capital
NWC. XX	Due diligence adjustment to net working capital number XX
Adjusted NWC or NWC-PF	Net working capital excluding tax, interest, non-trading assets and liabilities and as adjusted for Management and Proposed Due Diligence earning adjustments (Pro-forma net working capital)
N.Q.	Not quantifiable
-P	Plan per CIM
Senior Management	CEO, Presidents, Vice Presidents and CFO

I. DEFINITION OF TERMS
Abbreviations and Definitions, cont.

ABBREVIATIONS	DEFINITIONS
NWC-PF or Adjusted NWC	Net working capital excluding tax, interest, non-trading assets and liabilities and as adjusted for Management and Proposed Due Diligence earning adjustments (Pro-forma net working capital)
N.Q.	Not quantifiable
-P	Plan per CIM
Senior Management	CEO, Presidents, Vice Presidents and CFO
SKU	Stock-keeping unit
Transaction or Acquisition	Acquisition of the Company per LOI
Q1-XX	First quarter of the fiscal year XX
Q2-XX	Second quarter of the fiscal year XX
Q3-XX	Third quarter of the fiscal year XX
Q4-XX	Forth quarter of the fiscal year XX
YOY	Year over year

II. BACKGROUND

II. BACKGROUND
Company

Overview

- Company background and product and customer specifics have removed to maintain confidentiality of client and company. Industry indicators have been changed to be less descriptive.
- Founded in 2008, the Company employs 76 employees and currently operates in the following markets: [redact]
- The Company engages in the construction of affordable entry level homes in the [redact] United States. The Company's business strategy is to efficiently build housing communities on purchased land lots using subcontractors.

Products and Customers

- Company A serves 5,000 customers out of approximately 20,000 vendors, offering more than 8,000 different products under both private label and well-known brands. With the exception of bulk product, the Company distributes virtually every product a vendor needs to run its business.
- Company A sells both to vendor shops and general shops, though 98% of sales come from vendor shops. The industry is highly fragmented with the largest 50 chains comprising only 55% of total shops. Company A's customer base is even more fragmented than the industry. The Company's largest customer only accounts for 1.9% (U.S.: 2.1%) of total Company sales while its top 15 customers account for less than 25% of sales.
- Its most popular product makes up 31% of sales, but only 25% of U.S. gross profit. Company A focuses on products including filters, chemical additives, wipers, tools, shop supplies and hardware.
- The majority of the products are small, high volume products that are typically re-stocked by customers on a weekly or bi-weekly basis. The average order size per customer is approximately $650. In FY08, the majority of U.S. sales were derived from product A, 31%, product B, 16% product C, 13% and product D, 12%.

Products and Customers, continued

- These branded products and Company A private-label products are procured from well known automotive companies. In addition to supplies, the Company recently started distributing a new product to select customers. Although it currently accounts for a small portion (0.5%) of U.S. sales, it is a rapidly growing category.
- Company A normally delivers the products by 1-2 days Federal Express ("FedEx") services from strategically located warehouses.

Vendors

- The Company's largest vendor is Vendor A, a private label supplier of filters, which supplies approximately 34% of the Company's U.S. total purchases. Per the CIM, Vendor A contributes to approximately 42% of sales and 52% of gross profit. Per the CIM and CFO representations, this supplier is easily replaced by other filter manufacturers. No other supplier makes up more than 7% of Company A's sales or gross profit.

Market

- Company A operates within the $210 billion broad automotive aftermarket industry, defined as the market for all goods and services for a vehicle after it rolls off the new car dealership lot -from supplier to distributor, to retailer, to professional installer. Within this market, the Company operates within an estimated sub-market of $450 million.

Financial Results and Systems

Overview

- The Company's new home revenue increased by approximately $65,397k, equivalent to 66.86%, from $97,817k in FY12 to $163,211k in FY13. Gross profit increased by $10,592k, equivalent to 107.5%, from $9,852k in FY12 to $20,444k in FY13. The Company's reported EBITDA increased by $4,444k, equivalent to 48.2%, from $9,216k in FY12 to $13,660k in FY13.
- The Company has year ending December 31 for both financial tax reporting purposes.

CPA Involvement

- The FY11 and FY12 financial statements were audited by [redact]
- The FY10 through FY12 S Corp tax returns were prepared by [redact] ("External Tax Advisor").

Software and Reporting

- The Company uses Sage Timberline for financial reporting and Builder MT workflow software for budgeting, purchase orders and invoicing. The Company also uses the ITility Cloud Solution from Dynasis for data hosting and cloud computing.
- The Company's accounting policy is to prepare the financial statements on an accrual basis, recording home sales and expenses on the completion method. However, the monthly financial statements are prepared on a mix of accrual and cash basis; this is corrected by the Auditor at the year end.

Financial Overview

- The following chart presents a financial overview for the twelve months ended December 31, 2010 ("FY10"); December 31, 2011 ("FY11"); December 31, 2012 ("FY12"); December 31, 2013 ("FY13"); and the forecast for the year ending December 31, 2014 ("FY14F").

Income Statement Overview

$ in 000s; # in actual	FY10	FY11	FY12	FY13
Revenue	**37,294**	**50,301**	**97,952**	**163,463**
% change	*N/A*	*34.9%*	*94.7%*	*66.9%*
Gross profit	**7,717**	**5,925**	**9,852**	**20,444**
Gross profit %	*20.7%*	*11.8%*	*10.1%*	*12.5%*
Net income	2,445	3,085	4,794	13,338
EBITDA, as reported	**3,814**	**5,664**	**9,216**	**13,467**
EBITDA % as reporte	*10.2%*	*11.3%*	*9.4%*	*8.2%*
# homes closed	**221**	**282**	**503**	**752**
Average sales price	**N.Q.**	**N.Q.**	**194**	**217**

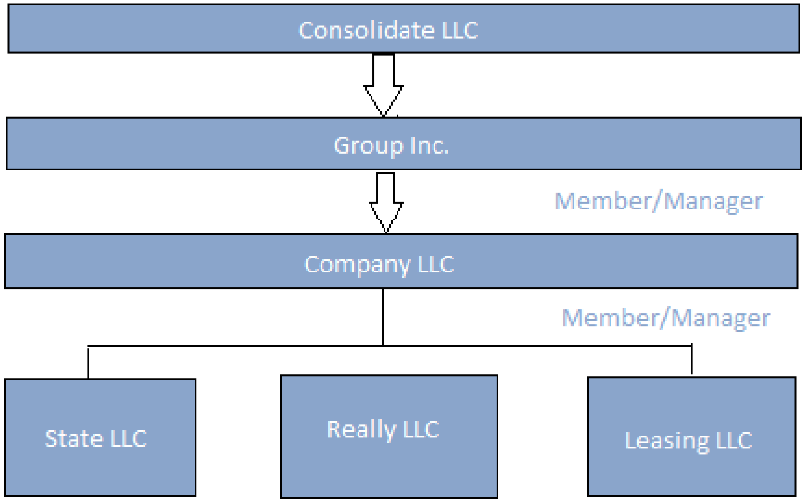
Source: Financial statements provided by Management

Balance Sheet Overview

$ in 000s	Dec10	Dec11	Dec12	Dec13
WIP and Owned Lots	22,742	30,297	36,108	43,916
Other current assets	2,249	754	4,238	11,442
Current assets	**24,991**	**31,051**	**40,346**	**55,358**
Other noncurrent assets	15	6	174	445
Total assets	**25,006**	**31,057**	**40,520**	**55,803**
Current liabilities	2,379	3,162	6,528	11,121
Long-term debt	21,885	27,895	33,992	44,599
Net assets	**742**	**-**	**-**	**83**
# in days (actual)				
DPO	**N.Q**	**N.Q**	**232**	**253**
DOH	**N.Q**	**N.Q**	**106**	**83**

Source: Financial statements provided by Management

Organization Structure



- During the Historical Period through to December 31, 2013, [redact] owned 100% of the Company. With effect from January 1, 2014 FAI was informed by Management that [redact] owned the Company through [redact] ("Seller").

- Unless noted within the Report, the business purpose of each company is as follows:
  - **[Redact]** – holding company and sole shareholder of [redact]
  - **[Redact] –** holding company and sole managing member of [redact].
  - **[Redact]–** operating entity. All assets are titled in the name of [redact]
  - **Single member limited liability companies ("LLC") –** established for each new community. Considered a disregarded entity for accounting purposes. [Redact] is the managing member of each LLC.

Organization Structure (continued)

  - **[Redact] -** the real estate entity responsible for administering sales activities and holding the broker's licenses. [Redact] is the managing member.
  - **[Redact] -** serves as tenant entity for the placement of sales trailers in communities before model homes are completed.

- Not listed on the chart to left are following related party entities which are consolidated within the financial results of the Company:
  - **[Redact]-** a corporation owned 100% [redact]. This entity serves as the funding company for both construction and working capital needs of the Company. This entity is consolidated within the financial results of the Company.
  - **[Redact]-** a funding company owned 100% by [redact] that serves as a funding company for the Company's construction activities. This entity is consolidated within the financial results of the Company.

- Management represented that the above two entities are not part of the contemplated Transaction. FAI has eliminated the intercompany activities of these two entities within the reported financial results of this Report.

Transaction Overview

- FAI obtained the Letter of Intent ("LOI") dated [redact] as well as the draft of the asset purchase agreement dated [redact] ("SP&A") and noted the following with regards to the contemplated Transaction:
  - [Client] will acquire substantially all the assets of the Company for [redact] on a debt-free, cash-free basis. The [redact] purchase price is comprised of (i) [redact]; and (ii) the book value of pre-construction lots, lots with finished, unsold units and lots with units under construction, estimated to be [redact].
  - The purchase price will be paid in full at the closing of the purchase. At the closing, [redact] will be deposited in escrow for 18 months to cover the Company's indemnification obligations.
  - [Client] anticipates that it will provide five-year employment agreements to [redact] ("CEO") and [redact] ("VP Sales").
  - [Client] proposes to set the following purchase price mechanisms:
    - Working capital adjustment equal to the difference between the target working capital and the actual closing working capital.
    - Book value adjustment equal to the difference between the target book value of inventory and the actual closing book value of inventory.

Scope of Due Diligence

Scope

- The following pages set forth our findings with respect to our due diligence procedures performed in connection with [Client's] contemplated acquisition of Company. The work FAI performed and observations presented throughout this Report are based primarily on the results of our discussions with and information provided by management of the Company ("Management").
- FAI's analysis was focused on understanding and analyzing components of the Company's:
  - Quality of Earnings Analysis ("EBITDA") for the years ended December 31, 2012 and December 31, 2013 ("Historical Period" or "FY12" and "FY13", respectively);
  - Forecast Analysis for the year ending December 31, 2014 ("FY14F" or "Forecast Period");
  - Working capital analysis to determine a normalized level; and
  - Review the key balance sheet categories as of December 31, 2012 and 2013 (together called the Historical Balance Sheet Dates").
- FAI encountered the following limitations during the application of its due diligence procedures:
  - Management would not provide the calculation of monthly interest expense paid or accrued in connection with loans provided by [redact]. Management subsequently confirmed the accuracy of a high level estimate of interest expenses by month as provided by FAI.
  - The Company uses Timberline as its accounting module but maintains a manual accounting system to record transactions on a batch basis. Management was unable to provide invoice detail for numerous transactions which FAI requested due to the burden of manual document retrieval.
  - Management does not prepare accounts payable aging reports. Accordingly, FAI did not analyze overdue payables.

Scope, continued

  - Management does not have a set "per closing" bonus structure in place but rather negotiates these bonuses with construction personnel on an individual basis. FAI was unable to analyze the impact of the per closing bonuses payable at Dec13 as Management could not provide a listing.
  - Management could not provide a full listing of expenses that need to be accrued as of December 31, 2013 or even a listing of non-accrued invoices received after December 31, 2013 which related to services or products supplied pre December 31, 2013.
  - At the request of Management, FAI were only allowed to talk to [redact] ("CEO") and [redact] ("CFO") while on site at the Company due to confidentiality reasons with regards to the contemplated Acquisition.
  - The FY13 audit was not complete.
- Had FAI not encountered these limitations, FAI's findings may have been different.
- FAI did not perform the following as it was outside FAI's scope of services:
  - Review the terms and conditions of the contract of sale;
  - Quantify the potential synergies related to the contemplated mergers; and
  - Review market conditions for home sales. ***FAI recommends that the Buyer reviews market conditions which should include the following as a minimum:***
    - ***Demographics of the area;***
    - ***Recent issues (e.g., school districts, adjacent firms; defense base closures);***
    - ***Available lots;***
    - ***Competition; and***
    - ***Demand.***

III. EXECUTIVE SUMMARY

Basis of Reporting – Carve-Out Financial Statements

<table>
<tr><th>Key Observations</th><th>Summary</th><th>Key Analysis</th></tr>
<tr><td>Carve-out of Financial Statements for the operations of the Homebuilding Business from Company.</td><td>

- [Company] financial statements for FY12 and FY13 include the following businesses:
  - **Homebuilding Business:** The business which builds single family homes
  - **Services ("Related Party Services") provided to:**
    - **Business 1:** The business which builds town houses and multi-family rental condominiums; and
    - **Business 2:** The business which builds smaller and lower quality homes in non-premium locations of housing communities.

    (together called ("Related Party Businesses" or "Other Businesses").
- [Client] is considering an acquisition of the Homebuilding Business only ("Transaction"); this does not include the services provided to the Other Businesses. According, Management prepared analytical financial statements disaggregating Company financial results for the years ended December 31, 2012 ("FY12") and 2013 ("FY13", together called the Historical Periods") and the balance sheets as of December 31, 2012 (Dec12") and 2013 ("Dec13", together called the "Historical Balance Sheet Dates") between the Homebuilding Business and Related Party Services provided to the Other Businesses ("Carve-Out Financial Statements").
- Services provided by Company to the Other Businesses primarily included:
  - Lending employees for construction and administrative activities;
  - Building of certain properties using bank lines or funding sources; and
  - Certain personal services Owners of Company ("Chairman").
- The carve-out adjustments ("Carve-Out Adjustments") primarily related to eliminating the following from the results of the Homebuilding Business:
  - Expenses for employees assigned to Related Party Businesses;
  - WIP and debt associated with building properties for the Related Party Businesses;
  - Management fees or rents received by Company associated with performing services for the Related Party Businesses;
  - Intercompany account balances related to closely associated activities; and
  - Personal Owner's assets and expenses.

</td><td>Pages 11 to 13</td></tr>
</table>

Basis of Reporting – Carve-Out Financial Statements, cont.

Key Observations	Summary	Key Analysis
The Homebuilding Business As Reported Results were then adjusted by Pro Forma and Due Diligence Adjustments in order to present As Adjusted Results for the Homebuilding Business for the Historical Periods and the Historical Balance Sheet Dates.	▪ A summary of the Company's final Carve-Out Financial Statements deconsolidating the Homebuilding Businesses the from the Other Businesses is set out at IV. Quality of Earnings. ▪ FAI performed certain due diligence procedures and analysis focused primarily on the Homebuilding results of operations for the Historical Periods and the balance sheets as of the Historical Balance Sheet Dates, as reported in the Carve-Out Financial Statements. Homebuilding as reported financial results were reconciled to the trial balance accounts and various other supporting documents provided by Management. Based on this analysis, FAI made additional high level estimates of adjustments to present the Homebuilding Business' results as follows: • **"Pro Forma Results"** represent the reallocation ("Pro Forma Adjustments") of the expenses between cost of goods sold, operating expenses, other income/expenses and interest to an allocation agreed upon between [parties]. • **"Adjusted Results"** represents the Pro Forma results as adjusted for FAI's due diligence adjustments ("Due Diligence Adjustments") which excludes non-recurring revenue and expenses. ▪ ***Due the significance of the Carve-Out, Pro Forma and Due Diligence Adjustments made to the as reported Group's financial statements, FAI has mainly presented and commented on variances with the Adjusted Results of Homebuilding Business and on an annual basis as Management did not prepare monthly results for the Homebuilding Business.*** ▪ FAI has presented quarterly results for the Historical Periods at Section IX.A Adjusted Revenue, House Sales and ASP by Quarter for informational purposes only as FAI had to make some high level estimates of the timing of the Pro Forma and Adjustments.	Page 40

III. EXECUTIVE SUMMARY
Adjusted Earnings for FY12 Through FY13, FYF Adjusted

Key Observations

The relatively consistent (1) volume (FY12: 433; FY13: 442 (both actual) of houses sales; (2) ASP (FY12: $218; FY13: $220); and (3) ACP ((FY12: $178; FY13: $181) reflects a steady pace of home sales in the Company's primary markets [redact].

Summary

Adjusted Historical Results and Unadjusted Forecasts

	Adjusted				As Reported	
$ in 000s	**FY12**	***% of Sales***	**FY13**	***% of Sales***	**FY14F**	***% of Sales***
Sales	**97,952**	***100.0***	**163,495**	***100.0***	**198,341**	***100.0***
Cost of sales	82,724	*84.5*	141,920	*86.8*	172,260	*86.9*
Gross profit	**15,228**	***15.5***	**21,575**	***13.2***	**26,081**	***13.1***
Operating expenses	6,854	*7.0*	9,065	*5.5*	6,177	*3.1*
Income from operations	**8,374**	***8.5***	**12,510**	***7.7***	**19,904**	***10.0***
Other (income) expense	(93)	*(0.1)*	(38)	*(0.0)*	-	-
EBITDA	**8,467**	***8.6***	**12,548**	***7.7***	**19,904**	***10.0***
CAPEX	(42)	-	-	-	-	-
Change in net working capital	(2,530)	*(2.6)*	(3,160)	*(1.9)*	(16,742)	*(8.4)*
Free Cash Flow	**5,895**	***6.0***	**9,388**	***9.6***	**3,162**	***3.2***

Source: Internal financial statements and projections provided by Management

- **The Company's EBITDA is primarily driven by:**
  1) The number of houses closed (FY12: 433; FY13: 442; FY14F: 504) which is dependent on:
     - The ability of the Company to find suitable lots which are appealing to customers. Management represented that at present there are plenty of lots available to purchase and accordingly the Company does not have to buy a significant number of lots in advance of potential sales to customers; accordingly, this reduces the amount of capital required to finance the Company.
     - Local market conditions and the general economy;
     - The ability of customers to finance new houses;
     - The ability of the Company to fund the building of the houses at reasonable interest costs; and
     - The average time it takes to sell a house as the shorter the period of time to sell a house means more financing is available to fund other constructions.
     - Average selling price per house ("ASP") (FY12: $218k; FY13: $220k; FY14F: $223k) which is primarily dependent on:
       - Market or community conditions where the house is being sold;
       - Average square foot ("ASF") per house (FY12: 2,486; FY13: 2,488; FY14F: 2,305); and
       - Average selling price per square foot (FY12: $88; FY13: $88; FY14F: $97 which is partially dependent on the quality of the house required by the customer.

Key Analysis

Pages 41 to 48

Adjusted Earnings for FY12 Through FY13, FYF Adjusted, cont.

Key Observations	Summary	Key Analysis
Key Drivers of EBITDA and Summary of Key Performance Indicators ("KPIs")	See below	Pages 49 to 72

Key Performance Indicators

$ in 000s	FY12	FY13	FY14F
Number homes closed (actual)	503	752	900
Y-O-Y % Change	*N/A*	*49.5*	*19.7*
Average square foot per house (actual)	2,884	3,053	N/A
Y-O-Y % Change	*N/A*	*5.9*	*N/A*
ASP	194	217	220
Y-O-Y % Change	*N/A*	*11.9*	*1.4*
ASP per square foot	68	71	N/A
Y-O-Y % Change	*N/A*	*5.5*	*N/A*
ACP	173	187	191
Y-O-Y % Change	*N/A*	*8.5*	*1.9*
ACP per square foot	60	61	N/A
Y-O-Y % Change	*N/A*	*2.5*	*N/A*
Average gross profit per house	22	30	29
Y-O-Y % Change	*N/A*	*36.1*	*(3.3)*
Average time of home construction (months)	6.5	4.8	N/A
Y-O-Y % Change	*N/A*	*(26.2)*	*N/A*
Average time from permit date to closing (months)	7.0	6.5	N/A
Y-O-Y % Change	*N/A*	*(7.1)*	*N/A*
Average # FTE (actual)	30	67	N/A
Y-O-Y % Change	*N/A*	*123.3*	*N/A*
Average closings per FTE (actual)	17	11	N/A
Y-O-Y % Change	*N/A*	*(33.1)*	*N/A*
Average # construction employees (actual)	21	49	N/A
Y-O-Y % Change	*N/A*	*133.3*	*N/A*
Average # closings per construction employee (actual)	24	15	N/A
Y-O-Y % Change	*N/A*	*(35.9)*	*N/A*
Average loan balance	31,921	42,563	52,000
Y-O-Y % Change	*N/A*	*33.3*	*22.2*
Margins:			
Gross margin - %	*15.5*	*13.2*	*13.1*
Operating expenses - %	*7.0*	*5.5*	*3.1*
EBITDA margin - %	*8.6*	*7.7*	*10.0*
Y-O-Y Change - percentage points	*N/A*	*(1.0)*	*2.3*

Source: Management and FAI analysis

- The Company's EBITDA is primarily driven by (continued):
  2) Average cost per house ("ACP") (FY12: $178k; FY13: $181k; FY14F: $178k) which is dependent on:
     - Average square foot ("ASF") per house (FY12: 2,486; FY13: 2,488; FY14F: 2,305); and
     - Average cost per square foot (FY12: $71; FY13: $73; FY14F: $77) which is primarily dependent on the Company being able to:
       - Purchase lots at reasonable prices (FY12: $39k; FY13: $37k; FY14F: $53k);
       - Control subcontractor costs and raw material costs which are dependent on market conditions and market demand; and
       - Quality of the house required by the customer.
  3) The ability to control costs and expenses is primarily dependent on the number of closings construction managers can manage per year (FY12: 20; FY13: 16; FY14F: 14).
- ***FAI recommends that Client reviews the FY14F forecast assumptions and consistency with historical trends. See "Forecast" key observations in this section for further discussion.***

EBITDA Bridge:FY12 Adjusted to FY13 Adjusted to FY14 Reported

Key Observations	Summary	Key Analysis
Adjusted EBITDA decreased by ($884) from $7,527 in FY12 to $6,643 in FY13 mainly due to Management increasing headcount as it position the Company to expand into other geographies.	See below	Pages 49 to 63

EBITDA Bridge

$ in 000s	FY13	FY14F
EBITDA	8,467	12,548
Revenue:		
ASP	6,800	2,256
Volume	58,743	32,116
Total	**65,543**	**34,372**
Cost of Sales:		
ACP	8,160	1,504
Volume	51,035	28,268
Total	**59,195**	**29,772**
Gross profit:		
Price	(1,360)	217
Volume	7,707	4,289
Impact on gross profit	**6,347**	**4,506**
Operating expense:		
Salaries and wages	(2,245)	1,109
Payroll taxes employer	(370)	N/A
Other (income) expense	404	1,779
Operating expense	**(2,211)**	**2,888**
Other (income) expense	(55)	(38)
Subtotal	**4,081**	**7,356**
Adjusted EBITDA, current year	**12,548**	**19,904**

Source: FAI analysis

FY12 Adjusted EBITDA to FY13 Adjusted EBITDA

- FY13 Adjusted EBITDA decreased by ($884k) from $7,527k in FY12 to $6,643k in FY13 reflecting:
  - A relatively consistent sales (3.3% increase from FY12 ($94,189k) to FY13 ($97,305k)):
    - FY13 home sales which increased by 2.1% to 442 (FY12: 433).
    - FY13 average square foot per home increased by only 0.1% to 2,488 from 2,286 in FY12.
    - FY13 ASP per square foot remained the same (FY12 and FY13: $88).
  - FY13 ACP per square foot increased by 1.5% to $73 (FY12: $71) due to higher material costs and an increase in headcount (33 direct field heads at the end of FY13 from 23 in FY12).
  - FY13 operating expenses increased by $1,029k, or 10.2%, to $11,104k (FY12: $10,075k) as the Company positions itself to expand into other geographies [redact] in FY14:
    - FY13 salaries and benefits increased by $538k, or 23.3%, to $2,847k (FY12: $2,309k) as Management increased headcount by 7 FTEs, or 30.4%, to 30 (Dec12: 23) at Dec13.
    - FY13 commissions increased by $113k, or 2.4%, to $4,745k (FY12: $4,632k) due to a 3.3% increase in revenue. Commission as a percentage of sales remained consistent at 4.9%.

FY13 Adjusted EBITDA to FY14F Adjusted EBITDA

- This is discussed on the next page.

EBITDA Bridge:FY12 Adjusted to FY13 Adjusted to FY14 Reported

Key Observations

FY14F Adjusted EBITDA is forecasted to increase by $1,934k to $8,577k due to the 14.0% increase in home sales (FY13: 442; FY14F: 504).

The Company plans to expand operations during FY14F to include [redact].

Summary

EBITDA Bridge		
$ in 000s	**FY13**	**FY14F**
EBITDA	8,467	12,548
Revenue:		
ASP	6,800	2,256
Volume	58,743	32,116
Total	**65,543**	**34,372**
Cost of Sales:		
ACP	8,160	1,504
Volume	51,035	28,268
Total	**59,195**	**29,772**
Gross profit:		
Price	(1,360)	217
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Operating expense:		
Salaries and wages	(2,245)	1,109
Payroll taxes employer	(370)	N/A
Other (income) expense	404	1,779
Operating expense	**(2,211)**	**2,888**
Other (income) expense	(55)	(38)
Subtotal	**4,081**	**7,356**
Adjusted EBITDA, current year	**12,548**	**19,904**

Source: FAI analysis

With regards to the Forecasts, there will usually be differences between estimated and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. FAI takes no responsibility for the achievability of the expected results. The Forecasts, together with the assumptions, were prepared by Management. FAI did not assist in the preparation of the Forecasts.

FY13 Adjusted EBITDA to FY14F Adjusted EBITDA

- FY14F As Reported EBITDA is forecast to increase by $1,934k to $8,577k (FY13: $6,643k) due to:
  - FY14F sales are forecast to increase by $14,920k, or 15.3%, to $112,226k (FY13: $97,305k):
    - FY14F homes sales are forecast to increase by 14.0% to 504 from 442 in FY13. The Company plans to expand operations during FY14F to include [redact].
    - FY14F ASP per square foot is expected to increase by 9.2% to $97 from $88 in FY13 as average square foot per home declines by 7.4% to 2,305 from 2,488 in FY13.
    - FY14F ACP per square foot is forecast to increased by 6.7% to $77 (FY13: $73) due to higher lower lot cost offset by lower construction / build costs.
    - Construction labor costs declines slightly to $1,976k in FY14F (FY13: $2,027k) with an increase in construction headcount (38 direct heads at the end of FY14F from 33 at the end of FY13).
  - FY14F gross profit margin is forecast to increase by 1.8 percentage points to 19.8% (FY13: 18.0%).
  - FY14F operating expenses are forecast to increase by $2,584k, or 23.3%, to $13,688k (FY13: $11,104k) primarily due to higher planned expenses for marketing and selling efforts as the Company expands into new geography areas.
- ***FAI recommends that [Client] reviews the FY14F forecast assumptions and consistency with historical trends. See "Forecast" key observations in this section for further discussion.***

Key Analysis

Pages 66 to 72

III. EXECUTIVE SUMMARY

Price vs. Volume Variances – FY12 Vs. FY13

Key Observations

The Company's primary market [redact], contributing 79.3% of sales in FY13.

The Company also builds homes in [redact].

Summary

- The following chart presents the change in the Company's adjusted gross profit from FY12 to FY13 due to price and volume which provides further support to the EBITDA bridge analysis as describe on the previous pages.

Home Sales Price versus Volume Analysis (As Adjusted)

$ in 000s; homes closed & price per unit in actuals	FY12 Homes Closed	FY12 Sales	FY12 ASP	FY12 % of Sales	FY13 Homes Closed	FY13 Sales	FY13 ASP	FY13 % of Sales	FY12 vs FY13 Price	FY12 vs FY13 Volume
Fayetteville / Moore Cnty	331	72,356	219	*76.8%*	337	74,733	222	*79.3%*	1,046	1,330
Jacksonville/Wilmington	72	16,184	225	*17.2%*	54	12,649	234	*13.4%*	681	(4,217)
Raleigh/Goldsboro	30	5,649	188	*6.0%*	51	9,923	195	*10.5%*	188	4,085
Total Sales	**433**	**94,189**	**218**	***100.0%***	**442**	**97,305**	**220**	***103.3%***	**1,916**	**1,198**
Cost of sales	**433**	**76,963**	**178**	***na***	**442**	**79,815**	**181**	***na***	**1,227**	**1,624**
Gross Profit	**433**	**17,226**	**40**	***na***	**442**	**17,490**	**40**	***na***	**689**	**(426)**

Source: Internal financial statement

- Historically ASP and ACP vary by Market. The Company's average ASP in FY13 ranges from $195k [redact] to $234k [redact]. Management is forecasting overall FY14F ASP at $223 (see next page for FY14 assumptions by location).
- Management plans for average FY14F gross profit per home to increase by $4k to $44k (FY13: $40k).
- The variances between FY13 and FY14F as discussed on the next page.

Key Analysis

Pages 54 to 56

Price vs. Volume Variances – FY13 vs. FY14F

Key Observations	Summary	Key Analysis

Key Observations

The Company is expanding into [redact] in FY14F with 13.5% and 4.1%, respectively, contribution to total projected FY14F total projected sales.

Summary

- The following chart presents the change in the Company's adjusted gross profit from FY13 to FY14F due to price and volume which provides further support to the EBITDA bridge analysis as describe on the previous pages.

Home Sales Price versus Volume Analysis (As Adjusted)

	FY13				FY14F				FY13 vs FY14F	
$ in 000s; homes closed & price per unit in actuals	Homes Closed	Sales	ASP	*% of Sales*	Homes Closed	Sales	ASP	*of Sales*	*Price*	*Volume*
Fayetteville / Moore Cnty	337	74,733	222	*76.8%*	281	62,448	222	*55.6%*	160	(12,446)
Jacksonville/Wilmington	54	12,649	234	*13.0%*	76	16,977	223	*15.1%*	(586)	4,913
Raleigh/Goldsboro	51	9,923	195	*10.2%*	59	13,052	221	*11.6%*	1,359	1,769
Myrtle Beach	-	-	-	*0.0%*	69	15,150	220	*13.5%*	na	na
Charlotte	-	-	-	*0.0%*	19	4,600	242	*4.1%*	na	na
Total Sales	**442**	**97,305**	**220**	***100.0%***	**504**	**112,226**	**223**	***100.0%***	**402**	**14,518**
Cost of sales	**442**	**79,815**	**181**	***na***	**504**	**89,961**	**178**	***na***	**(921)**	**11,066**
Gross Profit	**442**	**17,490**	**40**	***na***	**504**	**22,265**	**44**	***na***	**1,324**	**3,451**

Source: Internal financial statement

- The Company plans to start selling homes in [redact] during first quarter of FY14F and in [redact] in the fourth quarter of FY14F.
- Sales in [redact] are forecast to increase in FY14F by 34.2% and 31.5%, respectively.
- [Redact] sales are forecast to decline in FY14F by 16.4% and contribute 55.6% of total projected sales versus 76.8% contribution in FY13.
- ***FAI recommends that the forecasts are further discussed by Client in detail with Management to ensure the assumptions are reasonable especially with regards to volume and gross profit per house and ASP by location (See "Forecast" key observations in this section for further discussion).***

Key Analysis

Pages 54 to 56

III. EXECUTIVE SUMMARY

FY14F Forecast Assumptions

Key Observations	Summary	Key Analysis
FAI recommends that Client reviews forecast assumptions for consistency with actual trends.	See table and commentary below	Pages 66 to 72

Adjusted FY14F Assumptions

$ in 000s	FY12	FY13	FY14F
Home sales	**94,189**	**97,305**	**112,226**
Y-O-Y % Change	*N/A*	*3.3%*	*15.3%*
Cost of sales	**76,963**	**79,815**	**89,961**
Y-O-Y % Change	*N/A*	*3.7%*	*12.7%*
Gross Profit	**17,226**	**17,490**	**22,265**
Gross Margin	*18.3%*	*18.0%*	*19.8%*
Operating expenses	**10,075**	**11,104**	**13,688**
Y-O-Y % Change	*N/A*	*10.2%*	*23.3%*
Home Sales			
ASP per square foot (actual)	88	88	97
Y-O-Y % Change	*N/A*	*1.1%*	*9.2%*
Cost of sales ACP			
Construction costs	135	139	121
Y-O-Y % Change	*N/A*	*2.8%*	*-12.4%*
Lots	39	37	53
Y-O-Y % Change	*N/A*	*-3.7%*	*42.2%*
Direct Labor	4	5	4
Y-O-Y % Change	*N/A*	*11.5%*	*-14.5%*
Total ACP	**178**	**181**	**178**
Y-O-Y % Change			
Gross margin per home	40	40	44
Y-O-Y % Change	*N/A*	*-0.5%*	*11.6%*
Operating expenses			
Commissions	4,632	4,745	4,925
% of sales	*4.9%*	*4.9%*	*4.4%*
Benefit load	25.0%	25.0%	34.7%

Source: schedules provided by Management

- FAI received a high level (non detailed) FY14F forecast from Management. The latest version received from Management was as of [redact]. FAI considers the Company's forecast methodology as a tops down basis rather than a bottoms up approach.
- FAI recommends that the forecasts are further discussed in detail with Management to ensure the reasonableness based on the new owner's expectations and additional resources (e.g., financing and quality of lots to be supplied).
- In addition, FAI recommends that Client reviews forecast assumptions for consistency with actual historical trends presented on an as Adjusted basis in this report. Certain selected assumptions to consider are set out in the table to the left.

Debt and Debt Like Instruments

Key Observations

The Company is reliant on funding provided by Company arranged bank lines to fund construction activities. At Dec13, the Company had $48,456k ($92,900k of facilities less $44,444k draw down) of unused banking facilities (e.g., Bank of America: $18,234k; Wells Fargo: $14,804k) which could be used to fund other construction activities.

The Company's bank lines bear interest rates ("Terms" per table) primarily in the range of 4.0% to 5.5%; however, the balance of $2,400k with [redact] was at interest rates of 10.0% (reduced to 8% in FY14).

Summary

Debt Schedule

$ in 000s	Line	Unused	Balance Dec13	Terms	On BS?
Construction loans					
- Bank of America	40,000	18,234	21,766	*4.68%*	YES
- BB&T	11,500	8,024	3,476	*4.75%*	YES
- BB&T (North Topsail, NC)	N/A	N/A	745	*4.75%*	YES
- Capital Bank	7,000	5,342	1,658	*5.50%*	YES
- BNC	2,000	1,259	741	*5.50%*	YES
- SHP Capital	2,400	1,538	862	*10.00%*	YES
- Wells Fargo	30,000	14,804	15,196	*4.06%*	YES
Sub construction loans	**92,900**	**49,201**	**44,444**		
Notes payable vehicles			223		
Land option promissory note			26	*10.00%*	YES
Total reported Debt			**44,693**		
Less: Cash			(3,736)		YES
Debt , as reported			**40,958**		

Source: Internal financial statements provided by Management

- The total construction loan balance as reported on the Company's Balance Sheet as at December 31, 2013 is $44,444k:
  - The majority of this debt relates to construction loans with banks with interest rates ranging from 4.0% to 5.5%.
  - Management stated that the interest rate on the [redact] line was reduced to 8% in FY14.
- The Company signed a land option promissory note with [redact] in August, 2012. The principal outstanding at December 31, 2013 is $26k.
  - The original principal amount of the note is $75k with interest rates of 10% on the unpaid balance. Principal payments of $3,750k are due upon the Company exercising its option to purchase individually 21 lots which is due at time of home sale.

Key Analysis

N/A

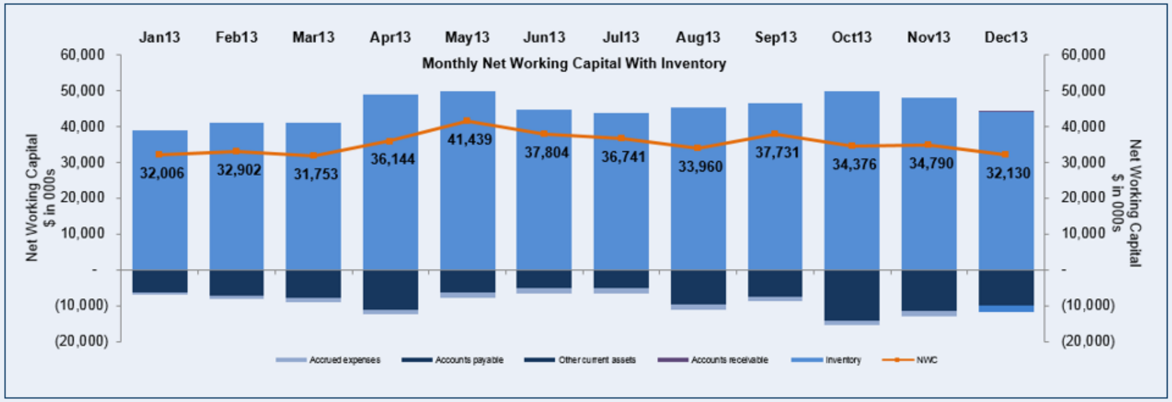
Net Adjusted Working Capital for FY13

Key Observations

Adjusted Net Working Capital Inventory ("ANWC") is fluctuating with volume of completions.

ANWC Target should be split between (1) ANWC excluding WIP; and (2) WIP so to maximize potential Total Target for ANWC.

Summary

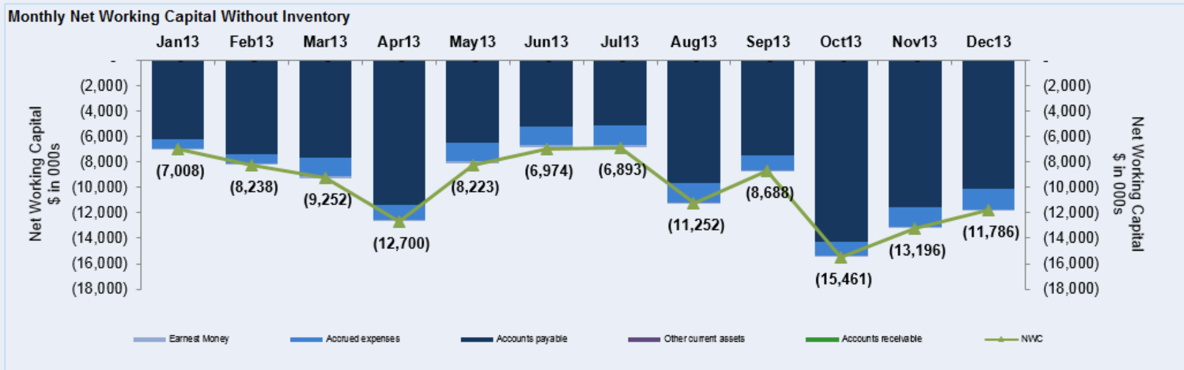
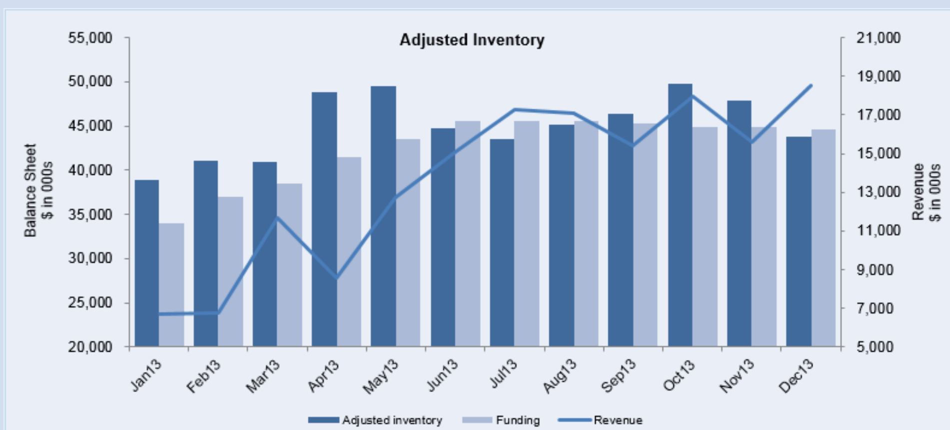


- The above table summarizes adjusted net working capital ("ANWC"), which includes a very high level estimate for unvoiced expenses because of lack of information supplied by Management (see **WC.10 Costs after closeout – estimate for further details)**, since December 2012.
  - The difference between maximum ANWC ($41,439k – May13) and minimum ANWC ($31,753k – Mar13) is $9,686k. There will be some seasonality in ANWA particularly between March and October when construction is typically higher.
  - Average ANWC is $35,148k.
- Key drivers of ANWC are Inventory (Average: $45,121k) and Accounts Payable (Average: $8,546k). Both balances have increased over the year due to the increase in volume.
- FAI understands that [Client] will acquire substantially all the assets of the Company for $72,000k on a debt-free, cash-free basis plus an adjustment for net working capital. Accordingly, FAI recommends that the Client and Seller establish two purchase price adjustment targets which should be calculated as a future target rather than a trailing 12 month target as the Company has been growing significantly over the last 2 years which is impacting net working capital.
  1) Net working capital target excluding WIP based on an accrual basis (the Company presently does not accrue for all invoiced costs on a monthly basis). FAI also recommends that the Buyer attempts to negotiate that this target is set at $nil and that the negative balances (due to accounts payable) are funded by cash on completion; and
  2) Real estate inventory target.
- Further analysis for these two approaches is set out on the next page.

Key Analysis

Pages 86 to 91

Net Adjusted Working Capital Without WIP and WIP for FY13

Key Observations	Summary	Key Analysis
Net Adjusted Working Capital Without Inventory. Variance ($9,041k) between maximum ANWC ($6,893k – Jul13) and minimum ANWC ($15,461k – Oct13). Average ANWC: ($9,973k).	 ▪ By setting a separate Adjusted Net Working Target (excluding WIP) the Buyer increases the probability that the Buyer can ask for a $nil target and thus ask the Seller to fund the negative working capital.	Pages 86 to 91
Inventory Variance ($10,814k) between minimum inventory ($38,955k - Jan13) and maximum inventory ($49,769k - Oct13). Average inventory ($45,050k)	 ▪ Inventory balances are dependent on demand for houses and the ability of the Company to fund the construction of the houses. Accordingly, FAI recommends a target is set based on a forecast balance rather than based on historical trends as the WIP will change based on future number of constructions.	Pages 90 to 91

FARRELL ADVISORY INC.

Inventories and Lots Available by Location

Key Observations	Summary	Key Analysis
WIP by Market	(see below)	Pages 83 to 84

WIP by Market

$ in 000s; # units in actual	WIP ($)		Y-O-Y $	Y-O-Y	WIP (# units)		Avg. Home Cost		Avg. Lot Cost		Breakdown of Dec13 WIP Units				
	Dec12	Dec13	Change	%	Dec12	Dec13	FY12	FY13	FY12	FY13	Sold; Not	Completed; Not Sold	Under construction	Models	Vacant lots
Atlanta	23,011	32,401	9,390	*40.8*	247	379	121	137	26	28	181	128	29	6	35
Raleigh	2,726	8,697	5,971	*219.0*	43	55	-	173	-	37	16	7	4	-	28
Columbia	8,947	1,369	(7,578)	*(84.7)*	85	7	121	142	33	35	4	3	-	-	-
Fayetteville	1,424	1,247	(177)	*(12.4)*	18	7	132	146	40	39	4	3	-	-	-
Total	**36,108**	**43,714**	**7,606**	***21.1***	**393**	**448**	**175**	**191**	**28**	**30**	**205**	**141**	**33**	**6**	**63**

Source: Schedules provided by Management and analysis by CB

- From FY12 to FY13, the number of lots purchased increased by 224, equivalent to a 39%, from 569 in FY12 to 793 in FY13. This growth was primarily attributed to an increase of 359 purchases in the [redact] market from FY12 to FY13, equivalent to a 49% increase. The number of home closings in the [redact] market rose by 228 closings from FY12 (377) to FY13 (605), equivalent to a 61% increase.
- At Dec13, approximately 448 purchased lots had not yet been closed. Of these, 308 were completed and 63 were vacant lots which represent lots purchased with no active construction. These vacant lots were mostly located in the [redact], accordingly to Management, were purchased in the anticipation of future speculative ("Spec") or presale home construction. Management represented that the Company plans to begin construction on these vacant lots as part of the future expansion within the [redact] market. Accordingly, Management does not believe that there is a resale issue with these lots. In addition, Management represented that it does not believe that it will have difficulty on selling the vacant lots in [redact]. Therefore, Management does not believe these lost should be written down to a reduce value.
- The Company entered the [redact] markets in FY11, FY09 and FY12, respectively. However, Management represented that the Company plans to exit these three markets in the near term. At Dec13, there were no WIP balances or units in the [redact] markets. In the [redact] market, the Company had a Dec13 WIP balance of $8,697k, comprised of 55 units. The 55 units are were comprised of (i) 16 homes sold but not closed by Dec13; 7 homes completed but not sold; and 4 homes under construction and not sold. Management represented that the Company expects to sell all of these homes at market value under normal business operations in the near term.
- Management represented that WIP includes construction costs, lots, closing costs and commissions paid (if any) and it does not include any interest costs. ***When setting targets for WIP, FAI recommends that the definition of WIP is very specific and that it is at the lower of cost and net realizable value.***

WIP Aging at Dec13 – Greater than 6 Months Old

Key Observations	Summary	Key Analysis

WIP Aging at Dec13

$ in 000s	# Overdue Homes at Dec13	Overdue WIP Value at Dec13	Status at 2.4.14 per Management: Closed	Sold - Completed	under constr	Spec - Completed	under constructi	Vacant lot	Model	Total
Atlanta	39	5,147	2	-	4	3	15	6	9	39
Raleigh	20	3,487	1	2	2	6	9	-	-	20
Columbia	3	623	-	-	2	-	1	-	-	3
Fayetteville	3	564	-	-	-	3	-	-	-	3
Total	**65**	**9,821**	**3**	**2**	**8**	**12**	**25**	**6**	**9**	**65**

Source: Staging report and commentary provided by Management. Analysis by CB

Key Observations: "Overdue" WIP at Dec13 and Management Commentary is not considered an issue by Management

- FAI analyzed the portion of Dec13 WIP that is comprised of "overdue" inventory, defined as homes/lots purchased or built prior to Jun13 and unsold as of Dec13 (e.g., lots which are still in WIP six months after the date of purchase).
- The Dec13 WIP balance contained approximately 65 "overdue" homes/lots. Of that amount, 39 (actual), or 60%, of these units were purchased in the first six months of FY13. Management provided an updated analysis of these overdue lots/homes as of February 4, 2014. Of the 65 overdue homes at Dec13, Management stated that the most current status of these homes/lots is as follows: (i) 3 were closed; (ii) 2 were completed and sold; (iii) 8 were sold and currently under construction; (iv) 12 are Spec homes fully constructed and sold; (v) 25 are Spec homes sold and under construction, (vi) 6 are vacant lots; and (vii) 9 are model homes.
- The CEO stated on [redact] that the Company plans to build on all of the vacant lots in the near future. He also affirmed that the Company expects all of these overdue homes to be sold in the normal course of business within the next 12 months at a profit.

Key Analysis: Pages 83 to 84

Tax Issues

<table>
<tr><th>Key Observations</th><th>Summary</th><th>Key Analysis</th></tr>
<tr><td>Tax Consequences of Contemplated Transaction</td><td>▪ Based on our analysis of the draft asset purchase agreement (SP&A”), the Transaction will be treated as a taxable asset acquisition for federal tax purposes. This Transaction will result in certain income tax consequences as follows:
• [Client’s] basis in the assets of [redact] will be stepped up (or down) under Sec. 1060 to reflect the purchase price paid for the assets. Purchase price deemed to be Class VI or VII assets, intangibles and goodwill respectively, may be amortized over 15 years for tax purposes.
• [Client] will be able to depreciate the acquired fixed assets (e.g., machinery and equipment) based on the amount determined in the purchase price allocation. This allocation must be agreed upon by both the Buyer and the Seller.</td><td>Page 93</td></tr>
<tr><td>Asset Deal is very important to protect Buyer from potential inaccuracies in Federal Income Tax Returns</td><td>▪ Within the Company’s federal income tax returns for FY10, FY11 and FY12, FAI identified potential tax exposure items which primarily relate to:
• In FY13, [Seller] paid “profits” interest ($2,599k) to a non-shareholder, [redact]. Management stipulated the [redact] profits distribution was based on his “profits-interest” in the Company and the yearly performance of the Company. However, while [redact] received a profits interest in the Company, it is anticipated that he will not receive an IRS Form K-1 from the Company. FAI recommends that the Company revisit the tax consequences of the profits distributions to [redact], to determine if he should be deemed to be a member in the S corporation and accordingly be issued a corresponding Form K-1 for FY13. The FY13 income tax return has not yet been submitted.
• In FY10, FY11 and FY12, [redact], were improperly included in the Company’s federal and state income tax returns; and
• The FY10, FY11 and FY12, Forms 1120S were not prepared to reflect book net income as stated in the FY10, FY11 and FY12 audited financial statements prepared by [redact]. For example, in FY12, the Company reported $5,000k of net income for book purposes. However, on the Company’s FY12 federal income tax report, the External Tax Advisor reported $119k of net income for book purposes. FAI believes this has likely resulted in an understatement of taxable income.
▪ As the Transaction is contemplated to be an asset acquisition, potential adjustments and tax liabilities as a result of IRS audits will likely be passed-through to the shareholders during the tax year in which the adjustments are made. However, these issues may cause the status of the S Corporation to be in doubt which may lead to significant costs for the Seller.</td><td>Pages 93 to 100</td></tr>
<tr><td>Indemnification</td><td>▪ FAI recommends that the final asset purchase agreement includes an indemnification agreement for all taxes to limit the Buyer’s exposure of [Seller’s] pre-closing tax liabilities.</td><td>n/a</td></tr>
</table>

Post – Acquisition Issues

Key Observations	Summary	Key Analysis
Compensation and benefits	▪ FAI recommends that the Buyer should review the compensation, bonuses/commissions and benefits (including healthcare) work procedures of the Company [redact] prior to closing the contemplated acquisitions to (1) evaluate what remuneration and procedures are the most effective; (2) ensure seamless integration [redact]; and (3) understand the impact on the Projections. ▪ The Patient Protection and Affordable Care Act of 2010 will likely impact many businesses especially as employee numbers grow to exceed 50 employees. Certain implementation provisions of this legislation are underway and will continue through 2015. Consideration should be given to modeling the options and related outcomes and costs associated with the implementation of the Affordable Care Act of 2010.	N/A
Financial and operational reporting and procedures need to be improved which will also require the present financial resources to be evaluated	▪ FAI recommends that you review the operation of the financial and reporting systems by Management to evaluate methods of improving efficiency and accuracy of reporting. For example: • Management does not accrue for costs when the service or product is provided nor has an efficient method of accruing for costs not yet invoiced at either time of closing of the house sale or at period end; and • The database to monitor costs by house and stage of building is run through Excel. ▪ [Redact] (Sage) Timberline for financial reporting [redact] and Builder MT for operational reporting. Both software packages are used by many companies in the construction/homebuilder industry. {Redact} Timberline and Builder MT work together to support database warehousing and capture all revenue and costs by home/project. In addition, management [redact] utilize a module of Timberline which enables purchase orders to be raised immediately on order of a house by a customer; these orders can then be issued (e.g., “Live” status) at the appropriate time to the vendors once other work procedures have been completed or are expected to be completed. This system also allows for (1) costs to be accrued when the work/product is provided rather than when the invoice is received by the Company [redact], (2) budgeted costs by house to be compared with actual costs; and (3) subcontractors to be able to access the system and see when orders are expected to go Live so that they can plan their work more efficiency. ▪ FAI also recommends that a Dash Board that contains standardized reporting and (clearly defined) financial and operational key performance indicators (“KPIs”) are introduced post acquisition that it is easier to report, monitor and compare the performance of the business against goals and objectives.	N/A

Accounting Issues

Key Observations	Summary	Key Analysis
Monthly Financial Statements Not Prepared On An Accrual Basis	▪ [Redact] accounting policy is to prepare the financial statements on an accrual basis, recording home sales and expenses on the completion method. However, the monthly financial statements are prepared using a mix of accrual and cash basis, as the Company records numerous expenses when the invoice is received rather than when incurred (e.g., construction expenses). At each year-end, the Auditor makes adjusting journal entries to effectively "convert" the Company to the accrual method for financial statement purposes. ▪ Management could not provide a full listing of expenses that need to be accrued as of December 31, 2013 or even a listing of non-accrued invoices received after December 31, 2013 which related to services or products supplied pre December 31, 2013. Accordingly, Adjusted EBITDA could be incorrectly stated.	N/A
Accounts Payable Aging	▪ Historically, the Company has not prepared accounts payable aging schedules. Management represented that the average cash disbursement cycle was 18 and 19 days during FY12 and FY13, respectively. FAI was unable to analyze the aging of the Company's payables. FAI recommends the Buyer request an accounts payable aging schedule at Dec13 to determine any overdue trade accounts payable balances.	Page 85
Group Accounting Policies	▪ FAI recommends that [redact] Accounting Policies are set for [redact] GAAP compliant accounting policies (e.g., on an accrued basis) for monthly and annual reporting and so that revenue and costs are reported within the correct caption (e.g., appropriate classification of interest, sales commission, warranty expenses and project managers between cost of goods sold and selling, general and administrative expenses) on a consistent manner.	N/A
Budgets and Forecasts	▪ Management has not previously prepared formal annual budgets or forecasts. FAI recommends that Management look to introduce formal budgeting and forecasting controls within the business, especially as the acquirer is looking to grow the business significantly post acquisition, so that Management better understands what resources (e.g., employees, financial, operational etc.) the business requires and so that unusual variances can be appropriately followed up.	N/A

Accounting Issues, cont.

Key Observations	Summary	Key Analysis
Analysis of Expenses	▪ Within Adjusted EBITDA, FAI has presently treated expenses as follows: • **Cost of Sales:** Construction, lots, closing costs, external commissions paid, and after closing costs; • **SG&A:** All payroll costs including indirect costs (e.g., construction supervisors, insurance, internal warranty costs), sales and marketing expenses, operating and management expenses, and general and administrative expenses; • **Other Income and Expenses:** Refunds and rebates; and • **Interest costs** which are excluded as non-EBITDA expense. ▪ ***FAI believes the allocation of expenses is being agreed upon with [redact], the new auditors of [Client], and thus the go-forward allocation may differ to the above.***	N/A

Related Parties

Key Observations	Summary	Key Analysis
Interest paid to [redact]	▪ The Company has historically been funded by secured construction financing from companies owned by [redact]: • During FY12, the Company paid $4,422k in interest to [redact] and accrued $288 of interest to [redact]. • During FY13, the Company paid $6,495k in interest to [redact] and paid out the remaining $129 of accrued interest to [redact]. ▪ From FY12 to FY13, the Company changed how it records interest expense on the internal financials. During FY13, the Company recorded $128k interest expense to [redact] on the income statement and $6,495k in interest to [redact] within profit distributions on the balance sheet. For a full analysis of interest and profit distributions paid to each individual, please refer to the Historical Balance Sheets Overview section of this report.	Page 82
[Redact] Realty Group LLC	▪ [Redact], which is included with the consolidated results (see Section X.B for further details) is a related party entity that is responsible for administering sales activities for the Companies. This entity holds the broker's licenses and pays both internal and external sales agents. Historically, the Company has funded [redact] as the Company conducts its operations. The Company funded $1,017k and $0 to [redact] in FY12 and FY13, respectively. ▪ Management represented that [redact] was breakeven in FY13 and does not anticipate the entity requiring financial assistance in subsequent periods.	Page 104

III. EXECUTIVE SUMMARY
Related Parties, cont.

Key Observations	Summary	Key Analysis
Ownership Change	▪ [Redact] exercised his two option agreements dated December 23, 2008 and purchased the following companies for a nominal sum: i. [Redact] ii. [Redact] iii. [Redact] iv. [Redact] ▪ The Company's External Tax Advisor has represented that he is currently determining the tax implication related to the transactions for the Company and the shareholders. ***Prior the close of the Transaction, [Client] should consult with the legal and tax advisors about the tax analysis being prepared by the External Tax Advisor.***	Page 95
Unpaid CEOs	▪ Neither [redact] received a salary for acting as a Chief Executive Officer. Accordingly, FAI included due diligence adjustment D.3 for a Chief Executive Officer through to November 2013 when [redact] was employed.	Page 64
Trading Agreement and Non-Compete with [redact]	▪ Management represented that [redact], who owns the Company [redact] ("Seller"), is primarily responsible for acquiring approximately 25% of the lots for which Management represented he is paid at the market value for the transactions. ***FAI recommends the Buyer verify Management's representation that the lots purchased from [redact] are at the then current market value as this could artificially impact the profitability of the Company.*** ▪ Management indicated that post Transaction the Company will negotiate a trading agreement with [redact] for his sale of land/lots to the Company on a right of first refusal. At the issuance of this Report, the Company had not drafted such an agreement. ***Prior to closing the Transaction, FAI recommends that the Buyer obtains an understanding of the nature of the trading agreement (e.g., first refusal, definition of market price, which types of inventory are for sale).*** ▪ ***FAI also recommend that a non-compete agreement is agreed upon with [redact] as part of the SP&A.***	N/A

Legal Issues

Key Observations	Summary	Key Analysis
Inventories	▪ ***FAI recommends that the Buyer request representation that all real estate inventories (e.g., work in process and owned lots) within each market [redact] have proper title, insurance coverage and that there is no lien on the lots or buildings.*** ▪ ***FAI recommends that the Buyer requests representation via the SP&A that the customer contracts entered into, but not yet closed at Dec13, are enforceable.***	N/A
Employment contracts	▪ [Redact] each have employment agreements with the Company which specify that, in the event of a sale of the Company, [redact] is entitled to 3% of the gross sales price, and [redact] is entitled to 4% of the gross sales price. [Redact] employment contract is a three-year agreement which effectively commenced on October 24, 2013 (per the agreement, it stipulated a start date of 2014 but should be 2013 per Management) and a termination date of December 31, 2016. [Redact} employment agreement does not stipulate a termination date. ▪ ***FAI recommends that all transaction related expenses and bonuses be deemed to be the responsibility of the Seller via the SP&A. In addition, FAI recommends that the employment agreements and remuneration packages of key employees are reviewed to ensure senior management are appropriately incentivized and that appropriate non-compete restrictions are in place.***	N/A
Pending Litigation	▪ Management represented that at Dec13, the Company did not have any outstanding or pending litigation.	N/A
Standard Terms and Warranty	▪ The Company offers customers a one year Express warranty and a ten year warranty issued by a third party for claims beyond the one year period. Each warranty covers workmanship on the home. Management represented that the Company uses the same warranty for all homes regardless of location. No other warranties are provided. Management anticipates that approximately [redact] homes constructed and sold by the Company will be within the one year Express warranty. Normally, the Company incurs the repair expense to make whole the claim and then is reimbursed by the subcontractor. The Company does not accrue for unreimbursed subcontractor costs related to warranty claims. Over the Historical Period, unreimbursed warranty claims totaled $1k and $19k in FY12 and FY13, respectively***. FAI recommends the Buyer obtains a warranty or indemnification for non-accrued warranty expenses (either from contractual obligations or from obligations as required by state legislation) from the Seller for those homes closed with customers prior to the Closing.***	N/A

Customer Cancellations

Key Observations	Summary	Key Analysis
Customer Cancellations	▪ Management represented that the Company has historically experienced a 5-year average cancelation rate of 34.2% from homebuyers due to various economic factors (e.g., buyer's loss of employment, credit declines). Cancellation rates for FY12 and FY13 were 32.7% and 35.0%, respectively. Management does not believe this is an issue as the Company has been able to consistently sell the house to another buyer. ▪ ***FAI recommends the cancellation rates are further reviewed with Management to establish if (i) there are any long-term trends; and (ii) ways of reducing the number of cancellations especially as the Company normally returns the deposit.***	N/A

IV. QUALITY OF EARNINGS

Methodology

Gross Profit and SG&A Definition	
Revenue	
Sales price	X
Change fees	X
Deposit forfeit	X
Cost of Sales	
Construction	X
Direct Labor(swinging Hammers)	X
Direct Materials	X
Subcontractors	X
Lot Cost	X
Warranty Cost	X
Closing costs	X
Capitalized interest (relates to qualifying assets)	X
Purchase Material Discounts / Rebates	X
Superintendent / Construction Management	X
Q&A Cost	X
Below Gross Profit	
Commisions paid	X
Sales Expenses, including Model Homes etc.	X
Admin salaries	X
Admin Expense	X
Write-off of options (non-utilized)	X
Interest Expense(in excess of the amount that relates to qualifying assets)	X

Source: Auditors

Overview

- FAI has made high level estimates of adjustments to present the Carve-Out Results of the Homebuilding Business as follows:
  - **"Pro Forma Results"** represent the reallocation ("Pro Forma Adjustments") of the expenses between cost of goods sold, operating expenses, other income/expenses and interest to an allocation as summarized in the table to the left. This allocation of expenses (see table to the left) was agreed upon between [redact], the new auditors of [Client].
  - **"Adjusted Results"** represents the Pro Forma results as adjusted for FAI's due diligence adjustments ("Due Diligence Adjustments") which excludes non-recurring revenue and expenses.
- Due the significance of the Carve-Out, Pro Forma and Due Diligence Adjustments made to the as reported Group's financial statements, FAI has mainly presented and commented on variances with the Adjusted Results of Homebuilding Business and only on an annual basis as Management did not prepare monthly results for the Homebuilding Business.

Carve-Out Financial Statements

H&H Homes Carve-Out Income Statements

	FY12			FY13		
$ in 000s	Home-building	Related Services	Combined	Home-building	Related Services	Combined
Sales	**91,145**	**690**	**91,835**	**94,301**	**-**	**94,301**
Cost of sales	(72,293)	(1,040)	(73,333)	(75,108)	(4)	(75,113)
Gross profit	**18,852**	**(350)**	**18,502**	**19,192**	**(4)**	**19,188**
Indirect	(2,267)	(456)	(2,723)	(2,917)	(554)	(3,470)
Sales & Marketing	(6,154)	(8)	(6,162)	(6,448)	(6)	(6,454)
General & Administrative	(3,875)	(483)	(4,358)	(4,063)	(531)	(4,594)
Income from operations	**6,556**	**(1,297)**	**5,259**	**5,765**	**(1,096)**	**4,669**
Interest expense, net	(2,085)	(106)	(2,191)	(1,785)	(110)	(1,895)
Other income / (expense)	615	774	1,390	437	271	708
Net income	**5,086**	**(629)**	**4,458**	**4,416**	**(934)**	**3,482**

Source: Internal financial statements provided by Management

- The tables above summarize [redact] Carve-Out Financial Statements for the Historical Periods income statements and balance sheets as of the Historical Balance Sheet Dates to eliminate Related Party Services provided to [redact] as follows:
  - Lending employees for construction and administrative activities;
  - Building of certain properties using [redact] bank lines and funding sources; and
  - Certain personal services for the Chairman.
- The carve-out adjustments relate to eliminating:
  - Expenses for employees assigned to Related Party Services;
  - WIP and debt associated with building Related Party properties;
  - Management fees or rents received by [redact] associated with performing Related Party Services;
  - Intercompany account balances related to Related Party Services; and
  - Personal assets and expenses of the Chairman.
- FAI's due diligence analysis and procedures that follow in this Report focus primarily on the Homebuilding results for the Historical Periods as reported in the above Carve-Out Financial Statements and the FY14F Forecasts As Reported by Management.
- The Carve-Out Financial Statements above represent Management's analysis provided to FAI on [redact].

H&H Homes Carve-out Balance Sheets

	Dec12			Dec13		
$ in 000s	Home-building	Related Services	Combined	Home-building	Related Services	Combined
Operating Cash	4,551	-	4,551	3,736	-	3,736
Intercompany receivables	469	3,845	4,313	593	2,604	3,197
Work in Progress	38,697	5,266	43,963	55,893	6,794	62,687
Other Current Assets	11	3	14	21	-	21
Total Current Assets	**43,727**	**9,114**	**52,841**	**60,243**	**9,398**	**69,641**
Fixed Assets, net	364	1,807	2,171	663	514	1,177
Land option deposits	156	-	156	590	-	590
Deferred financing	-	-	-	181	-	181
Other Assets	78	-	78	201	-	201
Total Assets	**44,325**	**10,921**	**55,246**	**61,879**	**9,912**	**71,791**
Accounts payable / accrued	(3,760)	-	(3,760)	(3,903)	-	(3,903)
Intercompany payables	450	(481)	(32)	(41)	-	(41)
Construction loans	(28,606)	(2,578)	(31,184)	(44,444)	(2,566)	(47,010)
Notes payable vehicles	(136)	(100)	(236)	(223)	(72)	(296)
Notes payable partners	(84)	(961)	(1,045)	-	(1,181)	(1,181)
Deferred revenue	(39)	-	(39)	(56)		(56)
Other liabilities	(75)	-	(75)	(66)	(227)	(293)
Total Liabilities	**(32,251)**	**(4,120)**	**(36,371)**	**(48,734)**	**(4,046)**	**(52,780)**
Stockholder's Equity	(12,075)	(6,801)	(18,876)	(13,145)	(5,866)	(19,011)
Total Liabilities & Equity	**(44,325)**	**(10,921)**	**(55,246)**	**(61,879)**	**(9,912)**	**(71,791)**

Source: Internal financial statements provided by Management

Homebuilding – FY13 As Reported to Pro Forma Income Stat.

Proforma Income Statements

		FY13													
		Proforma Adjustments						Due Diligence Adjustments							
$ in 000s	**Reported**	etgtg	Purch. Disc.	Direct labor	Cap. Interest	War-ranty	**Proforma**	Cap. Interest	Interest	Deprec.	D. 1 Elm-wood	D.2 + D.3 Comp.	Other Income	War-ranty	**Proforma**
Sales	97,305	-	-	-	-	-	97,305	-	-	-	-	-	-	-	97,305
Closing costs (contra)	(3,004)	3,004	-	-	-	-	-								-
Sales, Net	**94,301**	**3,004**	-	-	-	-	**97,305**	-	-	-	-	-	-	-	**97,305**
Cost of sales	(75,109)	(3,004)	575	(2,027)	(753)	(549)	(80,868)	753	-	-	-	-	-	299	(79,815)
Gross profit	**19,192**	-	**575**	**(2,027)**	**(753)**	**(549)**	**16,438**	**753**	-	-	-	-	-	**299**	**17,490**
Gross margin	*19.7%*	-	-	-	-	-	*16.9%*	-	-	-	-	-	-	-	*18.0%*
Operating expenses	(13,427)	-	-	2,027	-	549	(10,851)	-	-	-	-	(253)	-	-	(11,104)
% of sales	*-13.8%*						*-11.2%*								*-11.4%*
Income from operations	**5,765**	-	**575**	-	**(753)**	-	**5,586**	**753**	-	-	-	**(253)**	-	**299**	**6,386**
Interest expense, net	(1,785)	-	-	-	753	-	(1,032)	-	1,032	-	-	-	-	-	-
Other income / (expense)	437	-	(575)	-	-	-	(138)	-	-	-	377	-	18	-	257
Net income	**4,416**	-	-	-	-	-	**4,416**	**753**	**1,032**	-	**377**	**(253)**	**18**	**299**	**6,643**
Interest	1,785	-	-	-	-	-	1,785	(753)	(1,032)	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reported EBITDA	**6,202**	-	-	-	-	-	**6,202**	-	-	-	**377**	**(253)**	**18**	**299**	**6,643**
% of sales	***6.4%***						***6.4%***								***6.8%***

Source: Internal financial statements provided by Management

Overview

- The above table summarizes the Pro Forma Adjustments and Due Diligence Adjustments made to the FY13 As Reported results for Homebuilding to align sales, cost of sales, gross profit and expenses on a basis consistent with GAAP, as expected to be applied by [Client] when they prepare the results, and to adjust for Quality of Earnings findings. A similar table is set out on the next page for FY12.
- The following adjustments have been made to the Company's historical reported results:

Pro Forma Adjustments

- **Closing costs** represents transaction closing costs incurred which the Company reports as an offset/contra to sales. Pro Forma results include closing costs as a cost of sales.
- **Purchase discounts** are volume price discounts from vendors. Pro Forma results recognize purchase discounts as a credit to cost of goods sold rather than as other income below the gross profit line.
- **Direct labor** includes salaries and benefits for employees providing construction supervision and warranty services at the local construction sites. The Company records separately in the trial balance the salaries and benefits of construction and warranty personnel. Pro Forma results include the direct labor expenses in cost of sales versus operating expense.

Homebuilding – FY12 As Reported to Pro Forma Income Stat.

Proforma Income Statements

		FY12												
		Proforma Adjustments						*Due Diligence Adjustments*						
$ in 000s	**Reported**	Closing costs	Purch. Disc.	Direct labor	Cap. Interes	War-ranty	**Proforma**	Cap. Interes	Interes	Deprec	D.1 Elm-wood	D.2 + D.3 Comp.	Other Income	**Proforma**
Sales	94,189	-	-	-	-	-	94,189	-	-	-	-	-	-	94,189
Closing costs (contra)	(3,044)	3,044	-	-	-	-	-	-	-	-	-	-	-	-
Sales, Net	**91,145**	**3,044**	**-**	**-**	**-**	**-**	**94,189**	**-**	**-**	**-**	**-**	**-**	**-**	**94,189**
Cost of sales	(72,293)	(3,044)	398	(1,781)	(813)	(242)	(77,776)	813	-	-	-	-	-	(76,963)
Gross profit	**18,852**	**-**	**398**	**(1,781)**	**(813)**	**(242)**	**16,413**	**813**	**-**	**-**	**-**	**-**	**-**	**17,226**
Gross margin	*20.0%*	-	-	-	-	-	*17.4%*	-	-	-	-	-	-	*18.3%*
Operating expenses	(12,296)	-	-	1,781	-	242	(10,273)	-	-	316	-	(119)	-	(10,075)
% of sales	*-13.1%*						*-10.9%*							*-10.7%*
Income from operations	**6,556**	**-**	**398**	**-**	**(813)**	**-**	**6,141**	**813**	**-**	**316**	**-**	**(119)**	**-**	**7,151**
Interest expense, net	(2,085)	-	-	-	813	-	(1,272)	-	1,272	-	-	-	-	-
Other income / (expense)	615	-	(398)	-	-	-	217	-	-	-	411	-	(252)	376
Net income	**5,086**	**-**	**-**	**-**	**-**	**-**	**5,086**	**813**	**1,272**	**316**	**411**	**(119)**	**(252)**	**7,527**
Interest	2,085	-	-	-	-	-	2,085	(813)	(1,272)	-	-	-	-	-
Depreciation	316	-	-	-	-	-	316	-	-	(316)	-	-	-	-
Reported EBITDA	**7,487**	**-**	**-**	**-**	**-**	**-**	**7,487**	**-**	**-**	**-**	**411**	**(119)**	**(252)**	**7,527**
% of sales	*7.9%*						*7.9%*							*8.0%*

Source: Internal financial statements provided by Management

Pro Forma Adjustments (continued)

- **Capitalized interest -** Management represented that the Company separately tracks and records in the Company's trial balance the amount of interest that can be capitalized on each home construction project in accordance with GAAP. However, the capitalized interest is reported as part of total finance costs below gross profit and is not included as a cost of sale. FAI has made a Pro Forma Adjustment to include capitalized interest in cost of sales as recorded in the Company's trial balance.
- **Warranty expenses** represent the net expenses after contributions from subcontractors for expenses incurred fixing houses. Pro Forma results recognize warranty expenses as a cost of sales rather than as an operating expense.

Due Diligence Adjustments

- Due Diligence adjustments are further discussed within this section on the Report.

Due Diligence Adjustments

Overview

- The following schedule summarizes the proposed due diligence adjustments for FY12 and FY13.

Adjusted EBITDA

$ in 000s	FY12	FY13
Sales	91,145	94,301
Reported EBITDA	7,487	6,202
Reported EBITDA as a % of sales	*8.2%*	*6.6%*
Due diligence adjustments:		
D.1 Elmwood profits	411	377
D.2 Severance	200	-
D.3 CFO / Controller compensation	(319)	(253)
D.4 Other income (expense)	(252)	18
D.5 Warranty expense	-	299
Due diligence adjusted EBITDA	**7,527**	**6,643**
Diligence adjusted EBITDA as a % of sales	*8.3%*	*7.0%*

Source: Internal financial statements and supporting schedules provided by Management

[Redact] Historical Income Statements

$ in 000s	FY12	FY13
Home sales	**6,076**	**2,599**
Cost of sales	5,512	2,196
Gross profit	**563**	**403**
Gross margin	*9.3%*	*15.5%*
Interest expense	152	25
Profit after interest expense	**411**	**377**
Management fee(income)	(363)	(192)
Fee expense - profit	411	377
Net income contribution	**363**	**192**
Interest	152	25
EBITDA Contribution	**515**	**218**

Source: Internal financial statements

Due Diligence Adjustments

- **D.1 [Redact] profits**
  - Management stated that during FY12 and through September of FY13, the Company entered into an arrangement with a related party land developer, [redact], to build and sell 35 homes (FY12: 25; FY13: 10). The benefit for this arrangement was a partial settlement for [redact] when the Chairman terminated some nonrelated business arrangements with [redact].
  - The key terms of the arrangement are as follows:
    - The Company used its Bank lines to fund the construction;
    - The Company's personnel managed all aspects of construction and selling process;
    - [Redact] paid the Company a management fee of $10 to $15 per home to cover project management and selling/administration costs; and
    - Upon the sale of the home, the Company paid fees to [redact] equaling the amount of profit on the home.
  - The results of the [redact] arrangement are included in the Company's reported Homebuilding income statement and balance sheet. The profit fees paid to [redact] are recorded as an other expense in the Company's Homebuilding reported income statement and amount to $411 and $377 in FY12 and FY13, respectively. FAI proposes to exclude the profit fees paid to [redact] from Adjusted EBITDA as these expenses are effectively a non-recurring expense and Homebuilding's normalized operational performance should appropriately reflect normal profits from this homebuilding activity. Management represented that the Company could have built alternative houses without paying these profit fees.
  - Management represented that the homes in the [redact] project on average had more premium features and desirable lots and demanded a higher average selling price than the homes that the Company typically builds ([redact] ASP $243 and $260 in FY12 and FY13, respectively versus Company average of $218 and $220, respectively).

Due Diligence Adjustments, cont.

Elmwood Historical Income Statements		
$ in 000s	FY12	FY13
Home sales	**6,076**	**2,599**
Cost of sales	5,512	2,196
Gross profit	**563**	**403**
Gross margin	*9.3%*	*15.5%*
Interest expense	152	25
Profit after interest expense	**411**	**377**
Management fee (income)	(363)	(192)
Fee expense - profit	411	377
Net income contribution	**363**	**192**
Interest	152	25
EBITDA Contribution	**515**	**218**

Elmwood Key Metrics		
Homes closed (actual)	25	10
Average sq. ft. (actual)	2,491	2,379
ASP	**243**	**260**
ASP per square foot	98	109
ACP	**220**	**220**
ACP per square foot	89	92
Average gross profit	**23**	**40**
Average months	11.1	4.2

Source: Management and CB analysis

Due Diligence Adjustments

- **D.1 [Redact] profits (continued)**
  - In addition, Management represented that these premium homes were sold at a lower gross margin (gross margin of 9.3% in FY12 and 15.5% in FY13 versus overall Company gross profit at about 18% on an adjusted basis) due to market conditions. However, if you include the profit fee income as revenue then gross margins for the project are more consistent with typical Company margins (FY12: 14.4%; FY13: 21.3%).

Elmwood Gross Margin Adjusted		
$ in 000s	FY12	FY13
Home sales	6,076	2,599
Management fee	363	192
Total revenue	**6,439**	**2,791**
Cost of sales	5,512	2,196
Gross profit	**926**	**595**
Gross margin	*14.4%*	*21.3%*

Source: Management and CB analysis

Due Diligence Adjustments, cont.

Overview

- The following schedule summarizes the proposed due diligence adjustments for FY12 and FY13.

Adjusted EBITDA

$ in 000s		FY12	FY13
Sales		91,145	94,301
Reported EBITDA		7,487	6,202
Reported EBITDA as a % of sales		*8.2%*	*6.6%*
Due diligence adjustments:			
D.1	Elmwood profits	411	377
D.2	Severance	200	-
D.3	CFO / Controller compensation	(319)	(253)
D.4	Other income (expense)	(252)	18
D.5	Warranty expense	-	299
Due diligence adjusted EBITDA		**7,527**	**6,643**
Diligence adjusted EBITDA as a % of sale:		*8.3%*	*7.0%*

Source: Internal financial statements and supporting schedules provided by Management

Due Diligence Adjustments

- **D.2 Severance**
  - Management represented that the Company paid a $200 severance in FY12 in connection with the termination of the prior Chief Executive Officer. Management represented that prior Chief Executive Officer provided no services in FY12 and that the Company promoted the then Chief Financial Officer to fill the vacancy in early FY12.
  - FAI proposes an add back to Adjusted EBITDA for the severance amount of $200 as this is considered a non-recurring expense.
- **D.3 CFO / Controller compensation**
  - The Company operated without a Chief Financial Officer in FY12 due to the Chief Financial Officer's promotion to the Chief Executive Officer. In addition, the Company did not have a Controller. The Company hired a CFO in December 2013 and a Controller in the second quarter of FY13.
  - FAI has proposed an adjustment to include costs within Adjusted EBITDA for the CFO and Controller as if the appointments were effective at the beginning of the Historical Periods as both positions are needed to effectively manage the finance and administrative departments.

Compensation adjustment

$ in Actual	FY12	FY13
Current salaries paid		
- CFO	-	-
- Controller	-	65,625
Total Paid	-	65,625
Estimated annual salary		
- CFO	180,000	180,000
- Controller	75,000	75,000
Subtotal full year salary	255,000	255,000
Benefits	63,750	63,750
Benefit % of salary	*25.0%*	*25.0%*
Total Compensation - Estimated	318,750	318,750
Due Diligence Adjustment - D.3	**(318,750)**	**(253,125)**

Source: Management and CB analysis

Due Diligence Adjustments, cont.

Overview

- The following schedule summarizes the proposed due diligence adjustments for FY12 and FY13.

Adjusted EBITDA			
$ in 000s		**FY12**	**FY13**
Sales		91,145	94,301
Reported EBITDA		7,487	6,202
Reported EBITDA as a % of sales		*8.2%*	*6.6%*
Due diligence adjustments:			
D.1	Elmwood profits	411	377
D.2	Severance	200	-
D.3	CFO / Controller compensation	(319)	(253)
D.4	Other income (expense)	(252)	18
D.5	Warranty expense	-	299
Due diligence adjusted EBITDA		**7,527**	**6,643**
Diligence adjusted EBITDA as a % of sale:		*8.3%*	*7.0%*

Source: Internal financial statements and supporting schedules provided by Management

Due Diligence Adjustments

- **D.4 Other income**
  - FAI proposes the following adjustments to eliminate the impacts of certain other income and (loss) items included within the Company's as reported results:

Other Income (Expense) Adjustment		
$ in 000s	**FY12**	**FY13**
Partnership income	127	-
(Loss) / gain on sale of asset	98	(18)
Other Income	26	-
Total Other, net	**252**	**(18)**

Source: Internal financial statements provided by Management

  - Management could not explain a "partnership income" item in FY12 in the amount of $127. Accordingly, FAI excluded this income from Adjusted EBITDA.
  - The "(loss) / gain on the sale of assets" in FY12 and FY13 relates to the sale of lots to the related party businesses [redact]. This is considered an activity related to predecessor Company arrangements that may not continue post sale. Accordingly, FAI excluded this income from Adjusted EBITDA.
  - "Other income" relates to write off of an accounts payable to an employee. On the basis this income is not considered recurring, FAI excluded this income from Adjusted EBITDA.

- **D.5 Warranty expense**
  - Warranty material costs as reported increased in FY13 to $549 from $242 in FY12. Management explained that warranty material costs were higher than normal in FY13 due to significant water drainage remediation efforts due the unusual high levels of rain in the Fall of the year. Management stated that a warranty material costs of about $250 per year is expected.
  - FAI has proposed a diligence adjustment to reduce FY13 warranty material costs by $299 to normalize warranty material cost at the $250 expected level ($549 - $299 = $250).

Other Considerations Which May Impact Quality of Earnings

Synergies

- [Client], together [redact] Homebuilding Business operate within the same industry and as such specific cost synergies will likely be realized as a result of the Transaction. These synergies include duplicative operating costs (e.g., IT, accounting, back office support) and expenses (e.g., building materials, insurance) which could perhaps be reduced through [redact] increased purchasing power. FAI prepared the Quality of Earnings on a stand alone basis. Therefore, the value of such realized synergies was not presented as an adjustment to historical EBITDA.
- ***FAI recommends [Client] considers the impact of potential synergies, together with the potential additional costs arising Affordable Care Act of 2010, within a Pro Forma combined forecast.***

Warranty Accrual

- The Homebuilding Business offers customers a “2-10 Home Buyers Warranty” which in summary provides the following coverage:
  - Ten years of structural defect coverage for load-bearing components;
  - Two years of systems surety coverage against defects in wiring, piping, and ductwork in electrical, plumbing, heating, cooling, ventilating, and mechanical systems; and
  - One year of surety coverage against defects in workmanship and materials.
- Management represented that the Company uses the same warranty terms for all homes regardless of location. No other warranties are provided.
- Normally, the Company incurs the repair expense to make whole the claim and then is reimbursed by the subcontractor, if repair is covered under the subcontractors workmanship warranty. The Company does not accrue for unreimbursed subcontractor costs related to warranty claims.

Warranty Accrual (continued)

- On the basis that the adjusted warranty costs, after the impact of Due Diligence Adjustment D.5, have remained fairly consistent (FY12: $242k; FY13: $250k) as recognized on a cash basis, FAI has not performed additional detailed due diligence to establish whether a different adjusted expense is deemed necessarily based on accrual basis. At Client’s request, FAI can perform additional due diligence to establish a more precise estimate of warranty costs for FY12 and FY13.
- ***FAI recommends that the Buyer obtains a warranty or indemnification for non-accrued warranty expenses from the Seller for those homes closed with customers prior to the closing of the Transaction.***
- Periodically, the Company is unable to collect reimbursement from the subcontractor and will expense this amount to the income statement. Accounting Standards Codification (“ASC”) 460-10, Guarantees, states that because of uncertainty surrounding claims that may be made under warranties, warranty obligations fall within the definition of a contingency. As such, an estimated cost from warranty obligations should be accrued at time of house closing as a charge to income when the amount of loss can be reasonably estimated. At [Client’s] request, FAI can perform additional due diligence to establish a potential warranty accrual for the Historical Balance Sheet Dates.
- Management does not accrue for the in-house staff which administer the warranty claims. Management represented that approximately 11 full time employee (“FTEs”) are responsible for this administration and the annual salaries and benefit expense per employee of approximately $72k are treated as a period cost.
- ***FAI recommends that forecast warranty costs should be accrued for at time of closing the house sale as in accordance with GAAP.***

V. INCOME STATEMENT

Historical Income Statements Overview

Overview

- The following schedule summarizes the Company's income statements for FY12 and FY13.

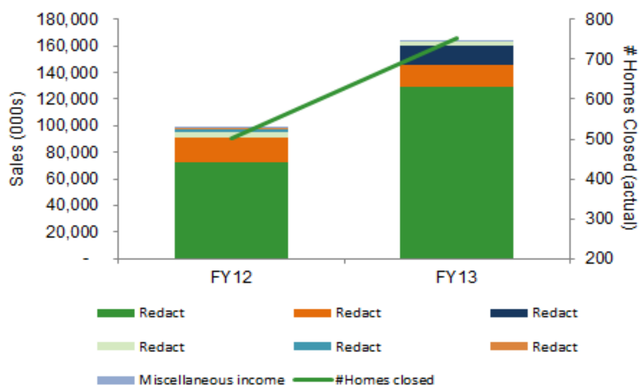
Historical Income Statements

$ in 000s	FY12	*% of sales*	FY13	*% of sales*
Sales	**97,952**	*100.0*	**163,495**	*100.0*
Cost of sales	86,875	*88.7*	140,964	*86.2*
Gross profit	**11,077**	***11.3***	**22,531**	***13.8***
Operating expenses	6,376	*6.5*	8,734	*5.3*
Income from operations	**4,701**	***4.8***	**13,797**	***8.4***
Other (income) expense	(93)	*(0.1)*	266	*0.2*
Net income	**4,794**	***4.9***	**13,531**	***8.3***
Interest	4,422	*4.5*	129	*0.1*
Reported EBITDA	**9,216**	***9.4***	**13,660**	***8.4***

Source: Internal financial statements provided by Management

Sales

- FY13 Sales increased by $65,543k, or 67%, to $163,495k, primarily due to increased sales volume of 249 units, or 50%, and a 12% increase in ASP. Management indicated this increase in sales volume and ASP is the result of improving economic conditions which positively impacts the housing market.



Cost of sales

- FY13 cost of sales increased by $54,089k, or 62%, to $140,964k, primarily due to a 50% increase in volume and increased cost of construction per square foot of 8% (FY12: $173; FY13: $187). Management indicated cost of construction is directly correlated to sales.

- As a percent of total sales, FY13 cost of sales decreased by 2.5 percentage points to 86%. However, this decrease is primarily due to the Company's change in its accounting methodology for interest expense and profit distributions. During FY13, the Company recorded $6,495k of interest expense as a distribution on the balance sheet whereas during FY12, the Company recorded interest expense of $4,422k within cost of sales.

Operating expenses

- Operating expenses increased by $2,358k, or 37%, from FY12 to FY13 primarily due to the increase in salaries and wages of $1,608k and the accompanying employer payroll taxes of $330k over the same period. Refer to the Compensation and Benefits section of this report for further discussion surrounding compensation.

Other (income) expense

- Other (income) expense is comprised of (i) refunds and rebates; and (ii) other expense. Overall, FY13 other expense increased by $359k, or 386%, to $266k (FY12: $93k income). The increase was primarily due to the Company writing off additional costs incurred on the [redact] project ($138k) and earnest money deposits within the [redact] market ($156k).

Sales Analysis

- The following chart presents a break out of the Company's sales and gross profit for FY12 and FY13.

Sales

$ in 000s	FY12	*% of sales*	FY13	*% of sales*	Y-O-Y change	Gross Profit FY12	Gross Profit FY13
Atlanta, GA	72,695	*74.2*	128,923	*78.9*	56,228	10,454	18,169
Columbia, SC	17,914	*18.3*	17,291	*10.6*	(623)	2,580	2,008
Raleigh, NC	-	-	13,732	*8.4*	13,732	-	1,276
Fayetteville, NC	4,503	*4.6*	3,265	*2.0*	(1,238)	847	378
Augusta, GA	2,078	*2.1*	-	-	(2,078)	201	-
Phenix City, AL	624	*0.6*	-	-	(624)	36	-
Home sales by market	**97,814**	***99.9***	**163,211**	***99.8***	**65,397**	**14,118**	**21,831**
Miscellaneous income	138	*0.1*	284	*0.2*	146		
Total	**97,952**	***100.0***	**163,495**	***100.0***	**130,940**		
ASP per house (000s)	195		217		23		
ASP per square foot (actual)	68		71		4		

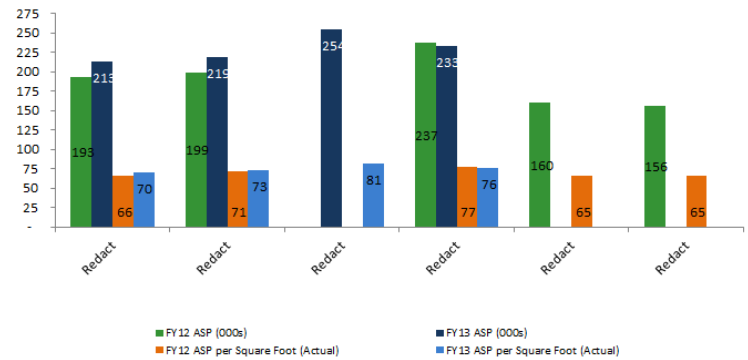
Source: Gross margin report provided by Management

- Sales consist of the following two components: (i) home sales; and (ii) miscellaneous income. Home sales represent the sales price per the settlement statement, less deposits and other settlement chargers paid by the Seller. Miscellaneous income represents various utility deposit refunds (e.g., electricity, water, etc.) and earnest money deposits forfeited by potential buyers.

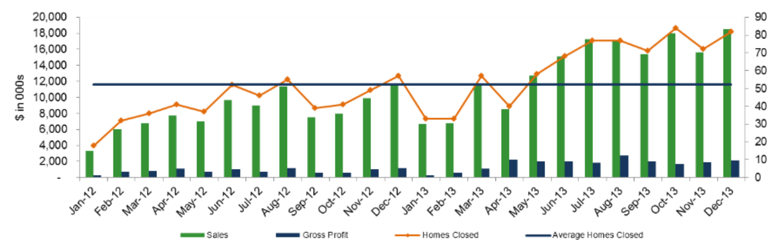
- Sales are recognized using the completed contract method whereby sales and related costs should be recognized and recorded on the income statement upon completion of the sale. Management indicated sales are recognized at the time title passes to the customer, adequate cash has been received and there is no continuing involvement from the Company, which typically occurs at closing.

Average Selling Price

- The chart below presents the average selling price ("ASP") per home (in $000s) and per square foot ($ actual) for FY12 and FY13. Refer to the following sections for an analysis of sales by market.



- The chart below presents revenue, closed homes and the average closed homes on a monthly basis for FY12 and FY13.



- As can be seen by the graph, sales have been increasing over the Historical Period. While construction can be slightly seasonal (e.g., peaks between March and October), completions can also peak in holiday periods (e.g., December) as there is pressure from customers to complete before the holidays.

Cost of Sales Analysis

- The following schedule presents the Company's cost of sales for FY12 and FY13.

Cost of Sales					
$ in 000s	FY12	*% of sales*	FY13	*% of sales*	Y-O-Y change
Cost of construction	71,788	*73.3*	123,070	*75.3*	51,282
Sales commissions (external)	4,997	*5.1*	8,125	*5.0*	3,128
Cost after close-out	2,848	*2.9*	5,412	*3.3*	2,564
Closing cost	2,342	*2.4*	3,344	*2.0*	1,002
Area manager bonuses	478	*0.5*	884	*0.5*	406
Interest	-	-	129	*0.1*	129
Profit distributions	4,422	*4.5*	-	-	(4,422)
Cost of sales	**86,875**	***88.7***	**140,964**	***86.2***	**54,089**
Average construction cost per house (000s)	145		158		13
Average lot cost (000s)	28		30		1
Total average cost per house (000s)	173		187		15
Average cost per square foot (actual)	50		52		2

Source: Internal financial statements provided by Management

- Management indicated cost of sales are recognized at the time revenue is recognized. However, Management represents that the Company does not truly accrue for costs which had not yet been invoiced at the time of sale.
- **Cost of construction –** Represents all direct materials, labor costs and those indirect costs related to contract performance (e.g., labor, supplies, and tools). The Company uses subcontractor to construct homes, and the subcontractors invoice the Company for construction costs based on pre-established pricing lists negotiated between the Company and subcontractor. Management indicated costs of construction are recorded at the time of sale.
- Over the Historical Periods, cost of construction increased by 2.0 percentage points when compared to total sales (FY12: 73%; FY13 75%). Management indicated this increase is partially attributable to the increased cost of construction in the [redact] market where some failed vendor and subcontractor relationships increased costs. On the basis Management could not quantify these inefficiencies, FAI has not proposed a Quality of Earnings adjustment.
- **Sales commissions –** Consist of a 3% commission paid per home closing to external agents. Management indicated commissions are paid on a weekly basis, one week in arrears. Refer to the Compensation and Benefits section of this report for further discussion surrounding compensation.
- **Cost after close-out –** Consists of costs (e.g., typically appliances, fittings etc.) incurred with a home sale which the Company did not recognize until after completion on receipt of the relevant invoices. Management represented that receipt of certain invoices, which is when expenses are recorded, may take one to two months after closing to be received. Upon receipt, Management allocates the cost the closed home. Except for the Auditor's year-end adjustments, the Company does not accrue for these late notified costs. Cost after close-out increased $2,564, or 90% from FY12 to FY13 primarily due to the increased sales volume of 50% (FY12: 503 homes; FY13: 752 homes)
- **Closing cost –** Represents costs associated with the closing process (e.g., appraisal fees, surveys, lawyer fees, etc.) which are paid by the Company in order to complete a sale. Management indicated the Company will typically pay closing costs of up to a maximum of 3% of the sales price.
- **Area manager bonus –** Management indicated the area manager bonus is comprised of bonuses paid to two area managers as well as [redact]. Refer to the Compensation and Benefits section of this report for further discussion surrounding compensation. ***FAI recommends that accounting policies are established which specify where these bonuses should be recorded.***

Cost of Sales, cont.

Cost of Sales Analysis, continued

- The following schedule presents the Company's cost of sales for FY12 and FY13.

Cost of Sales					
$ in 000s	**FY12**	***% of sales***	**FY13**	***% of sales***	**Y-O-Y change**
Cost of construction	71,788	*73.3*	123,070	*75.3*	51,282
Sales commissions (external)	4,997	*5.1*	8,125	*5.0*	3,128
Cost after close-out	2,848	*2.9*	5,412	*3.3*	2,564
Closing cost	2,342	*2.4*	3,344	*2.0*	1,002
Area manager bonuses	478	*0.5*	884	*0.5*	406
Interest	-	-	129	*0.1*	129
Profit distributions	4,422	*4.5*	-	-	(4,422)
Cost of sales	**86,875**	***88.7***	**140,964**	***86.2***	**54,089**
Average construction cost per house (000s)	145		158		13
Average lot cost (000s)	28		30		1
Total average cost per house (000s)	173		187		15
Average cost per square foot (actual)	50		52		2

Source: Internal financial statements provided by Management

- **Interest and Profit Distribution -** The Company has historically been funded by secured construction financing from [redact], respectively. During FY12, the Company paid $4,422 in interest to [redact] and accrued $288 of interest to [redact]. During FY13, the Company paid $6,495 in interest to [redact] and paid out the remaining accrued interest to [redact].
- From FY12 to FY13, the Company changed how it records interest expense on the internal financials. During FY13, the Company recorded $129 interest expense to [redact] on the income statement and $6,495 in interest to [redact] within profit distributions on the balance sheet.
- For a full analysis of interest and profit distributions paid to each individual, please refer to the Historical Balance Sheets Overview section of this Report.

Market Analysis

- The following schedule summarizes the Company's sales, gross profit and KPIs by market for FY12 and FY13. Refer to the following pages for a year-over-year discussion around the [redact] markets.

Market Analysis	FY12								FY13							Year-Over-Year Change				
$ in 000s	Atlanta	Columbia	Fayetteville	Augusta	Phenix City	Discontinu	Miscella	Total	Atlanta	Columbia	Fayetteville	Raleigh	Discontin	Miscellan	Total	Atlanta	Columbia	Fayetteville	Discontinued Operations	Total
Sales	**72,695**	**17,914**	**4,503**	**2,078**	**624**	**25,119**	**138**	**97,952**	**128,923**	**17,291**	**3,265**	**13,732**	**34,288**	**284**	**163,495**	56,228	(623)	(1,238)	9,169	65,543
Total revenue	**72,695**	**17,914**	**4,503**	**2,078**	**624**	**25,119**	**138**	**97,952**	**128,923**	**17,291**	**3,265**	**13,732**	**34,288**	**284**	**163,495**	**56,228**	**(623)**	**(1,238)**	**9,169**	**65,543**
Cost of construction	45,803	10,915	2,507	1,242	349	15,013	N/A	60,816	82,821	11,184	2,050	9,355	**22,589**	N/A	**105,410**	37,018	269	(457)	7,576	44,594
Lot cost	9,849	3,004	764	423	148	4,339	N/A	14,188	16,934	2,800	549	2,004	**5,353**	N/A	**22,287**	7,085	(204)	(215)	1,014	8,099
Sales commissions	4,680	1,173	282	150	59	1,664	N/A	6,344	8,170	1,091	204	880	**2,175**	N/A	**10,345**	3,490	(82)		511	4,001
Closing cost	1,909	242	103	62	32	439	N/A	2,348	2,829	208	84	217	**509**	N/A	**3,338**	920	(34)	(19)	70	990
Direct cost of sales	**62,241**	**15,334**	**3,656**	**1,877**	**588**	**21,455**	**-**	**83,696**	**110,754**	**15,283**	**2,887**	**12,456**	**30,626**	**-**	**141,380**	**48,513**	**(51)**	**(769)**	**9,171**	**57,684**
Contribution margin	**10,454**	**2,580**	**847**	**201**	**36**	**3,664**	**138**	**14,256**	**18,169**	**2,008**	**378**	**1,276**	**3,662**	**284**	**22,115**	**7,715**	**(572)**	**(469)**	**(2)**	**7,859**
Contribution margin %	***14.4***	***14.4***	***18.8***	***9.7***	***5.8***	***14.6***	***100.0***	***14.6***	***14.1***	***11.6***	***11.6***	***9.3***	***10.7***	***100.0***	***13.5***	**(0.3)**	**(2.8)**	**(7.2)**	**(3.9)**	**(1.0)**
Interest	N/A	N/A	N/A	N/A	N/A	N/A	N/A	4,422	N/A	N/A	N/A	N/A	N/A	N/A	129	N/A	N/A	N/A	N/A	(4,293)
Area managers bonus	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A	N/A	N/A	N/A	N/A	N/A	884	N/A	N/A	N/A	N/A	884
FY12 costs after closeout	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	442	N/A	N/A	N/A	N/A	442
Unreconciled variance	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(1,243)	N/A	N/A	N/A	N/A	N/A	N/A	(1,871)	N/A	N/A	N/A	N/A	(628)
Other cost of sales	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,179**	**-**	**-**	**-**	**-**	**-**		**(416)**	**N/A**	**N/A**	**N/A**	**N/A**	**(3,595)**
Total costs	**62,241**	**15,334**	**3,656**	**1,877**	**588**	**21,455**	**-**	**86,875**	**110,754**	**15,283**	**2,887**	**12,456**	**30,626**	**-**	**140,964**	**48,513**	**(51)**	**(769)**	**9,171**	**54,089**
Gross profit	**10,454**	**2,580**	**847**	**201**	**36**	**3,664**	**138**	**11,077**	**18,169**	**2,008**	**378**	**1,276**	**3,662**	**284**	**22,531**	**7,715**	**(572)**	**(469)**	**(2)**	**11,454**
Gross margin	***14.4***	***14.4***	***18.8***	***9.7***	***5.8***	***14.6***	***100.0***	***11.3***	***14.1***	***11.6***	***11.6***	***9.3***	***10.7***	***100.0***	***13.8***	**(0.3)**	**(2.8)**	**(7.2)**	**(3.9)**	**2.5**
Homes closed (actual)	377	90	19	13	4	126	N/A	503	605	79	14	54	752	N/A	752	228	(11)	(5)	626	249
Average square foot (actual)	2,921	2,785	3,062	2,441	2,383	2,776	N/A	2,884	3,051	3,010	3,085	3,133	3,063	N/A	3,053	N/A	N/A	N/A	N/A	N/A
ASP:																				
Per home (000s)	193	199	237	160	156	199	N/A	195	213	219	233	254	46	N/A	217	20	20	(4)	(154)	23
Per square foot (actual)	66	71	77	65	65	72	N/A	68	70	73	76	81	15	N/A	71	4	1	(2)	(57)	4
Total average direct cost:																				
Per home (000s)	165	170	192	144	147	170	N/A	173	183	193	206	231	41	N/A	187	18	23	14	(130)	15
Per square foot (actual)	57	61	63	59	62	61	N/A	60	60	64	67	74	13	N/A	61	3	3	4	(48)	2
Average direct cost:																				
Per home (000s)	139	137	152	112	110	136	N/A	145	155	158	167	194	34	N/A	158	16	21	15	(102)	13
Per square foot (actual)	48	49	50	46	46	49	N/A	50	51	52	54	62	11	N/A	52	3	3	4	(38)	2
Average lot cost (000s)	26	33	40	33	37	34	N/A	28	28	35	39	37	7	N/A	30	2	2	(1)	(27)	1
Gross profit per home	28	29	45	15	9	29	N/A	22	30	25	27	24	5	N/A	30	2	(3)	(18)	(24)	8
Gross profit per square foot	4	1	0	0	0	1	N/A	4	6	1	0	0	1	N/A	7	N/A	N/A	N/A	N/A	N/A

Source: Gross margin report provided by Management

- Note: [Redact] were excluded from the year-over-year analysis as these markets were not operational for both periods.

FARRELL ADVISORY INC.

Market Analysis, cont.

[Redact]

- FY13 sales increased by $56,228k, or 77%, to $128,923k. This sales growth is primarily attributed to:
  - Increased sales volume of 228, or 61%, homes from 377 in FY12 to 605 in FY13.
  - Increase of $20, or 10%, in ASP per home over the Historical Period (FY12: $193k; FY13: $213k).
- FY13 gross profit margin decreased 0.3 percentage points due to the total average cost per home ($183k) increasing more rapidly year-over-year than the average selling price ($213k). Over the Historical Period, the total average cost increased 11% compared to the 10.5% increase in average selling price. Management indicated the Company's sales price is lagging behind the increase in costs as the Company incurred higher costs of construction without the ability to pass these increased cost into the sales price and on to the customer.
- A full analysis of the [redact] market by community is presented on the following page of this report.

[Redact]

- Over the Historical Periods, sales decreased by $623k, or 4%. The decrease is primarily due to decreased sales volume, which decreased 11, or 12%, over the same period.
- In addition to decreased sales, gross profit also decreased by approximately $572k, or 22% from FY12 to FY13 to $2,008k; this is primarily driven by decrease in volume as this market had an increase in ASP per home ($20k from $199k in FY12 to $219k in FY13) while ACP per house only increased by $1k per house.
- Management indicated the Company does not plan to continue operations within this market. Management further indicated the Company expects to sell all 7 homes included in Dec13 WIP by the end of FY14. Refer to the Work In Process section of this report for the number of houses remaining in WIP associated with this market as of Dec13.

[Redact]

- Over the Historical Period, sales decreased by $1,238k, or 28% to $3,265. The decrease is primarily due to decreased sales volume, which decreased by 5 homes, or 26%, over the same period. The [redact] market also experienced a decrease in ASP per home, which decreased by approximately $4k from $237k in FY12 to $233k in FY13.
- Management indicated the Company does not plan to continue operations within this market. Management further indicated the Company expects to sell all 7 homes included in Dec13 WIP by the end of FY14. Refer to the Work In Process section of this report for the number of houses remaining in WIP associated with this market as of Dec13.

[Redact]

- The Company expanded into the [redact] market during FY12; however, the Company did not record a sale in this market until FY13. Management indicated the Company does not plan to continue operations within this market and expects to sell all 55 homes included in Dec13 WIP by the end of FY14. Refer to the Work In Process section of this report for the number of houses remaining in WIP associated with this market as of Dec13.

[Redact]

- The Company entered into the [redact] markets during FY11 and FY09, respectively. At Dec13, there were no remaining homes in the Augusta or Phoenix City markets within the Company's WIP. Management indicated the Company does not plan to continue operations within these markets beyond FY13.

[Redact] Market Analysis by Community

Market Analysis by Community

- The following schedule summarizes the [redact] market's revenue for FY12 and FY13.

Proforma Income Statements

		FY14F									
		Proforma Adjustments					*EBITDA Adjustments*				
$ in 000s	Reported	Closing costs	Purch. Disc.	Cap. Interest	War-ranty	Proforma	Cap. Interest	Interest	Deprec.	Rebate	Proforma
Sales	112,226	-	-	-	-	112,226	-	-	-	-	112,226
Closing costs (contra)	(2,783)	2,783	-	-	-	-					-
Sales, Net	**109,443**	**2,783**	**-**	**-**	**-**	**112,226**	**-**	**-**	**-**	**-**	**112,226**
Cost of sales	(86,940)	(2,783)	600	(753)	(838)	(90,714)	753	-	-	-	(89,961)
Gross profit	**22,503**	**-**	**600**	**(753)**	**(838)**	**21,512**	**753**	**-**	**-**	**-**	**22,265**
Gross margin	*20.6%*	-	-	-	-	*19.2%*	-	-	-	-	*19.8%*
Operating expenses	(14,666)	-	-	-	838	(13,828)	-	-	140	-	(13,688)
% of sales	*-13.4%*					*-12.3%*					*-12.2%*
Income from operations	**7,837**	**-**	**600**	**(753)**	**-**	**7,684**	**753**	**-**	**140**	**-**	**8,577**
Interest expense, net	(3,408)	-	-	753	-	(2,655)	-	2,655	-	-	-
Rebates / other	561	-	(600)	-	-	(39)	-	-	-	-	(39)
Net income	**4,990**	**-**	**-**	**-**	**-**	**4,990**	**753**	**2,655**	**140**	**-**	**8,539**
Interest	3,408	-	-	-	-	3,408	(753)	(2,655)	-	-	-
Depreciation	140	-	-	-	-	140	-	-	(140)	-	-
Purchase discounts / other	(561)	-	-	-	-	(561)	-	-	-	600	39
Reported EBITDA	**7,977**	**-**	**-**	**-**	**-**	**7,977**	**-**	**-**	**-**	**600**	**8,577**
% of sales	***7.3%***					***7.1%***					***7.6%***

Source: Internal financial statements provided by Management

- The Top 10 [redact] communities with cumulative FY13 revenues of $89,231 represent 69% and 55% of the revenue from [redact] and Company, respectively.
- The make-up of the top 20 communities is subject to change year-over-year as construction projects within communities have a life cycle of about three to four months. Of those Top 10, one community [redact] does not have any remaining lots the Company can purchase in order to construct homes.
- Of the top 20 communities, seven do not have any remaining lots the Company can purchase on which to construct homes.

Revenue Proof for Home Sales

Proof of Cash	
$ in 000s	**FY13**
Cash deposits per bank statements	154,548
Add: Deposits in transit from Dec13 home closings	8,801
Adjusted cash receipts	**163,349**
Home sales per financial statements	163,211
Variance	**(138)**
Variance % of total sales	*(0.08)*

Source:Bank statements provided by Management and analysis by CB

Revenue Proof

- The table to the left summarizes the reconciliation of reported cash deposits per the Company's bank statements to reported home sales revenue on the Company's income statement.
- The analysis shows that cash deposits and revenues were reconciled within a difference of approximately $138, or 0.08%, of total cash receipts. On the basis of the immaterial difference, no further work was performed on the reconciliation.

Operating Expenses

Overview

- The following schedule summarizes the Company's operating expenses for FY12 and FY13.

Operating Expenses					
$ in 000s	FY12	*% of sales*	FY13	*% of sales*	Y-O-Y Chang
Salaries and wages	2,977	*3.0*	4,585	*2.8*	1,608
Payroll taxes employer	172	*0.2*	502	*0.3*	330
Office, model and trailers	198	*0.2*	385	*0.2*	187
Vehicle allowance	164	*0.2*	364	*0.2*	200
General liability insurance	97	*0.1*	248	*0.2*	151
Travel and lodging	112	*0.1*	208	*0.1*	96
Insurance benefit	104	*0.1*	207	*0.1*	103
Rent expense	173	*0.2*	204	*0.1*	31
Other subdivision field cost	144	*0.1*	154	*0.1*	10
Internet advertising	145	*0.1*	147	*0.1*	2
Computer systems	155	*0.2*	145	*0.1*	(10)
Plans and revisions	83	*0.1*	141	*0.1*	58
Consulting fees	32	*0.0*	108	*0.1*	76
Bonuses	-	-	106	*0.1*	106
Builders risk	31	*0.0*	103	*0.1*	72
Other operating expenses	1,789	*1.8*	1,127	*0.7*	(662)
Operating expenses	**6,376**	***6.5***	**8,734**	***5.3***	**2,358**

Source: Internal financial statements provided by Management

Salaries and wages

- Consist of salaries and wages for all employees. Management indicated this account increased by $1,608k, or 54%, due to a 178% increase in overall headcount (FY12: 41; FY12: 114); albeit employees with lower average salary. Refer to the Compensation and Benefits section of this report for a headcount analysis.

Payroll taxes employer

- Represents the Company's portion of payroll taxes for all employees. The increase in payroll taxes of $330k, or 192%, is directly related to the increase in payroll of 96% over the Historical Period.

Office, model and trailers

- Office, model and trailers represents costs associated with the set-up of model homes (e.g., staging furniture, signs, etc.), common area maintenance (e.g., lawn maintenance) and the set-up of sales offices (e.g. trailers) at each community. Office, model and trailer expenses increased by $187, or 94%, from $198k in FY12 to $385k in FY13, but as a percentage of sales (FY12: 0.2%; FY13: 0.2%) remained relatively consistent over the Historical Period.

Vehicle allowance

- Over the Historical Period, vehicle allowance increased by $200k, or 122%, but as a percentage of sales (FY12: 0.2%; FY13: 0.2%) remained consistent over the Historical Period. Management indicated the increase in vehicle allowance expense is directly associated with the percentage increase of 178% in employee headcount over the Historical Period. Management further indicated the allowance is based on each employee's respective negotiated rate. Refer to the Compensation and Benefits section of this report for a headcount analysis.

General liability insurance

- Management indicated the Company's general liability expense is based on annual sales (FY12: $97,952k; FY13: $163,495k, increase of 67%), which contributed to the increase of $151k, or 156%, from FY12 to FY13.

Other operating expenses

- From FY12 to FY13, other operating expenses decreased by $662k, or 37%, primarily due to the decrease in model decorating ($352k) from $358k in FY12 to $6k in FY13. Management indicated the Company completed construction on the majority of the model homes during FY12 and incurred most of the decorating expense for these model homes during FY12.

Compensation and Benefits – Overview

Compensation

- The following schedule presents the number of employees and reported compensation cost by department for FY12 and FY13.

Compensation by Department

$ in 000s	FY12 Total Comp.	FY12 # of Employee	FY12 Average per	FY13 Total Comp.	FY13 # of Employee	FY13 Average per	$ Change	*% Change*
Accounts payable	167	5	33	148	5	30	(19)	*(11.4)*
Construction	1,460	28	52	2,998	89	34	1,538	*105.3*
Contracts	27	1	27	133	2	67	106	*392.6*
Finance	219	2	110	284	3	95	65	*29.7*
Legal	-	-	-	189	1	189	189	*-*
Operations	-	-	-	463	5	93	463	*-*
Warranty	187	5	37	344	9	38	157	*84.0*
Gross employee compensation	**2,060**	**41**	**50**	**4,559**	**114**	**40**	**2,499**	***121.3***
Payroll taxes - P&L	132			398			266	*2.0*
Employee benefits - P&L	232			598			366	*1.6*
Total payroll costs	**2,424**			**5,555**			**3,131**	
Payroll taxes as % of employee compensation	*6.4*			*8.7*				
Employee benefits as % of employee compensation	*11.3*			*13.1*				

Source: Payroll registers provided by Management
Note: The total compensation $ amounts include salaries and benefits

Overview

- The schedule presented above is based on information from the Company's payroll reports that are administered by [redact], the Company's third party payroll provider. Please refer to the following page for a reconciliation of FY12 and FY13 payroll to the income statement.
- Total employee compensation increased by approximately 121% from FY12 to FY13, primarily driven by a 105% increase in Construction employee compensation (FY12: $1,460k; FY13: $2,998k). This increase was attributed to a 218% increase in Construction employee headcount year over year (28 during FY12; 89 during FY13) as the Company expanded to meet increasing construction demand in the [redact] market.

Overview, continued

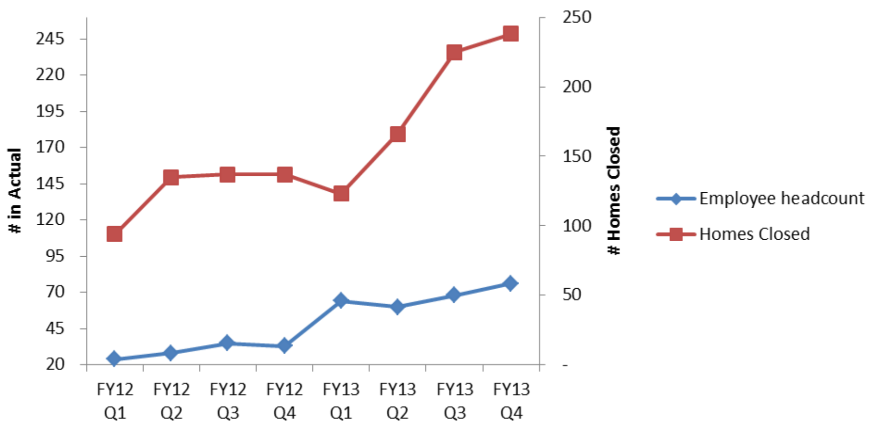
- The Company also utilizes commissioned sales representatives to market homes. Please refer to the following sections for further discussion of sales representatives.
- All employees are paid on a weekly payroll cycle. Salaries are paid up to the day payroll is processed.

Compensation and Benefits – Overview, cont.

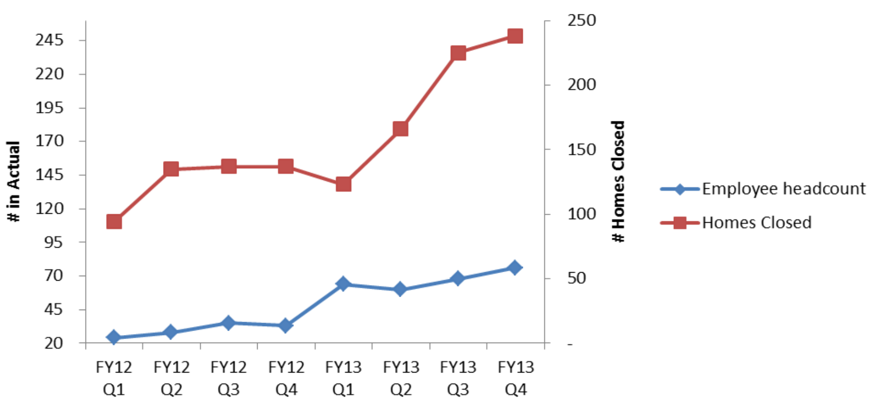
Headcount

- The following charts present the Company's headcount during FY12 and FY13 on a quarterly basis.

Total Headcount



Construction Employee Headcount



Construction Headcount

- The following schedule presents a summary of construction headcount by market at Dec13.

Construction Headcount by Market			
# employees in actual	**Builder**	**Supervisor**	**Total**
Atlanta	37	2	39
North Carolina	10	1	11
South Carolina	4	2	6
Total	**51**	**5**	**56**

Source: Schedules provided by Management

- Management represented that Construction employees represent Area Managers, Builders and Construction Administrative personnel involved in the Company's home construction process. The Area Managers and Builders serve as supervisors who lead the home construction projects and supervise subcontractors. The Administrative personnel are involved in back office activities to support the construction process (e.g., construction permits, project scheduling).
- The Company employed a total of 89 Construction employees throughout FY13, of which 49, or 55%, were Builders within the [redact] market. By Dec13, the Company employed 56 Construction employees. Management represented that this fluctuation of 33 employees is attributed to natural turnover as the Company often hires Construction personnel for one specific project. While total compensation increased, the average compensation per employee decreased by 20% from FY12 to FY13, to $40k per employee.

Compensation and Benefits – Overview, cont.

Payroll Reconciliation to Income Statement

- The following schedule presents a reconciliation of total payroll from the [redact] payroll registers to the Company's salaries and wages line items on the income statement.

Payroll Reconciliation - Peachtree Communities Group, Inc.

$ in 000s	FY12	FY13
Payroll per pay registers	2,060	4,699
Payroll on income statement (SG&A)[1]	2,340	3,822
Variance	**280**	**(877)**
Reconciling items:		
Non-W-2 (1099) personnel	(620)	-
Bonuses coded to costs of construction	-	320
Vehicle Allowance	148	308
Car phones	44	8
Travel	67	56
Insurance benefit	80	175
Net variance	**(1)**	**(10)**
Variance % of payroll per income statement	*(0.0)*	*(0.3)*

Source: Information provided by Management and CB analysis.

- During FY12, the Company included $620k of non-employee 1099 personnel compensation in the salaries and wages line on the income statement. During FY13, Management recorded the non-employee 1099 compensation in cost of sales.
- The Travel reconciling item represents travel allowances provided by the Company to Construction employees traveling to markets outside of [redact]. These allowances were included in the employees' FY13 taxable wages.

Incentive Compensation

- **"Per Closing" bonus: (FY12: N.Q.; FY13: N.Q.)**
  - Area managers, builders and field personnel are eligible for a bonus based on the number of homes closed on which they are involved. The Company negotiates different "per closing" bonus amounts with each individual based on the level of that individual's involvement in the construction process. Management indicated that the average bonus rate is between $250 and $500 per closing.
  - The Company pays these bonuses at the end of each month, one week in arrears. Management charges the bonuses to costs of construction and then allocates the bonuses to specific closings.
  - At the issuance of this due diligence report, Management was unable to compute the per closing bonus amounts for FY12 and FY13, as Management negotiates the bonuses on a per employee basis.
- **Top builder bonus (FY12: $252k; FY13: $376k)**
  - The Company pays the top homebuilder a bonus of $500 per closing rather than paying him a salary. This individual is a Form 1099 employee.
- **Executive bonuses (FY12: $252k; FY13: $458k)**
  - The Company pays (i) a $1k per closing bonus to [redact]; and (ii) a $500 per closing bonus to [redact]. These bonus structures are specified in the executives' employment agreements.
- **Discretionary bonuses (FY12: None; FY13: $106k)**
  - The Company periodically pays a discretionary annual bonus to employees. This bonus is purely at the discretion of Management. The Company paid a $106k discretionary bonus during FY13 and none during FY12.
  - Management stated the Company did not pay any other discretionary bonuses during FY13.

Compensation and Benefits – Overview, cont.

Paid time off

- The Company provides employees 116 hours each year of paid time off. Employees earn 2.23 hours per weekly pay period beginning from their start date. This paid time off covers both personal and sick time. Employees cannot "roll over" their time at each year-end, and the Company does not pay out unused vacation upon an employee's termination.

Benefits

- **Medical plan (FY12: $13k; FY13: $87k)**
  - The Company offers all eligible employees a health insurance plan administered through Coventry. The Company offers health insurance to employees, spouses and children. This health insurance plan was rescinded as a result of the Affordable Care Act and a new plan will be put into place effective Feb14. Management represented that the Affordable Care Act will have no impact on the Company as a standalone business. ***FAI recommends that the Buyer reviews the impact of the Affordable Care Act on the Company [redact].***
- **Insurance benefit (FY12: $80k; $175k)**
  - Management indicated that the Company pays $63.50 towards each eligible employee's health insurance premiums to assist the employee with the cost of health insurance. The Company pays this amount every pay period. Employees must work for the Company for 90 days to receive this benefit.
- **Car allowance (FY12: $148k; FY13: $332k)**
  - The Company offers certain construction Builders and Area Managers a monthly allowance for the cost of leasing an automobile.
- **Other benefits (FY12: $44k; FY13: $9k)**
  - The Company offers certain construction Builders and Area Managers a $150 monthly allowance for the use of a cell phone.

Sales Commissions (Internal and External Agents)

- The Company uses both internal and external sales agents to sell homes within each market. [Redact] pays internal sales agents 3% of total proceeds on each closing and 3% to outside sales agents, when used. Once the Company closes a home and receives proceeds, Management writes a check for the 3% commission to [redact], which then pays the sales agents.
- Sales (internal and external) commissions increased by $4,001k, or 63%, from $6,344k in FY12 to $10,345k in FY13, due primarily to the 67% increase in homes sales revenue (FY12: $97,814k; FY13 $163,211k).

Sales Commissions by Market (Internal and External)

$ in 000s	FY12	FY13	Y-O-Y $ Chang	*Y-O-Y %*	*% of Sales FY12*	*% of Sales FY13*	*% Change in Sales FY12 to*
Atlanta	4,680	8,170	3,490	*74.6*	*4.8*	*5.0*	*77.3*
Columbia	1,173	1,091	(82)	*(7.0)*	*1.2*	*0.7*	*(3.5)*
Raleigh	-	880	880	-	-	*0.5*	-
Fayetteville	282	204	(78)	*(27.7)*	*0.3*	*0.1*	*(27.5)*
Augusta	150	-	(150)	-	*0.2*	-	*(100.0)*
Phenix City	59	-	(59)	*(100.0)*	*0.1*	-	*(100.0)*
Total	**6,344**	**10,345**	**4,001**	***63.1***	***6.5***	***6.3***	***66.9***

Source: Schedules provided by Management

- As part of the consolidation of the results, FAI eliminated marketing income and commission income as received in [redact] with the corresponding (internal) sales commission costs in [redact]. In FY12, [redact] received a marketing fee (in other income) which FAI offset with the marketing fee, as recorded in operating expenses. Refer to X.B FY12 and FY13 Consolidating Historical Income Statements for further details.

Highly Compensated Employees

Compensation – Highly Compensated Employees

- The following schedule presents highly compensated employees (over $100k) based on FY13 for FY12 and FY13.

Highly Compensated Employees

		FY12			FY13				
$ in 000s	Position	Salary	Bonus	Total Comp.	Salary	Bonus	Total Comp.	$ Change	% Change
Chase Barke	VP of Finance	106	-	106	164	32	196	90	*84.9*
John Byrnes	In House Counsel	-	-	-	164	32	196	196	-
Steve Connor	VP of Operations	148	-	148	142	6	148	-	-
Rick Carruthers	Chief Executive Officer	-	-	-	70	72	142	142	-
Kenneth Wilson	Area Manager	112	-	112	123	-	123	11	*9.8*
Thomas Dobbs	Builder	72	9	81	74	29	103	22	*27.2*
Richard Hoste	Supervisor	-	-	-	85	18	103	103	-
Scotty LeCoq	Chief Financial Officer	113	-	113	-	-	-	(113)	*(100.0)*
Highly compensated employees		**551**	**9**	**560**	**822**	**189**	**1,011**	**451**	***80.5***

Source: Employee payroll registers provided by Management

Bonus Analysis

$ in 000s	FY13 Bonus	Reason
Rick Carruthers	72	$1 per closing bonus
Chase Barke	32	One-time holiday bonus
John Byrnes	32	One-time holiday bonus
Thomas Dobbs	29	$1 per closing bonus
Richard Hoste	18	$1 per closing bonus
Steve Connor	6	One-time holiday bonus
Total	**189**	

Source: Commentary provided by Management

VI. PROJECTIONS

Prospective Information Disclaimer

- FAI has included in this report, Management's quarterly projections for FY14F ("Forecast Period" or "Projections"); however, FAI does not endorse the achievability of the projections. FAI emphasizes the following as it pertains to forecast and other prospective financial information:
  - All forecast and prospective financial information included in this Report was prepared by Management.
  - This Report, as prepared by FAI, makes reference to and includes summaries and extracts of the Company's prospective financial information.
  - Summaries and extracts of forecast and other prospective financial information are included solely for the ease of the reader of this Report and should in no way to be considered prepared by FAI.
  - FAI has not assisted in the preparation of any forecast or other prospective financial information nor has FAI examined, compiled or applied agreed-upon procedures in accordance with standards established by the AICPA. Accordingly, FAI does not express an opinion or provide any assurance on any forecast or other prospective financial information.
  - Because events and circumstances frequently do not occur as expected, there will usually be differences between predicted and actual results and those differences may be significant and material.

As Reported to Pro Forma to Adjusted FY14F Income Stat.

Proforma Income Statements											
	FY14F										
		Proforma Adjustments					EBITDA Adjustments				
$ in 000s	Reported	Closing costs	Purch. Disc.	Cap. Interest	War-ranty	Proforma	Cap. Interest	Interest	Deprec.	Rebate	Proforma
Sales	112,226	-	-	-	-	112,226	-	-	-	-	112,226
Closing costs (contra)	(2,783)	2,783	-	-	-	-					-
Sales, Net	**109,443**	**2,783**	**-**	**-**	**-**	**112,226**	**-**	**-**	**-**	**-**	**112,226**
Cost of sales	(86,940)	(2,783)	600	(753)	(838)	(90,714)	753	-	-	-	(89,961)
Gross profit	**22,503**	**-**	**600**	**(753)**	**(838)**	**21,512**	**753**	**-**	**-**	**-**	**22,265**
Gross margin	*20.6%*	-	-	-	-	*19.2%*	-	-	-	-	*19.8%*
Operating expenses	(14,666)	-	-	-	838	(13,828)	-	-	140	-	(13,688)
% of sales	*-13.4%*					*-12.3%*					*-12.2%*
Income from operations	**7,837**	**-**	**600**	**(753)**	**-**	**7,684**	**753**	**-**	**140**	**-**	**8,577**
Interest expense, net	(3,408)	-	-	753	-	(2,655)	-	2,655	-	-	-
Rebates / other	561	-	(600)	-	-	(39)	-	-	-	-	(39)
Net income	**4,990**	**-**	**-**	**-**	**-**	**4,990**	**753**	**2,655**	**140**	**-**	**8,539**
Interest	3,408	-	-	-	-	3,408	(753)	(2,655)	-	-	-
Depreciation	140	-	-	-	-	140	-	-	(140)	-	-
Purchase discounts / other	(561)	-	-	-	-	(561)	-	-	-	600	39
Reported EBITDA	**7,977**	**-**	**-**	**-**	**-**	**7,977**	**-**	**-**	**-**	**600**	**8,577**
% of sales	***7.3%***					***7.1%***					***7.6%***

Source: Internal financial statements provided by Management

Overview

- The above table summarizes the Pro Forma Adjustments and EBITDA Adjustments made to the FY14F As Reported projected results for Homebuilding to align sales, cost of sales, gross profit and expenses on a basis consistent with GAAP, as expected to be applied by [Client] when they prepare the results, and to adjust for Quality of Earnings findings.
- The following adjustments have been made to the Company's historical reported results:

Pro Forma Adjustments

- **Closing costs** represents transaction closing costs incurred which the Company reports as an offset/contra to sales. Pro Forma results include closing costs as a cost of sales. Management represented that FY15F closing costs are projected to be similar to FY13, $1.21 per square foot. Accordingly, Management agrees with FAI's estimate of closing costs assumed within the FY14F projections.

Closing costs			
$ in 000s	FY12	FY13	FY14F
Closing costs	3,044	3,044	**2,783**
Average square ft(actual)	2,486	2,488	2,305
Closing costs per square ft.(actual)	**1.22**	**1.21**	**1.21**

Source: Management and FAI analysis

As Reported to Pro Forma to Adjusted FY14F Income Stat., cont.

Proforma Income Statements											
	FY14F										
		Proforma Adjustments					EBITDA Adjustments				
$ in 000s	Reported	Closing costs	Purch. Disc.	Cap. Interest	War-ranty	Proforma	Cap. Interest	Interest	Deprec.	Rebate	Proforma
Sales	112,226	-	-	-	-	112,226	-	-	-	-	112,226
Closing costs (contra)	(2,783)	2,783	-	-	-	-					-
Sales, Net	**109,443**	**2,783**	**-**	**-**	**-**	**112,226**	**-**	**-**	**-**	**-**	**112,226**
Cost of sales	(86,940)	(2,783)	600	(753)	(838)	(90,714)	753	-	-	-	(89,961)
Gross profit	**22,503**	**-**	**600**	**(753)**	**(838)**	**21,512**	**753**	**-**	**-**	**-**	**22,265**
Gross margin	*20.6%*	-	-	-	-	*19.2%*	-	-	-	-	*19.8%*
Operating expenses	(14,666)	-	-	-	838	(13,828)	-	-	140	-	(13,688)
% of sales	*-13.4%*					*-12.3%*					*-12.2%*
Income from operations	**7,837**	**-**	**600**	**(753)**	**-**	**7,684**	**753**	**-**	**140**	**-**	**8,577**
Interest expense, net	(3,408)	-	-	753	-	(2,655)	-	2,655	-	-	-
Rebates / other	561	-	(600)	-	-	(39)	-	-	-	-	(39)
Net income	**4,990**	**-**	**-**	**-**	**-**	**4,990**	**753**	**2,655**	**140**	**-**	**8,539**
Interest	3,408	-	-	-	-	3,408	(753)	(2,655)	-	-	-
Depreciation	140	-	-	-	-	140	-	-	(140)	-	-
Purchase discounts / other	(561)	-	-	-	-	(561)	-	-	-	600	39
Reported EBITDA	**7,977**	**-**	**-**	**-**	**-**	**7,977**	**-**	**-**	**-**	**600**	**8,577**
% of sales	***7.3%***					***7.1%***					***7.6%***

Source: Internal financial statements provided by Management

Pro Forma Adjustments, continued

- **Purchase discounts** are volume price discounts from vendors. Pro Forma results recognize purchase discounts as a credit to cost of goods sold rather than as other income below the gross profit line. Purchase discounts as % of construction / build costs is summarized below:

Cost of Sales - As Adjusted			
$ in 000s	FY12	FY13	FY14F
Construction/build costs	55,700	58,808	58,968
Closing costs	3,044	3,044	2,783
Purchase discounts	(398)	(575)	(600)
as % of construction/build costs	0.7%	1.0%	1.0%
Total construction costs	**58,346**	**61,237**	**61,151**
Costs of lots	16,836	16,551	26,834
Direct labor	1,781	2,027	1,976
Total Costs of Sales	**76,963**	**79,815**	**89,961**
Y-O-Y% Change	N/A	3.7%	12.7%

Source: Internal financial statements and forecasts.

As Reported to Pro Forma to Adjusted FY14F Income Stat., cont.

Proforma Income Statements

	FY14F										
		Proforma Adjustments					EBITDA Adjustments				
$ in 000s	Reported	Closing costs	Purch. Disc.	Cap. Interest	War-ranty	Proforma	Cap. Interest	Interest	Deprec.	Rebate	Proforma
Sales	112,226	-	-	-	-	112,226	-	-	-	-	112,226
Closing costs (contra)	(2,783)	2,783	-	-	-	-					-
Sales, Net	**109,443**	**2,783**	**-**	**-**	**-**	**112,226**	**-**	**-**	**-**	**-**	**112,226**
Cost of sales	(86,940)	(2,783)	600	(753)	(838)	(90,714)	753	-	-	-	(89,961)
Gross profit	**22,503**	**-**	**600**	**(753)**	**(838)**	**21,512**	**753**	**-**	**-**	**-**	**22,265**
Gross margin	*20.6%*	-	-	-	-	*19.2%*	-	-	-	-	*19.8%*
Operating expenses	(14,666)	-	-	-	838	(13,828)	-	-	140	-	(13,688)
% of sales	*-13.4%*					*-12.3%*					*-12.2%*
Income from operations	**7,837**	**-**	**600**	**(753)**	**-**	**7,684**	**753**	**-**	**140**	**-**	**8,577**
Interest expense, net	(3,408)	-	-	753	-	(2,655)	-	2,655	-	-	-
Rebates / other	561	-	(600)	-	-	(39)	-	-	-	-	(39)
Net income	**4,990**	**-**	**-**	**-**	**-**	**4,990**	**753**	**2,655**	**140**	**-**	**8,539**
Interest	3,408	-	-	-	-	3,408	(753)	(2,655)	-	-	-
Depreciation	140	-	-	-	-	140	-	-	(140)	-	-
Purchase discounts / other	(561)	-	-	-	-	(561)	-	-	-	600	39
Reported EBITDA	**7,977**	**-**	**-**	**-**	**-**	**7,977**	**-**	**-**	**-**	**600**	**8,577**
% of sales	***7.3%***					***7.1%***					***7.6%***

Source: Internal financial statements provided by Management

EBITDA Adjustments

- FAI adjusted FY14F Pro Forma Results to include the following adjustments to analyze forecasted EBITDA on an Adjusted basis:
  - Capitalized interest and non-capitalized interest,
  - Depreciation is excluded; and
  - Management did not include purchase discounts in reported EBITDA. FAI proposes to increase the Company's FY14F reported EBITDA to reflect the benefit of purchase discounts consistent with Adjusted EBITDA for FY12 and FY13. Accordingly, Managements FY14F reported EBITDA of $7,977k is increased for the amount of purchase discounts of $600k to $8,577k on an Adjusted basis.

VI. PROJECTIONS
Historical Periods and Forecast Income Statement

Adjusted Results

- The following schedule summarizes the Company's Adjusted Income Statement for FY12 and FY13 and Management's FY14 Adjusted Forecasted Income Statement.

Adjusted Historical Results and Adjusted Forecast

$ in 000s	FY12	Adjusted % of sales	FY13	% of sales	Adjusted FY14F	% of sales	FY13 vs FY14F Amt	%
Sales	**94,189**	***100.0%***	**97,305**	***100.0%***	**112,226**	***100.0%***	**14,920**	**15.3%**
Cost of sales	(76,963)	*-81.7%*	(79,815)	*-82.0%*	(89,961)	*-80.2%*	(10,145)	12.7%
Gross profit	**17,226**	***18.3%***	**17,490**	***18.0%***	**22,265**	***19.8%***	**4,775**	**27.3%**
Operating expenses	(10,075)	*-10.7%*	(11,104)	*-11.4%*	(13,688)	*-12.2%*	(2,584)	23.3%
Income from operations	**7,151**	***7.6%***	**6,386**	***6.6%***	**8,577**	***7.6%***	**2,191**	**34.3%**
Other income / (expense)	376	*nm*	257	*nm*	-	*nm*	(257)	*nm*
Adjusted EBITDA	**7,527**	***8.0%***	**6,643**	***6.8%***	**8,577**	***7.6%***	**1,934**	**29.1%**

Source: Internal financial statements provided by Management

FY14 Forecast

- The Company's FY14 forecast reflects a planned expansion of operations in [redact].
- FY14F EBITDA is forecasted to increase by $1,934 to $8,577 (FY14F vs. FY13) driven by:

  15.3% increase in home sales;

  - An increase in gross profit margin by 1.8 percentage points to 19.6%; and
  - 23.3% increase in FY14F operating expenses as a result of higher headcount and commissions. Operating expenses as a % of sales increases to 12.2% in FY14F from 11.4% in FY13.

EBITDA Bridge

$ in 000s	**FY14F**
EBITDA, Prior Year	**6,643**
Gross profit	4,775
Operating expense	(2,584)
Other	(257)
Adjusted EBITDA, Current Year	**8,577**

Source: CB analysis

- Sales, Cost of sales and Operating expenses are further discussed within this section.

Historical Periods and Forecast Income Statement, cont.

Adjusted Sales

- The following schedule summarizes the Company's Adjusted Sales for FY12 and FY13 and Management's FY14F Adjusted Sales.

Home Sales - Key Performance Indicators

$ in 000s	FY12	FY13	FY14F
Home Sales	**94,189**	**97,305**	**112,226**
Y-O-Y % Change	*N/A*	*3.3%*	*15.3%*
Number homes closed (actual)	433	442	504
Y-O-Y % Change	*N/A*	*2.1%*	*14.0%*
Average square foot per house (actual)	2,486	2,488	2,305
Y-O-Y % Change	*N/A*	*0.1%*	*-7.4%*
ASP	218	220	223
Y-O-Y % Change	*N/A*	*1.2%*	*1.1%*
ASP per square foot	88	88	97
Y-O-Y % Change	*N/A*	*1.1%*	*9.2%*

Source: schedules provided by Management

FY14 Forecast Sales

- FY14F homes sales are projected to increase by 15.3% to $112,226k from $97,305k in FY13 which is primarily due to:
  - FY14F homes sales are forecast to increase by 14.0% to 504 from 442 in FY13. The Company plans to expand operations during FY14F to include [redact].
  - FY14F ASP is expected to increase by 1.1% to $223k from $220 in FY13 as average square footage declines by 7.4% to 2,305 from 2,488 (actual).
  - ASP per square foot increases 9.2% to $97 from $88 in FY13.
- ***FAI recommends that [Client] reviews the forecast assumptions and trends for revenue including the assumption of lower square footage and higher ASP per square foot as compared to FY13.***

Historical Periods and Forecast Income Statement, cont.

Cost of Sales

- The following schedule summarizes the Company's Adjusted Cost of Sales for FY12 and FY13 and Management's FY14F Adjusted Cost of Sales.

Cost of Sales			
$ in 000s	**FY12**	**FY13**	**FY14F**
Constuction costs	58,346	61,237	61,151
Cost of lots	16,836	16,551	26,834
Direct labor	1,781	2,027	1,976
Total Cost of Sales	**76,963**	**79,815**	**89,961**
Y-O-Y % Change	*N/A*	*3.7%*	*12.7%*
Number homes closed (actual)	433	442	504
Y-O-Y % Change	*N/A*	*2.1%*	*14.0%*
Average square foot per house (act.)	2,486	2,488	2,305
Y-O-Y % Change	*N/A*	*0.1%*	*-7.4%*
ACP ($ in '000s)			
Construction costs	135	139	121
Y-O-Y % Change	*N/A*	*2.8%*	*-12.4%*
Lots	39	37	53
Y-O-Y % Change	*N/A*	*-3.7%*	*42.2%*
Direct Labor	4	5	4
Y-O-Y % Change	*N/A*	*11.5%*	*-14.5%*
Total ACP	**178**	**181**	**178**
Y-O-Y % Change	*N/A*	*1.6%*	*-1.2%*
ACP per square foot (actual)			
Construction costs	54	56	53
Y-O-Y % Change	*N/A*	*2.7%*	*-5.5%*
Lots	16	15	23
Y-O-Y % Change	*N/A*	*-3.8%*	*53.5%*
Direct labor	2	2	2
Y-O-Y % Change	*N/A*	*11.4%*	*-7.7%*
Total ACP per square foot	**71**	**73**	**77**
Y-O-Y % Change	*N/A*	*1.5%*	*6.7%*

Source: schedules provided by Management

FY14 Forecast Cost of Sales

- FY14F cost of sales is projected to increase by 12.7% to $89,961 (FY13: $79,815k) which is mainly due to:
  - FY14F homes sales are forecast to increase by 14.0% to 504 from 442 in FY13. The Company plans to expand operations during FY14F to include [redact]
  - FY14F overall ACP is expected to decrease by 1.2% to $178k (FY13: $181k) as the average square footage declines by 7.4% to 2,305 from 2,488 (actual).
- The contributing assumptions to the FY14F overall ACP of $178 include:
  - FY14F construction material and building costs decline 12.4% to $121k ACP from $139k in FY13. Construction costs per square foot also decline by 5.5%.
  - Lot costs increase in FY14F by 42.2% to $53k ACP from $37k in FY13. Lot cost per square foot increases 53.5%
  - FY14F labor costs assumption of $4k ACP is 14.5% lower than FY13 at $5k ACP. Labor per square foot declines 7.7%. Construction managers and superintendent headcount is forecast to increase by 15.2% to 38 from 33 at the end of FY13.
- ***FAI recommends that [Client] reviews the forecast assumptions and trends for cost of sales including:***
  - ***Lower construction ACP and ACP per square foot build cost;***
  - ***Lower labor ACP and ACP per square foot considering an increase in headcount; and***
  - ***Higher lot ACP and ACP per square foot.***

Historical Periods and Forecast Income Statement, cont.

Operating Expenses

- The following schedule summarizes the Company's Adjusted Operating Expenses FY12 and FY13 and Management's FY14F Adjusted Operating Expenses.``

Adjusted Operating Expenses

$ in 000s	FY12	FY13	FY14F
Sales	**94,189**	**97,305**	**112,226**
Commissions	4,632	4,745	4,925
% of sales	4.9%	4.9%	4.4%
Salaries and benefits	2,309	2,847	3,411
Rent; utilities; office	1,005	1,198	1,137
Marketing	692	753	1,340
Indirect selling support	244	341	309
Professional fees	227	304	578
Insurance	184	157	451
Vehicle expense	142	172	297
Travel / airplane	122	110	252
Contingency	-	-	161
Other	520	478	827
Operating Expenses	**10,075**	**11,104**	**13,688**
Y-O-Y % Change	*N/A*	*10.2%*	*23.3%*
As % of sales	*10.7%*	*11.4%*	*12.2%*

Source: schedules provided by Management

FY14F Forecast Operating Expenses

- FY14F operating expenses are projected to increase by $2,584, or 23.3%, to $13,688 (FY13: $11,104) mainly due to:
  - Increase in FY14F commissions of $180 reflecting higher homes sales offset by a decline in commissions as a percent of sales (4.4% in FY14F versus 4.9% in FY13).
  - FY14F salaries and benefits increase by $564, or 19.8%, to $3,411 from $2,847 in FY13. This forecasted increase reflects:
    - An increase in benefit load assumptions (FY14F at 34.7% versus 25% in FY13);
    - Offset by a reduction in headcount from 36 at the end of FY13 to 32 at the end of FY13.
- FY14F includes a contingency reserve of $161.
- ***FAI recommends that [Client] reviews the forecast assumptions and trends for operating expenses including:***
  - ***Lower commission rates; and***
  - ***Benefit load assumption of 34.7%.***

VII. HISTORICAL BALANCE SHEETS

Pro Forma Acquired Net Assets

Pro Forma Balance Sheet

- The following schedule presents a pro forma balance sheet for the Company as of Dec13. This balance sheet may differ from the opening balance sheet and does not include adjustments for purchase accounting.

Quality of Net Assets

$ in 000s	Dec13 as reported	Transaction	Due diligence	Dec13 as adjusted
Cash	11,430	(11,430)	-	-
Accounts receivable	12	-	-	12
Work in progress	43,714	-	113	43,827
Lots owned	202	-	-	202
Current assets	**55,358**	**(11,430)**	**113**	**44,041**
Other noncurrent assets	445	-	23	468
Total assets	**55,803**	**(11,430)**	**136**	**44,509**
Accounts payable	(11,121)	-	1,001	(10,120)
Accrued expenses	-	-	(1,693)	(1,693)
Other current liabilities	-	-	-	-
Current liabilities	**(11,121)**	**-**	**(692)**	**(11,813)**
Long term liabilities	(44,599)	44,599	-	-
Net assets	**83**	**33,169**	**(556)**	**32,696**

Source: Internal financial statements provided by Management and CB analysis

Quality of Net Assets Adjustments

$ in 000s		Category	Transaction adjustments	Due diligence adjustments
NA.1	Cash-free	Cash	(11,430)	-
NA.2	Debt-free	Long term liabilities	44,599	-
NA.3	Earnest money accrual	WIP	-	113
NA.3	Earnest money accrual	Accrued expenses	-	(113)
NA.4	Bond New Macland asset	Other noncurrent assets	-	(5)
NA.5	Related party accounts payable	Accounts payable	-	1,001
NA.6	Costs after closeout accrual	Accrued expenses	-	(1,416)
NA.7	Capitalize office furniture	Other noncurrent assets	-	28
NA.8	Bonus accrual	Accrued expenses	-	(164)
NA.9	Cash to accrual adjustments	N.Q.	-	N.Q.
Total			**33,169**	**(556)**

Source: Internal financial statements provided by Management and CB analysis

Net asset adjustments

- The adjustments were based upon data presented by Management and information identified during the due diligence process and are summarized in the tables to the left.

Transaction adjustments

NA.1 Cash-free and NA.2 Debt-free

- Transaction adjustments exclude cash, debt and debt-like items as FAI has been informed via the SP&A that the present intentions are for the Company to be purchased on a cash-free debt-free basis.

Due diligence adjustments

NA.3 Earnest money accrual

- Management represented that the Company collects earnest money deposits from the homebuyer once the sales process begins. This money is contractually refundable to the homebuyer for an average period of 30 days from receipt. Once this period ends, the Company keeps the deposit and it is applied against the gross proceeds of the home sale. At Dec13, the Company included these deposits in WIP rather than recording the portion of the earnest money refundable to the homebuyer as a liability.
- FAI proposed a due diligence adjustment to reclassify $113 (e.g., monies collected within 30 days as of December 31, 2013 from the homebuyers) from WIP to accrued expenses at year end. All deposits should be recorded in liabilities.

NA.4 Bond [redact] asset

- Management represented that the Bond [redact] asset represents a deposit the Company made on a community at the request of a municipality. The Company has deemed this asset uncollectible at Dec13 and will write it off to costs of construction in FY14. FAI proposed a due diligence adjustment to remove this asset at Dec13.

Pro Forma Acquired Net Assets, cont.

Pro Forma Balance Sheet

- The following schedule presents a pro forma balance sheet for the Company as of Dec13. This balance sheet may differ from the opening balance sheet and does not include adjustments for purchase accounting.

Quality of Net Assets

$ in 000s	Dec13 as reported	Transaction	Due diligence	Dec13 as adjusted
Cash	11,430	(11,430)	-	-
Accounts receivable	12	-	-	12
Work in progress	43,714	-	113	43,827
Lots owned	202	-	-	202
Current assets	**55,358**	**(11,430)**	**113**	**44,041**
Other noncurrent assets	445	-	23	468
Total assets	**55,803**	**(11,430)**	**136**	**44,509**
Accounts payable	(11,121)	-	1,001	(10,120)
Accrued expenses	-	-	(1,693)	(1,693)
Other current liabilities	-	-	-	-
Current liabilities	**(11,121)**	**-**	**(692)**	**(11,813)**
Long term liabilities	(44,599)	44,599	-	-
Net assets	**83**	**33,169**	**(556)**	**32,696**

Source: Internal financial statements provided by Management and CB analysis

Quality of Net Assets Adjustments

$ in 000s		Category	Transaction adjustments	Due diligence adjustments
NA.1	Cash-free	Cash	(11,430)	-
NA.2	Debt-free	Long term liabilities	44,599	-
NA.3	Earnest money accrual	WIP	-	113
NA.3	Earnest money accrual	Accrued expenses	-	(113)
NA.4	Bond New Macland asset	Other noncurrent assets	-	(5)
NA.5	Related party accounts payable	Accounts payable	-	1,001
NA.6	Costs after closeout accrual	Accrued expenses	-	(1,416)
NA.7	Capitalize office furniture	Other noncurrent assets	-	28
NA.8	Bonus accrual	Accrued expenses	-	(164)
NA.9	Cash to accrual adjustments	N.Q.	-	N.Q.
Total			**33,169**	**(556)**

Source: Internal financial statements provided by Management and CB analysis

Due diligence adjustments (continued)

NA.6 Costs after closeout accrual (continued)

- FAI has not calculated an accrual for expenses for home sales not yet completed prior to December 31, 2013 as this adjustment would impact both WIP and accrued expenses (e.g., net assets would not be impacted).

NA.7 Capitalize office furniture

- During FY12, the Company purchased and expensed $42 of office furniture. FAI proposed a due diligence adjustment to capitalize these assets (net of an estimated depreciation of $14) at Dec13 and excluded these expenses within Adjusted EBITDA via due diligence adjustment D.14.

NA.8 Bonus accrual

- The Company maintains employment agreements with [redact] which include per closing bonuses payable each month based on the number of homes closed in that month. The bonuses are paid in the following month. The Company also pays a $500 per closing bonus to the Company's top builder, [redact]. All of these bonuses are paid one month in arrears. FAI proposed a due diligence adjustment to accrue for the bonuses payable at Dec13. The calculation is presented below.

Accrual for "Per Closing" Bonus

	Dec13			
$ in 000s; # closings & personnel in actual	[Redact]	[Redact]	[Redact]	Total
Closings per month	82	82	82	246
#eligible personnel	1	1	1	3
Per closing bonus	1	0.5	0.5	0.7
Dec13 bonus accrual	**82**	**41**	**41**	**164**

Source: Schedules provided by Management and FAI analysis.

Pro Forma Acquired Net Assets, cont.

Pro Forma Balance Sheet

- The following schedule presents a pro forma balance sheet for the Company as of Dec13. This balance sheet may differ from the opening balance sheet and does not include adjustments for purchase accounting.

Quality of Net Assets

$ in 000s	Dec13 as reported	Transaction	Due diligence	Dec13 as adjusted
Cash	11,430	(11,430)	-	-
Accounts receivable	12	-	-	12
Work in progress	43,714	-	113	43,827
Lots owned	202	-	-	202
Current assets	**55,358**	**(11,430)**	**113**	**44,041**
Other noncurrent assets	445	-	23	468
Total assets	**55,803**	**(11,430)**	**136**	**44,509**
Accounts payable	(11,121)	-	1,001	(10,120)
Accrued expenses	-	-	(1,693)	(1,693)
Other current liabilities	-	-	-	-
Current liabilities	**(11,121)**	**-**	**(692)**	**(11,813)**
Long term liabilities	(44,599)	44,599	-	-
Net assets	**83**	**33,169**	**(556)**	**32,696**

Source: Internal financial statements provided by Management and CB analysis

Quality of Net Assets Adjustments

$ in 000s		Category	Transaction adjustments	Due diligence adjustments
NA.1	Cash-free	Cash	(11,430)	-
NA.2	Debt-free	Long term liabilities	44,599	-
NA.3	Earnest money accrual	WIP	-	113
NA.3	Earnest money accrual	Accrued expenses	-	(113)
NA.4	Bond New Macland asset	Other noncurrent assets	-	(5)
NA.5	Related party accounts payable	Accounts payable	-	1,001
NA.6	Costs after closeout accrual	Accrued expenses	-	(1,416)
NA.7	Capitalize office furniture	Other noncurrent assets	-	28
NA.8	Bonus accrual	Accrued expenses	-	(164)
NA.9	Cash to accrual adjustments	N.Q.	-	N.Q.
Total			**33,169**	**(556)**

Source: Internal financial statements provided by Management and CB analysis

Due diligence adjustments (continued)

NA.9 Cash to accrual adjustments

- The scope of due diligence performed did not constitute an audit or assurance exercise. Accordingly, it is possible there are other un-quantified adjustments related to converting the Company's financial records from cash to an accrual basis. The Company recognizes revenue upon completion of the project. This accounting methodology creates volatility within monthly reporting, and the Company is not matching revenues with related expenses (i.e., subcontractor costs). Proper cut-off and related revenue recognition procedures should be considered post closing.
- This adjustment represents the non-quantifiable or unknown adjustments that were not brought to our attention for recalculating the financial statements on an accrual basis rather than cash basis.
- ***FAI recommends that Management accrue for costs on service and/or product being delivered (e.g., accrued "per closing" bonuses, accrued commissions, cost of construction) so that revenue and expenses are matched.***

Pro Forma Acquired Net Assets, cont.

Other Considerations

Warranty accrual

- The Company provides its customers with a one year Express warranty and a ten warranty issued by a third party for claims beyond that one year period. Both the one year and third party warranties have mandatory arbitration provisions. Management represented that it has maintained a strict accountability policy with its subcontractors and suppliers; accordingly, the Company has experienced warranty claims and expenses (FY12: $1; FY13: $19) far less than the industry average according to Management. The Company does not accrue for the one-year Express warranty costs at time of completion. The Company's accounting policy is to recognize the revenue and expense related to the ten year warranty at time of completion.
- As of the Closing Date, Management anticipates that approximately [redact] homes constructed and sold by the Company will be within the one year express warranty period. ***FAI recommends that the Buyer obtains a warranty or indemnification for non-accrued warranty expenses from the Seller for those homes closed with customers prior to the Closing.***
- Periodically, the Company is unable to collect reimbursement from the subcontractor and will expense this amount to the income statement. Accounting Standards Codification ("ASC") 460-10, *Guarantees*, states that because of uncertainty surrounding claims that may be made under warranties, warranty obligations fall within the definition of a contingency. As such, an estimated cost from warranty obligations should be accrued as a charge to income when the amount of loss can be reasonably estimated. On the basis that net warranty costs (e.g., warranty costs less reimbursements from subcontractors) was $1 and $19 in FY12 and FY13, respectively, Management represented that this accrual, if any, would not be material.

Warranty accrual, continued

- Management does not accrue for the in-house staff which administer the warranty claims. Management represented that approximately 7 full time employees ("FTEs") are responsible for this administration and these annual wage costs of approximately $344 are treated as a period cost.

Construction personnel bonus

- Management represented that the Company pays construction personnel a per closing bonus based on the number of homes closed in each month. In FY13, the average bonus was $250 per closing. The bonus is paid one month in arrears. The Company does not have a set bonus structure but rather negotiates the per closing bonuses with each individual person. Management was unable to quantify the accrued bonus due to the fact that Management does not have an established bonus structure in place. FAI recommends that your attorney ensures the target net working capital includes an estimate for closing bonuses payable to construction personnel at completion of the Transaction.
- The Construction bonuses discussed here differ from the bonuses listed in Quality of Net Assets adjustment NA.8, which relates to the accrued per closing bonuses payable to [redact] at Dec13.

Contingent Liabilities

- Management confirmed that there is no outstanding litigation.
- Management represented that the monthly legal expenses on the income statement are comprised primarily of legal fees paid in connection with (i) obtaining building permits; and (ii) arranging home contracts with homebuyers.
- As it is outside the scope of our services, FAI has not evaluated the warranty coverage, if any, stipulated by additional state legislation. ***FAI recommends that the Buyer's attorney reviews the relevant legislation to establish what, if any, warranty is obligated by law to be provided to the Company's customers.***

Overview, Cash and Accounts Receivable

Overview

- The following table presents the Company's historical balance sheets as of Dec11, Dec12 and Dec13.

Historical Consolidated Balance Sheets

$ in 000s	Dec11	Dec12	Dec13
Cash	816	4,215	11,430
Accounts receivable	-	23	12
Work in progress	26,158	36,108	43,714
Lots owned	4,139	-	202
Current assets	**31,113**	**40,346**	**55,358**
Other noncurrent assets	6	174	445
Total assets	**31,119**	**40,520**	**55,803**
Accounts payable	3,204	6,510	11,121
Other current liabilities	20	18	-
Current liabilities	**3,224**	**6,528**	**11,121**
Builders Finance Group, Inc. payable	20,996	843	-
Peachtree Investment Group, LLC payable	6,899	33,149	44,599
Long term liabilities	**27,895**	**33,992**	**44,599**
Equity	-	-	83
Total liabilities and equity	**31,119**	**40,520**	**55,803**

Source: Internal financial statements were provided by Management

- Specific accounts not discussed below are discussed in further detail on the following pages.

Cash

- Cash consists of bank deposits and cash on hand with several [redact] bank accounts. The Company and each of its three subsidiaries manage an operating account with [redact] Bank.
- Management reconciles the bank accounts on a monthly basis. FAI obtained and read the Dec13 bank reconciliations and agreed the documents to both the bank statements and the general ledger.

Accounts receivable

- Historically, the Company has not maintained significant accounts receivable balances, as the Company recognizes all revenue upon closing of the home sale.
- Accounts receivable consists of (i) minimal trade accounts receivable on the balance sheet of [redact] (Dec13: $12k); and (ii) accounts receivable from unreimbursed costs incurred to build a pool in the [redact] development; this balance was written off during FY13 as a charge to other development costs (see *Quality of Earnings* adjustment D.5 and *Adjusted Net Working Capital* adjustment WC.6 for further details).

Other Noncurrent Assets

Overview

- The following table presents the Company's historical balance sheets as of Dec11, Dec12 and Dec13.

Historical Consolidated Balance Sheets			
$ in 000s	**Dec11**	**Dec12**	**Dec13**
Cash	816	4,215	11,430
Accounts receivable	-	23	12
Work in progress	26,158	36,108	43,714
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Peachtree Investment Group, LLC payable	6,899	33,149	44,599
Long term liabilities	**27,895**	**33,992**	**44,599**
Equity	-	-	83
Total liabilities and equity	**31,119**	**40,520**	**55,803**

Source: Internal financial statements were provided by Management

Other noncurrent assets

- The table below presents the Company's other noncurrent assets at Dec11, Dec12 and Dec13.

Other noncurrent assets			
$ in 000s	**Dec11**	**Dec12**	**Dec13**
Total Earnest Money	2	137	345
LLOC GA Surety Company	-	-	75
Prepaid Rent	-	32	18
Bond - New Macland	4	5	5
Title Bond For N.C.	-	-	2
Noncurrent assets	**6**	**174**	**445**

Source: Schedules provided by Management

Other noncurrent assets (continued)

Total earnest money

- Comprised of deposits to purchase an option on a lot. Management represented that historically, the Company pays an average earnest money deposit of $10k per community. At Dec13, the Company had approximately 1,166 lot options available for purchase. Once the Company purchases the contractually required number of lot options, Management reclasses the earnest money to work in progress. If the Company does not purchase enough lots and the contract defaults, Management expenses the earnest money as a loss; Management represented that this loss does not happen on a recurring basis.

[Redact] Surety Company

- Under [redact] lien law, the Company deposited these funds with a surety company to receive a lien waiver from the Company's subcontractors for work performed on the [redact] development. Management asserted that these funds should remain on the balance sheet until the [redact] construction is completed.

Prepaid rent

- Represents the security deposit paid with the corporate headquarters lease at 41 Perimeter Center East. Management represented that this amount equals one month's rent and will be refunded at the end of the three year lease. The lease term commenced at the beginning of May12 and runs for 36 months. The lease stipulates that the Company has a one year renewal option available at the lease ending date.

Bond – [redact]

- Represents a mandatory deposit made by the Company at the direction of a county government. The County required the Company to deposit these funds to remedy a developer's design flaw in the Company's community. Management does not believe the Company will recover these funds. FAI proposed a *Quality of Net Assets* adjustment NA.4 to remove this asset.

Other Noncurrent Assets and Other Current Liabilities

Overview

- The following table presents the Company's historical balance sheets as of Dec11, Dec12 and Dec13.

Historical Consolidated Balance Sheets

$ in 000s	Dec11	Dec12	Dec13
Cash	816	4,215	11,430
Accounts receivable	-	23	12
Work in progress	26,158	36,108	43,714
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Long term liabilities	**27,895**	**33,992**	**44,599**
Equity	-	-	83
Total liabilities and equity	**31,119**	**40,520**	**55,803**

Source: Internal financial statements were provided by Management

Other noncurrent assets, continued

Title Bond [redact]

- Management indicated that this asset relates to title insurance for constructed homes in the [redact] market.

Accounts Payable

- Accounts payable is discussed later within this section of the Report.

Other current liabilities

- The following table presents the Company's other current liabilities as of Dec11, Dec12 and Dec13.

Other Current Liabilities

$ in 000s	Dec11	Dec12	Dec13
Earnest Money	-	18	-
Payroll Withholding	20	-	-
Other current liabilities	**20**	**18**	**-**

Source: Schedules provided by Management

Earnest money

- The Company requires potential homebuyers to place a nominal deposit with the Company when entering the contract phase of the home buying process. Management represented that the average earnest money deposit during FY13 ranged between $500 and $1,000 per home sale (actual). The Company's former controller attempted to record earnest money as a liability on the balance sheet. Beginning in Sep13, the new controller reclassed these deposits from the liability section to costs of construction on the profit and loss account. From Sep13 through Dec13, the Company recorded customers' earnest money deposits within work in process on the balance sheet. This should be recorded as a liability.
- Please refer to the Quality of Net Assets adjustment NA.3 for a further discussion of FAI's adjustment for these earnest money deposits.

Payroll withholding

- Included within payroll withholding are the following: (i) federal and state income tax withholding; (ii) FICA and FUTA withholding; (iii) 401(k) payable; and (iv) garnishment payable. The Company remitted these payables before year end, leaving a zero balance at Dec12 and Dec13.

VII. HISTORICAL BALANCE SHEETS
Related Party Debt

Overview

- The following table presents the Company's historical balance sheets as of Dec11, Dec12 and Dec13.

Historical Consolidated Balance Sheets			
$ in 000s	**Dec11**	**Dec12**	**Dec13**
Cash	816	4,215	11,430
Accounts receivable	-	23	12
Work in progress	26,158	36,108	43,714
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Long term liabilities	**27,895**	**33,992**	**44,599**
Equity	-	-	83
Total liabilities and equity	**31,119**	**40,520**	**55,803**

Source: Internal financial statements were provided by Management

[Redact] loan

- Includes (i) construction funding advances from [redact] funding company, [redact]; and (ii) advances from [redact] for the purposes of funding the Company's working capital requirements.
- Within this account, Management accrues interest each month on the outstanding principal using a contractually based 15% interest rate. At Dec13, the Company paid off the outstanding principal and accrued interest upon [redact] exit from the Company.

[Redact] loan

- Represents long-term revolving construction loan facilities from [redact] funding company, [redact]. The loans are secured by promissory notes and collateralized by the Company's common stock.
- The loans carry a repayment term of ten years and may be extended upon mutual agreement by both parties.
- The Company pays interest each month, in cash, on the outstanding principal at a contractually based 15% interest rate. The Company relies on the Auditor to calculate and record accrued interest at each year-end. Please refer to the Quality of Net Assets section of this report for further analysis of accrued interest at Dec13.
- The following table presents the Company's interest (accrued interest and interest expense) on construction loans in FY12 and FY13:

Construction Financing Interest	FY12				FY13				
$ in 000s	Accrued	Paid	Total		Accrued	Paid	Total	Y-O-Y $ Change	*Y-O-Y % Change*
BFG payable	288	-	288		-	129	129	(159)	*(55.2)*
PIG payable	-	4,422	4,422		-	6,495	6,495	2,073	*46.9*
Total interest	**288**	**4,422**	**4,710**	-	-	**6,624**	**6,624**	**1,914**	***40.6***

Source: Schedules provided by Management and analysis by CB

VII. HISTORICAL BALANCE SHEETS
Equity and Distributions

Overview

- The following table presents the Company's historical balance sheets as of Dec11, Dec12 and Dec13.

Historical Consolidated Balance Sheets

$ in 000s	Dec11	Dec12	Dec13
Cash	816	4,215	11,430
Accounts receivable	-	23	12
Work in progress	26,158	36,108	43,714
Lots owned	4,139	-	202
Current assets	**31,113**	**40,346**	**55,358**
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Peachtree Investment Group, LLC payable	6,899	33,149	44,599
Long term liabilities	**27,895**	**33,992**	**44,599**
Equity	-	-	83
Total liabilities and equity	**31,119**	**40,520**	**55,803**

Source: Internal financial statements were provided by Management

Equity

- The following table presents the Company's historical consolidated equity as of Dec11, Dec12 and Dec13.

Historical Consolidated Equity

$ in 000s	Dec11	Dec12	Dec13
Beginning equity balance	-	-	-
Profit Distribution - [redact]	(3,085)	(4,793)	(4,396)
Profit Distribution - [redact]	-	-	(9,054)
Net income	3,085	4,793	13,533
Ending equity balance	-	-	**83**

Source: Internal financial statements provided by Management

- Historically, the Company distributes the majority of the Company's earnings to the shareholder. During FY13, the Company distributed earnings to [redact], the sole shareholder. The distributions to [redact] consisted of both profit distributions and interest payments on [redact] outstanding debt.
- The table below presents a breakout of the profit distributions to [redact] during FY12 and FY13.

Interest and Profit Distributions

	FY12			FY13				
$ in 000s	Accrued	Paid	Total	Accrued	Paid	Total	Y-O-Y $ Change	Y-O-Y % Change
[Redact] loan	288	-	288	-	129	129	159	(55.2)
[Redact] loan	-	4,422	4,422	-	6495	6495	2073	46.9
Total	288	4422	4710	-	6624	6624	1,914	40.6

Source: Schedules provided by Management and analysis by CB

Inventory – Lots Owned and WIP

WIP

- The following table presents the Company's work in progress ("WIP") inventory and lots owned at Dec12 and Dec13.

WIP and Purchased Lots Inventory		
$ in 000s	Dec12	Dec13
WIP		
Atlanta	23,011	32,401
Columbia	8,947	1,369
Raleigh	2,726	8,697
Fayetteville	1,424	1,247
Subtotal - WIP	**36,108**	**43,714**
Lots Owned		
Atlanta	-	202
Subtotal - lots owned	**-**	**202**
Inventory	**36,108**	**43,916**
DOH (in days)	106	83

Source: Schedules provided by Management

WIP

- WIP primarily consists of (i) homes under construction; (ii) purchased lots recorded directly to WIP instead of the Owned Lots line item; (iii) completed homes in which the contract was cancelled; (iv) and completed homes that have either not been sold or closed at year-end.
- Once the Company begins home construction on a lot, Management records the subcontractors' invoiced costs within WIP by house. The Company records materials, labor and the capitalized portion of interest (through December 31, 2012) for uncompleted homes in WIP. Management allocates the invoices between developments and lot numbers. Once the Company closes the sale of a Spec, pre-sale or model home, Management releases the costs from WIP to construction costs on the income statement.
- Management stated that the Company does not prepare WIP aging schedules. Post acquisition, FAI recommends that Management prepares aged WIP reports so that Management can identify issues and react accordingly.

Lots Owned

- The Company's inventory cycle begins when the Company purchases a lot. Management asserted that the Company purchases approximately 25% of the lots from [redact] at the current market rate and the remainder of the lots from third party developers. ***FAI recommends the Buyer verify Management's representation that the lots purchased from [redact] are at the then current market value as this could artificially impact the profitability of the Company.***
- The Company typically purchases options for lots from developers and then purchases lots in increments of 50 per quarter under a contract. The contract specifies the number of lots available for purchase by the Company over a specific period of time. Should the Company decide not to purchase the contracted lot options, the Company is not contractually obligated to purchase the remaining lots; however, any earnest money deposited on the options could be potentially lost and written off as an expense (Dec12: $137k; Dec13: $345k).
- Management capitalizes lot purchases in the following two ways:
  - The Company purchases certain "bargain" lots within developments before market demand is identified. Management capitalizes these lot purchases to the Lots Owned line item on the balance sheet and reclassifies these lot purchases to WIP once construction on those lots commences.
  - The Company purchases a majority of lots for either Spec homes or pre-sale homes. Since these lots are purchased for immediate construction, Management capitalizes the majority of purchased lots directly to WIP for each specific development.
- At Dec13, the $202k Lots Owned line item is comprised of 14 purchased lots in the [redact] community within the [redact] market. The average purchase price was $5k per community. As of Dec13, these lots were vacant with no current construction.

Inventory – Lots Owned Analysis

Overview

- The following table presents the Company's lots purchased and closed during FY12 and FY13, as well as the number and composition of lots owned at Dec13.

WIP by Market

$ in 000s; # units in actual	WIP ($) Dec12	WIP ($) Dec13	Y-O-Y $ Change	Y-O-Y %	WIP (# units) Dec12	WIP (# units) Dec13	Avg. Home Cost FY12	Avg. Home Cost FY13	Avg. Lot Cost FY12	Avg. Lot Cost FY13	Breakdown of Dec13 WIP Units: Sold; Not	Completed; Not Sold	Under construction	Models	Vacant lots
Atlanta	23,011	32,401	9,390	*40.8*	247	379	121	137	26	28	181	128	29	6	35
Raleigh	2,726	8,697	5,971	*219.0*	43	55	-	173	-	37	16	7	4	-	28
Columbia	8,947	1,369	(7,578)	*(84.7)*	85	7	121	142	33	35	4	3	-	-	-
Fayetteville	1,424	1,247	(177)	*(12.4)*	18	7	132	146	40	39	4	3	-	-	-
Total	**36,108**	**43,714**	**7,606**	***21.1***	**393**	**448**	**175**	**191**	**28**	**30**	**205**	**141**	**33**	**6**	**63**

Source: Schedules provided by Management and analysis by CB

Lot Inventory Analysis

#lots in actual	Lots Purchased FY09 to FY11	FY12	FY13	Total	Lots Closed FY11	FY12	FY13	Total	Owned Lots; Not Closed at Dec13: Completed	Spec	Pre-sale	Model	Vacant	Total	FY13 Avg.Cost per Lot	FY13 Avg. Constr. Cost per Lot	FY13 Cost per Lot
[Redact]	748	367	726	1,839	478	377	605	1,460	277	30	29	9	34	379	28	155	183
[Redact]	62	129	1	192	16	90	79	185	6	-	1	-	-	7	35	158	193
[Redact]	-	45	64	109	-	-	54	54	17	4	7	-	27	55	37	194	231
[Redact]	60	-	-	60	56	4	-	60	-	-	-	-	-	-	-	-	-
[Redact]	10	28	2	40	-	19	14	33	7	-	-	-	-	7	39	167	206
[Redact]	17	-	-	17	4	13	-	17	-	-	-	-	-	-	-	-	-
Lot inventory	**895**	**569**	**793**	**2,257**	**554**	**503**	**503**	**1,809**	**307**	**34**	**37**	**9**	**61**	**448**	**30**	**162**	**191**

Source: Schedules provided by Management and analysis by FAI

Lots Owned Analysis

- All amounts listed in the following analysis are in actual.
- From FY12 to FY13, the number of lots purchased increased by 224, equivalent to a 39%, from 569 in FY12 to 793 in FY13. This growth was primarily attributed to an increase of 359 purchases in the [redact] market from FY12 to FY13, equivalent to a 49% increase. The number of home closings in the [redact] market rose by 228 closings from FY12 (377) to FY13 (605), equivalent to a 61% increase.
- At Dec13, approximately 448 purchased lots had not yet been closed. Of these lots, 308 were completed.

Lots Owned Analysis, continued

- The vacant lots at Dec13 represent lots purchased with no active construction. These lots were located in the [redact] communities of [redact]. Management indicated that these were purchased in the anticipation of future Spec or presale home construction. A majority of the vacant lots are within the [redact] market, and Management represented that the Company plans to begin construction on these vacant lots as part of the future expansion within the [redact] market.

Accounts Payable

- The following schedule presents the Company's consolidated accounts payable at Dec12 and Dec13.

Consolidated Accounts Payable

$ in 000s	Dec12	Dec13
PCG	6,194	9,804
PCRG	315	316
BFG	1	-
PIG	-	1,001
Total	**6,510**	**11,121**

Source: Internal financials provided

- The following schedule presents [redact] accounts payable by vendor at Dec12 and Dec13.

Accounts Payable by Vendor

	$ in 000s	Category	Type	Dec12	Dec13
1	Idlewood Interiors	Construction	Subcontractor	182	978
2	Robert Bowden (trim)	Construction	Subcontractor	329	899
3	84 Lumber	Construction	Subcontractor	513	527
4	Contract Lumber Inc.	Construction	Subcontractor	-	461
5	Builders First Source	Construction	Subcontractor	422	423
6	Building Specialities & Jeffrey	Construction	Subcontractor	9	398
7	Walker Concrete	Construction	Subcontractor	239	396
8	Atlanta West Carpets, Inc.	Construction	Subcontractor	113	356
9	North Georgia Brick Co, Inc.	Construction	Subcontractor	100	265
10	Southeastern Builders Supply	Construction	Subcontractor	197	241
11	Ready Mix USA, LLC	Construction	Subcontractor	46	225
12	Builders First Source	Construction	Subcontractor	422	207
13	Southern Siding & Gutters	Construction	Subcontractor	-	182
14	Creekside Air, LLC	Construction	Subcontractor	174	182
15	Craftmark Solid Surfaces, Inc.	Construction	Subcontractor	154	182
16	Argos Ready Mix LLC	Construction	Subcontractor	98	170
17	Progressive Lighting Inc.	Construction	Subcontractor	65	139
18	United Drywall Supply	Construction	Subcontractor	53	135
19	Capitol Materials Inc.	Construction	Subcontractor	61	123
20	Willco Electric Co.	Construction	Subcontractor	-	122
21	JC & T Painting Services Inc.	Construction	Subcontractor	30	111
22	Cherokee Brick & Tile Co.	Construction	Subcontractor	38	106
23	RCT Development Inc.	Construction	Subcontractor	37	103
24	Holder Heating & Cooling Inc.	Construction	Subcontractor	-	87
25	Leonardo Marin	Construction	Subcontractor	93	82
Subtotal top 25 vendors				**3,375**	**7,100**
Other accounts payable				2,819	2,704
Total				**6,194**	**9,804**

Source: Schedules provided by Management

[Redact]

- [Redact] recurring accounts payable primarily consists of (i) invoices received from subcontractors for construction costs and other vendors; and (ii) lot purchases. The Company establishes pre-approved pricing lists with subcontractors for materials and labor and the subcontractors invoice [redact] for labor and materials incurred to build each home.
- The accounts payable process is initiated when the Company receives invoices at its headquarters from subcontractors via email, post or hand delivery. The accounts payable manager compares the invoiced amount to the pricing lists and enters a request for payment into Timberline. The project managers are also request to authorize the invoice to indicate the work has been performed.
- The CFO generates all accounts payable checks and the Company's shareholder [redact] signs the checks. Subsequent to Dec13, Management represented that [redact] signs the Company's checks. The Company pays construction labor invoices twice per month and supplier invoices once per month. The Company pays invoices by check; no wire transfers are made.
- Management indicated that the Company does not prepare an accounts payable aging schedule or actively track the aging of payables. If the Company delays payment to a subcontractor, the subcontractor typically halts construction. Management stated that the Company has a payment policy of approximately 30 days or less, given the frequency of subcontractor invoice submissions.
- FAI recommends that Management prepares an aging of the accounts payable ledger by vendor at Dec13 to verify Management's representation that there are no disputed or delinquent payables.

[Redact]

- Management represented that the $316 of accounts payable on the balance sheet of [redact] as of Dec13 relates to invoices incurred within the normal business operations of the entity.

[Redact]

- At Dec13, the $1,001 payable on the balance sheet of [redact] represents a distribution to [redact] recorded at year-end but not paid until FY14. Normally, the Company records and pays the distribution before year-end, but at Dec13 the Company had not yet paid the distribution. Management asserted that this balance was paid directly after Dec13.

Intercompany Balance

- Management represented that the intercompany balances were eliminated on consolidation as of Dec12; however, this exercise has not yet been fully completed.

Adjusted Net Working Capital – Overview

- The following schedule presents the Company's monthly working capital for FY13. The Company's working capital reflects transaction adjustments and FAI adjustments based on our due diligence findings. Refer to the following page for a discussion of the adjustments.

Monthly Net Working Capital

$ in 000s	Jan13	Feb13	Mar13	Apr13	May13	Jun13	Jul13	Aug13	Sep13	Oct13	Nov13	Dec13	Avg. NWC
Net assets, as reported	**(229)**	**(163)**	**(181)**	**(251)**	**(14)**	**117**	**36**	**82**	**277**	**142**	**(243)**	**83**	**(29)**
Working capital adjustments:													
WC.1 Cash and cash equivalents	(604)	(2,713)	(4,606)	(3,304)	53	(5,693)	(6,445)	(9,421)	(5,890)	(8,972)	(7,811)	(11,430)	(5,570)
WC.2 Other noncurrent assets	(400)	(423)	(516)	(518)	(518)	(502)	(556)	(535)	(509)	(381)	(431)	(445)	(478)
WC.3 Builders Finance Group, Inc. payable	854	865	875	886	897	909	920	932	629	321	334	-	702
WC.4 Peachtree Investment Group, LLC payable	33,149	36,149	37,649	40,599	42,599	44,599	44,599	44,599	44,599	44,599	44,599	44,599	41,862
Reported net working capital - total	**32,770**	**33,715**	**33,221**	**37,412**	**43,017**	**39,430**	**38,554**	**35,657**	**39,106**	**35,709**	**36,448**	**32,807**	**36,487**
Due diligence adjustments:													
WC.5 Earnest money accrual	(59)	(53)	(76)	(69)	(94)	(93)	(93)	(69)	(68)	(68)	(77)	(98)	(76)
WC.6 Accounts receivable - Quail Hollow	-	-	(1)	(8)	(8)	(110)	(112)	(131)	(138)	(97)	(49)	-	(55)
WC.7 Land Development, LLC	-	-	-	-	-	(10)	(10)	(10)	-	-	-	-	(3)
WC.8 Related party accounts payable	-	-	-	-	-	-	-	-	-	-	-	1,001	83
WC.9 Bonuses accrued	(66)	(66)	(114)	(80)	(116)	(136)	(154)	(154)	(142)	(168)	(144)	(164)	(125)
WC.10 Costs after closeout - estimate	(639)	(694)	(1,277)	(1,111)	(1,360)	(1,277)	(1,444)	(1,333)	(1,027)	(1,000)	(1,388)	(1,416)	(1,164)
WC.11 Cash to accrual adjustments	N.Q	N.Q	N.Q	N.Q	N.Q	N.Q	N.Q	N.Q	N.Q	N.Q	N.Q	N.Q	N.Q
Adjusted net working capital - total	**32,006**	**32,902**	**31,753**	**36,144**	**41,439**	**37,804**	**36,741**	**33,960**	**37,731**	**34,376**	**34,790**	**32,130**	**35,147**
WC.12 Remove inventory	(39,014)	(41,140)	(41,005)	(48,844)	(49,662)	(44,778)	(43,634)	(45,212)	(46,419)	(49,837)	(47,986)	(43,916)	(45,121)
Adjusted net working capital without inventory	**(7,008)**	**(8,238)**	**(9,252)**	**(12,700)**	**(8,223)**	**(6,974)**	**(6,893)**	**(11,252)**	**(8,688)**	**(15,461)**	**(13,196)**	**(11,786)**	**(9,974)**

Source: Schedules provided by Management

Proforma Monthly Net Working Capital (Without Inventory)

$ in 000s	Jan13	Feb13	Mar13	Apr13	May13	Jun13	Jul13	Aug13	Sep13	Oct13	Nov13	Dec13	Avg. NWC
Accounts receivable	-	-	-	-	-	-	-	-	-	-	-	12	1
Other current assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts payable	(6,231)	(7,366)	(7,706)	(11,332)	(6,458)	(5,258)	(5,101)	(9,697)	(7,457)	(14,232)	(11,590)	(10,120)	(8,546)
Accrued expenses	(705)	(760)	(1,391)	(1,191)	(1,476)	(1,413)	(1,598)	(1,487)	(1,169)	(1,168)	(1,532)	(1,580)	(1,289)
Earnest Money	(71)	(74)	(152)	(147)	(213)	(202)	(165)	(71)	(66)	(67)	(76)	(98)	(117)
Payroll Withholding	(1)	(38)	(3)	(30)	(76)	(101)	(29)	3	4	6	2	-	(22)
NWC	**(7,008)**	**(8,238)**	**(9,252)**	**(12,700)**	**(8,223)**	**(6,974)**	**(6,893)**	**(11,252)**	**(8,688)**	**(15,461)**	**(13,196)**	**(11,786)**	**(9,973)**
DOH	189	187	120	231	144	102	88	97	103	95	105	83	129
DPO	29	32	22	53	18	12	10	20	17	26	24	19	23

Source: Internal financials provided by Management. Analysis by FAI

- FAI understands that [Client] will acquire substantially all the assets of the Company for [redact] on a debt-free, cash-free basis plus an adjustment for net working capital. Accordingly, FAI recommends that the Buyer and Seller establish two purchase price adjustment targets which perhaps should be calculated as a future target rather than a trailing 12 month target as the Company has been growing significantly over the last 2 years.
  - Net working capital target excluding WIP based on an accrual basis (the Company presently does not accrue for all invoiced costs on a monthly basis***). FAI recommends that the Client attempts to negotiate that this target is set at $nil and that the negative balances (due to accounts payable) are funded by cash on completion; and***
  - Real estate inventory target.
- Further analysis for these two approaches is set out on the next page.

Adjusted Net Working Capital – Adjustments

Working Capital Adjustments

- The following adjustments were made to remove noncurrent assets and liabilities from the net assets and present working capital on a monthly basis.
  - **WC.1 Cash and cash equivalents -** as part of the cash-free terms of the LOI, FAI excluded monthly cash from the net working capital analysis.
  - **WC.2 Other noncurrent assets -** FAI removed other noncurrent assets from the monthly net assets calculation to derive monthly working capital.
  - **WC.3 [Redact] payable** – FAI removed this line item as, as the Company is being acquired on a debt-free basis. This is being treated as a debt-like instrument.
  - **WC.4 [Redact] payable** - FAI removed this line item as, as the Company is being acquired on a debt-free basis. This is being treated as a debt-like instrument.

Due Diligence Adjustments

- The working capital adjustments were based upon data presented by Management and information identified in connection with the due diligence process.
  - **WC.5 Earnest money accrual –** FAI proposed a due diligence adjustment to record accrued earnest deposits received from customers within the 30 day refundable window as a liability for each month of FY13. Management indicated that the average earnest money deposit received is $1 per homebuyer. FAI multiplied the monthly number of homes sold during FY13 by the $1 average earnest money deposit. Adjustment WC.5 in the *WIP Inventory – Target #2* section records the earnest money as a liability and Adjustment I.1 in the excludes the earnest money from WIP.

Due Diligence Adjustments, continued

- **WC.6 Accounts receivable – [redact] –** Management represented that this cost was incurred to build a pool in one of the Company's developments. During FY13, the Company deemed the asset as uncollectible and wrote it off to construction costs. FAI proposed a due diligence adjustment to remove this asset from monthly working capital and a corresponding *Quality of Net Assets* adjustment. NA.1.
- **WC.7 Land Development, LLC –** During Jun13, the Company paid $10 to correct a development flaw made by a third party developer, Land Development, LLC. The Company initially capitalized the $10 as a receivable from Land Development, LLC, but Management subsequently deemed the receivable to be uncollectible and wrote the receivable off during Sep13. Management expensed the $10 receivable as a loss within the Refunds and Rebates line item on the FY13 P&L. FAI proposed a due diligence adjustment to remove this from working capital.
- **WC.8 Related party accounts payable** – FAI proposed a due diligence adjustment to remove the [redact] related party accounts payable from net working capital at Dec13. Please refer to the *Quality of Net Assets* adjustment NA.5 for further discussion of this adjustment.
- **WC.9 Bonuses accrued –** FAI proposed a due diligence adjustment to accrue for the Dec13 per closing bonuses payable to [redact]. Please refer to the *Quality of Net Assets* adjustment NA.8 for further discussion of this adjustment. For the other months of FY13, FAI proposed an estimated due diligence adjustment for these three bonuses based on the number of closings in each month, multiplied by the respective executive's bonus. This adjustment is for estimate purposes only.

Adjusted Net Working Capital – Adjustments, cont.

Due Diligence Adjustments, continued

- **WC.10 Costs after closeout – estimate –** As discussed in the Quality of Net Assets section of this report, CB proposed due diligence adjustment N.A6 to accrue for the estimated after closeout costs incurred during FY14 related to Nov13 and Dec13 closings. CB used an estimated $12 per closing for this accrual. Similarly, CB proposed adjusted W.C.10 to accrue for these after closeout costs at Dec13. This adjustment increased accrued expenses by $1,416 at Dec13. For the other months of FY13, CB calculated an estimate of after closeout costs using the individual month's revenue as a percentage of Dec13 revenue. CB multiplied this percentage by the Dec13 adjustment of $1,416. This calculation is for estimate purposes only.
- **WC.11 Cash to accrual adjustments** – As discussed in the *Quality of Net Assets* adjustment NA.9 section of this report, FAI believes there are other cash to accrual adjustments in the Company's internal financial statements which have not been fully quantified due to the system reporting limitations. At the issuance of this due diligence report, FAI was unable to quantify certain cash to accrual adjustments ***but recommends that the Buyer consider the impact of accrued expenses on future net working capital requirements.***
- **WC.12 Remove inventory -** The draft asset purchase agreement called for a separate target on the working capital analysis. Please refer to the *Inventory – Target #2* section of this Report for further discussion of this target.

Other Considerations

- Other considerations for potential adjustments to Adjusted Working Capital is set out within this section at *Quality of Net Assets*.

VII. HISTORICAL BALANCE SHEETS

Adjusted Net Working Capital – Target #1 (Excluding Inventory)

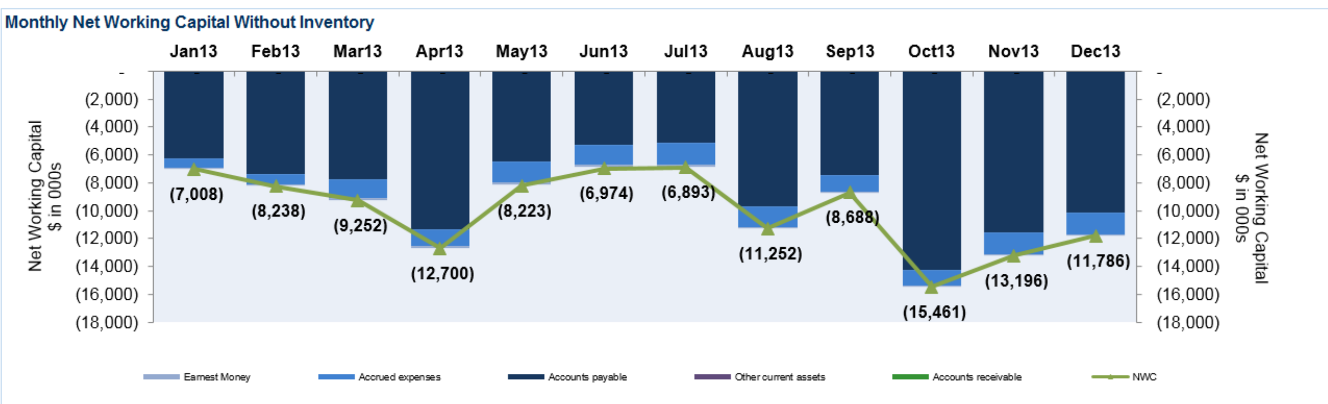
- The following schedule presents the Company's pro forma net working capital for FY13. The Company's working capital reflects Transaction adjustments and FAI adjustments based on our due diligence findings. Refer to the following page for a discussion of the adjustments.

Proforma Monthly Net Working Capital (Without Inventory)

$ in 000s	Jan13	Feb13	Mar13	Apr13	May13	Jun13	Jul13	Aug13	Sep13	Oct13	Nov13	Dec13	Avg. NWC
Accounts receivable	-	-	-	-	-	-	-	-	-	-	-	12	1
Other current assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts payable	(6,231)	(7,366)	(7,706)	(11,332)	(6,458)	(5,258)	(5,101)	(9,697)	(7,457)	(14,232)	(11,590)	(10,120)	(8,546)
Accrued expenses	(705)	(760)	(1,391)	(1,191)	(1,476)	(1,413)	(1,598)	(1,487)	(1,169)	(1,168)	(1,532)	(1,580)	(1,289)
Earnest Money	(71)	(74)	(152)	(147)	(213)	(202)	(165)	(71)	(66)	(67)	(76)	(98)	(117)
Payroll Withholding	(1)	(38)	(3)	(30)	(76)	(101)	(29)	3	4	6	2	-	(22)
NWC	**(7,008)**	**(8,238)**	**(9,252)**	**(12,700)**	**(8,223)**	**(6,974)**	**(6,893)**	**(11,252)**	**(8,688)**	**(15,461)**	**(13,196)**	**(11,786)**	**(9,973)**
DOH	189	187	120	231	144	102	88	97	103	95	105	83	129
DPO	29	32	22	53	18	12	10	20	17	26	24	19	23

Source: Internal financials provided by Management. Analysis by CB

- **Days on hand in Inventory** ("DOH") is calculated as follows: "Month-end inventory amount" divided by "cost of goods for that month" multiplied by "the number of days in that month".
- **Days Accounts Payable Outstanding** ("DPO") is calculated as follows: "Month-end accounts payable balance" divided by "cost of goods for that month" multiplied by "the number of days in that month".



- The higher accounts payable balances appears to be volume related as DPO days still do not appear significant.

Adjusted Net Working Capital – Target #2 (Inventory)

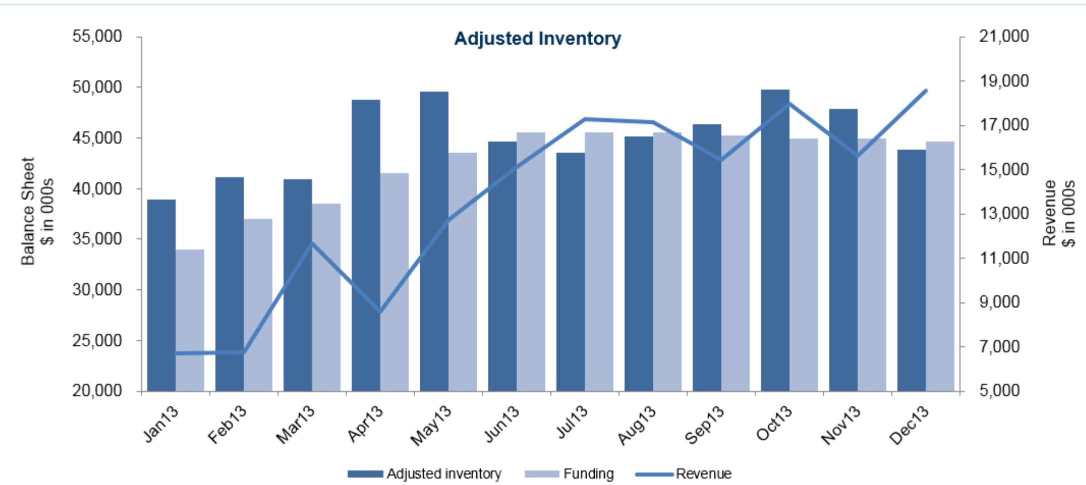
- The following schedule presents the Company's total inventory for FY13 on a monthly basis. FAI adjustments were based on our due diligence findings. Refer to the following page for a discussion of the adjustments.

Monthly Inventory

$ in 000s	Jan13	Feb13	Mar13	Apr13	May13	Jun13	Jul13	Aug13	Sep13	Oct13	Nov13	Dec13	Avg. Inventory
WIP inventory	39,014	41,140	41,005	48,166	48,984	44,100	43,024	44,806	46,047	49,465	47,784	43,714	44,771
Owned lots	-	-	-	678	678	678	610	406	372	372	202	202	350
Reported inventory	**39,014**	**41,140**	**41,005**	**48,844**	**49,662**	**44,778**	**43,634**	**45,212**	**46,419**	**49,837**	**47,986**	**43,916**	**45,121**
Due diligence adjustments:													
I.1 Earnest money deposits	(59)	(53)	(76)	(69)	(94)	(93)	(93)	(69)	(68)	(68)	(77)	(98)	(76)
Adjusted inventory	**38,955**	**41,087**	**40,929**	**48,775**	**49,568**	**44,685**	**43,541**	**45,143**	**46,351**	**49,769**	**47,909**	**43,818**	**45,121**

Source: Schedules provided by Management

Note: Due diligence adjustment I.1 is the same as the W.C.5 adjustment to accrue for earnest money deposits.



Funding

- Management represented the lack of funding for the Company has reduced the capacity for the Company to build new properties.

Monthly DOH

# Days in Actual	Jan13	Feb13	Mar13	Apr13	May13	Jun13	Jul13	Aug13	Sep13	Oct13	Nov13	Dec13	Avg. DOH
Days on hand inventory	189	187	120	231	144	102	88	97	103	95	105	83	129

Source: Schedules provided by Management

FARRELL ADVISORY INC.

Adjusted Net Working Capital – Target #2 (Inventory), cont.

Due Diligence Adjustments

- The following adjustments were made to adjust WIP and Owned Lots inventory and present total inventory on an adjusted monthly basis.
  - **I.1** – FAI proposed a due diligence adjustment to reclassify earnest money deposits within the 30 day refund window at Dec13 to accrued expenses. This has the effect of increasing Dec13 WIP by $113k. Adjustment I.1. is reflective of the net working capital adjustment W.C.5 listed in the Adjusted Net Working Capital section of this Report. FAI separately listed this adjustment as I.1. to reflect adjusted inventory.

Other Considerations

Overdue Inventory at Dec13

- As mentioned in the *WIP Aging at Dec13* section of this report, Management provided FAI with an updated status of the 65 "overdue" lot/homes inventory that were older than six months and unsold by Dec13. Management represented that the Company expects to sell all the "overdue" homes in the normal course of business operations. FAI did not propose a due diligence adjustment to WIP on the basis of Management's analysis, but ***FAI recommends the Buyer considers the impact of these "overdue" homes on FY14F and subsequent periods' financial results.***

VIII. TAX MATTERS

Scope and Consequences of Contemplated Transaction

Tax Review – Scope and Basis of Tax Due Diligence

- FAI was engaged by Client to perform tax due diligence procedures on [redact] ("Company" or "Target"). FAI also discussed the tax issues with [redact] ("External Tax Advisor").
- This Report summarizes FAI's conclusions and are based strictly on discussions with the Company and our analysis of the information provided. In our findings, FAI has described significant inconsistencies, irregularities, and unusual items, to bring potential concerns to the Buyer's attention. FAI's tax due diligence procedures were designed around the relevant aspects of the contemplated Transaction previously presented in this report and the key risk areas of the Company. Any advice contained within this Report is preliminary in nature and is not intended to be relied upon without further development of the relevant facts and applicable law.
- FAI was provided with the following documentation for purposes of our tax due diligence:
  - Federal income tax returns and certain related work papers for [redact]. for FY10, FY11 and FY12;
  - [redact] income tax returns and related work papers for [redact] for FY10, FY11 and FY12;
  - Form 2553 and IRS' Notice of Acceptance as an S-Corporation;
  - Payroll tax returns for FY12 and the first three quarters of FY13 for [redact]
  - Forms 1099 for independent contractors for FY12;
  - FY12 personal property tax return for [redact]; and
  - Option Exercise Notices.
- Our U.S. tax due diligence procedures did not include:
  - Non-U.S. income tax, withholding tax, custom and duties or VAT tax due diligence; and

Tax Review – Scope and Basis of Tax Due Diligence, continued

  - Compensation and benefits issues including Sec. 409A, and ERISA.

Tax Consequences of Contemplated Transaction

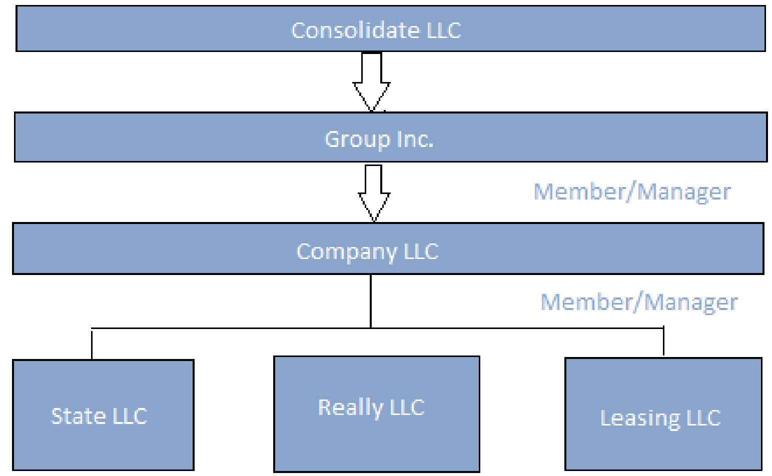
- Based on our review of the draft asset purchase agreement (SP&A"), the Transaction will be treated as a taxable asset acquisition for federal tax purposes. This Transaction will result in certain income tax consequences as follows:
  - [Client's] basis in the assets of [redact] will be stepped up (or down) under Sec. 1060 to reflect the purchase price paid for the assets. Purchase price deemed to be Class VI or VII assets, intangibles and goodwill respectively, may be amortized over 15 years for tax purposes.
  - [Client] will be able to depreciate the acquired fixed assets (e.g., machinery and equipment) based on the amount determined in the purchase price allocation. FAI notes that this allocation must be agreed upon by both the Buyer and [redact].
  - FAI recommends that the final asset purchase agreement includes an indemnification agreement for all taxes to limit the Buyer's exposure of [redact] pre-closing tax liabilities.

Prior Acquisitions and Dispositions

Prior Acquisitions and Dispositions

- On December 23, 2008, [redact], as Grantor, entered into an option agreement with [redact], as Optionee, whereas in consideration for $1 from Optionee, Grantor granted Optionee an option to purchase any of the following companies for a purchase price of $1 for each company:
  - [redact]
- On November 11, 2013, [redact] exercised his options and purchased the above companies for a purchase price of $3. Management has represented that the exercise of options was effective January 1, 2014.
- On December 23, 2008, [redact], as Grantor, entered into an option agreement with [redact], as Optionee, whereas in consideration for $1 from Optionee, Grantor granted Optionee an option to purchase any of the following companies for a purchase price of $1 for each company:
  - [redact]
- On November 11, 2013, [redact] exercised his options and purchased the above companies for a purchase price of $3. Management has represented that the exercise of options was effective January 1, 2014.
- The Company's External Tax Advisor has represented that he is currently determining the tax implication related to the Transactions for the Company and the shareholders. ***FAI recommends that FAI be provided a copy of the tax analysis for our review prior to the close of the Transaction.***

Simplified Tax Organizational Chart



U.S. Federal Income Tax

Company Overview for Tax Purposes

- In addition to the Company overview previously presented, FAI noted the following items for income tax reporting purposes:
  - [Redact] is an S corporation and filed Form 1120S for FY10, FY11 and FY12.
  - [Redact] has a December 31 year-end and is on the accrual method of accounting for income tax reporting purposes.
  - The FY10, FY11 and FY12 Forms 1120S of [redact] include the consolidated financial results of the following entities:
    - [redact]
  - From FY10 through FY12, PCG had one eligible shareholder consisting of:
    - [Redact] who historically had 100% ownership of the Company and its subsidiaries.
  - [Redact] has not entered into any tax indemnification, tax sharing or tax allocation agreements.

Annual Book-to-Tax Reconciliation

Annual Book-to-Tax Reconciliation			
$ in 000s	**FY10**	**FY11**	**FY12**
Book ("GAAP") income	(75)	-	-
Expenses on books, not on tax returns			
Meals & entertainment	-	10	-
Subtotal expenses on books, not on tax returns		**10**	**-**
Taxable income	**(75)**	**10**	**-**

Source: Tax returns and financial statements provided by Management

Background

- The FY10 and FY12 tax returns were prepared on a consolidated basis by [redact[, CPA. The FY11 tax return was prepared on a consolidated basis by [redact], CPAs. All income, expenses, gains and losses for the subsidiary entitles are reported on the same tax return.
- The book net income on the table shown above differs from the book net income on the FY10, FY11 and FY12 audited financial statements prepared by [redact]. FAI verified that the External Tax Advisor did not prepare the FY10, FY11 and FY12 tax returns in coordination with the audited financial statements. The Company's FY10, FY11 and FY12 income tax returns were prepared tax returns based on Management's unadjusted internal financial statements.
- The External Tax Advisor provided FAI with a reconciliation of the FY10 and FY12 internal financials to the reported tax returns. FAI verified these reconciliations for FY10 and FY12 but was unable to obtain the reconciliation for FY11. The main differences between the Company's audited financial statements and tax returns included: (i) accrual for after closeout costs and (ii) adjustment for capitalized interest. FAI did not quantify the tax impact of these adjustments, as any liability for these adjustments would pass through to the historical stockholder of the Company, [redact].

U.S. Federal Income Tax, cont.

Repairs and Maintenance Regulations

- New temporary IRS regulations and transition guidance that will affect virtually all business taxpayers to take effect January 1, 2014. These temporary regulations affect all business taxpayers who acquire, produce or improve tangible property. Because the regulations are in effect retroactive, depending on the accounting method used at the time and whether it complies with the new standards.
- Of particular importance to most taxpayers is a rule which now treats dispositions of structural components of a building, such as a roof, as a loss transaction. Taxpayers currently depreciating a previously retired component should file an accounting method change to claim a loss deduction or, alternatively, make a retroactive election to place the building in a modified accelerated cost recovery system general asset account.
- ***Post-Transaction, FAI recommends that the Company review the application of the new repairs/maintenance regulations.***

Domestic Production Activities Deduction

- Based on our analysis of the federal income tax returns during the Historical Periods, the Company took advantage of the Domestic Production Activities Deduction ("DPAD") under Sec. 199.
- In general, a taxpayer may claim a deduction equal to the applicable percentage of its qualified activities or its taxable income without regard to the deduction. Treas. Reg. 1.199-3(e) indicates that the process of substantially improving the quality and useful life of tangible personal property may be eligible for Sec. 199 deduction.
- Because the Company engages in the domestic construction of houses, FAI believes that the nature of the Company's business qualifies for the domestic production activities deduction. FAI believes the Company's calculation of the domestic production activities deduction is reasonable.

Domestic Production Activities Deduction, continued

- Because [redact] is deemed to be an S corporation, in the event the IRS challenges the Company's domestic production activities deduction, potential adjustments and tax liabilities will be passed-through to the shareholder during the tax year in which the adjustments are made.

Income Tax Provision

- As an S corporation, the Company is not subject to federal income tax and is only subject to a minimum state income taxes in jurisdictions where S corporation status is not recognized. As such, the Company does not prepare an income tax provision.

Uncertain Tax Position Reserve

- The Company has not adopted ASC 740-10 (formerly FIN 48) with respect to uncertain tax positions. ***Post-Transaction, FAI recommends that the Company engage in an ASC 740-10 analysis as it is required for all private companies issuing an audited financial statement under US GAAP as of December 31, 2009.***

Examination History

- Management represented that the Company has not had any Federal income tax audits or examinations during FY10, FY11 and FY12.

U.S. Federal Income Tax, cont.

Profit Distributions to Non-shareholder During FY13

- An S corporation can only have one class of stock per Sec. 1362(c)(4). An S corporation has one class of stock if all outstanding shares confer identical rights to distribution and liquidation proceeds. Differences in voting rights are disregarded. Whether all outstanding shares confer identical distribution and liquidation rights depends on the governing provisions, which include the corporate charter, articles of incorporation, bylaws, applicable state law, and "binding agreements" that relate to distribution and liquidation proceeds.
- A violation of the one class of stock rule generally results in termination of a company's S corporation tax status. In that event, the company will be subject to corporate tax on its net income and its shareholders will be taxed on distributions of that same income.
- During FY13, Mr. [redact] was a non-shareholder in the Company, but Management represented the Company paid approximately $2,599 in profit distributions to Mr. [redact]. Management stipulated the Mr. [redact] profits distribution was based on his "profits-interest" in the Company and the yearly performance of the Company. However, while [redact] received a profits interest in the Company, it is anticipated that he will not receive an IRS Form K-1 from the Company. ***FAI recommends the Company revisit the tax consequences of the profits distributions to [redact], to determine if he should be deemed to be a member in the S corporation and accordingly be issued a corresponding Form K-1 for FY13.***

Filed Tax Returns Not Prepared on Accrual Basis

- The Company's FY10, FY11 and FY12 internal financial statements are effectively prepared on the cash basis, as Management's philosophy is to record expenses when paid. Each year, [redact] prepares consolidated audited financial statements and records the accrued expenses through adjusting journal entries.
- The External Tax Advisor did not prepare the FY10, FY11 and FY12 tax returns using audited book net income, but rather a combination of Management's unadjusted book net income and certain adjustments. The External Tax Advisor was unable to provide a reasonable book-to-tax reconciliation. For example, in FY12, the Company reported $5,000 of net income for book purposes. However, on the Company's FY12 federal income tax report, the External Tax Advisor reported $119 of net income for book purposes. CB believes this has likely resulted in an understatement of taxable income.
- Nevertheless, because the Transaction is contemplated an asset acquisition of an S corporation, in the event the IRS audits the Company's Forms 1120S, potential adjustments and tax liabilities will likely be passed-through to the shareholder during the tax year in which the adjustments are made.

U.S. Federal Income Tax, cont.

Repairs and Maintenance Regulations

- New temporary IRS regulations and transition guidance that will affect virtually all business taxpayers to take effect January 1, 2014. These temporary regulations affect all business taxpayers who acquire, produce or improve tangible property. Because the regulations are in effect retroactive, depending on the accounting method used at the time and whether it complies with the new standards.
- Of particular importance to most taxpayers is a rule which now treats dispositions of structural components of a building, such as a roof, as a loss transaction. Taxpayers currently depreciating a previously retired component should file an accounting method change to claim a loss deduction or, alternatively, make a retroactive election to place the building in a modified accelerated cost recovery system general asset account.
- ***Post-Transaction, FAI recommends that the Company review the application of the new repairs/maintenance regulations.***

Domestic Production Activities Deduction

- Based on our analysis of the federal income tax returns during the Historical Periods, the Company took advantage of the Domestic Production Activities Deduction ("DPAD") under Sec. 199.
- In general, a taxpayer may claim a deduction equal to the applicable percentage of its qualified activities or its taxable income without regard to the deduction. Treas. Reg. 1.199-3(e) indicates that the process of substantially improving the quality and useful life of tangible personal property may be eligible for Sec. 199 deduction.
- Because the Company engages in the domestic construction of houses, CB believes that the nature of the Company's business qualifies for the domestic production activities deduction. CB believes the Company's calculation of the domestic production activities deduction is reasonable.

Domestic Production Activities Deduction, continued

- Because [redact] is deemed to be an S corporation, in the event the IRS challenges the Company's domestic production activities deduction, potential adjustments and tax liabilities will be passed-through to the shareholder during the tax year in which the adjustments are made.

Income Tax Provision

- As an S corporation, the Company is not subject to federal income tax and is only subject to a minimum state income taxes in jurisdictions where S corporation status is not recognized. As such, the Company does not prepare an income tax provision.

Uncertain Tax Position Reserve

- The Company has not adopted ASC 740-10 (formerly FIN 48) with respect to uncertain tax positions***. Post-Transaction, FAI recommends that the Company engage in an ASC 740-10 analysis as it is required for all private companies issuing an audited financial statement under US GAAP as of December 31, 2009.***

Examination History

- Management represented that the Company has not had any Federal income tax audits or examinations during FY10, FY11 and FY12.

State Income/ Franchise and Sales and Use Taxes

State Income/Franchise Taxes

Nexus

- In order for a taxing authority to subject a taxpayer to a state income tax, the taxpayer must have nexus within the state. With certain exceptions, nexus is generally created when a company has some type of physical presence within a state, such as owning or leasing tangible property or having employees or independent contractors performing work within a state.
- One significant exception to the above general rule is Public Law 86-272 (P.L. 86-272), which prohibits a state from imposing a net income tax on an out-of-state seller if the seller's only business activity within the state is the solicitation of orders for tangible goods to be shipped to customers from points outside the state. Notably, P.L. 86-272 is only applicable to taxes based on income and therefore do not provide any protection for sales and use taxes.
- During FY10, FY11 and FY12, the Company filed state tax returns in [redact]. FAI notes that all of these states adhere to the Federal S-Corporation Election.
- The state apportionment was analyzed for FY10, FY11 and FY12. The apportionment allocation method by state was found to be consistent from year to year and reasonably calculated. Additionally, the federal to state income tax adjustments appear reasonable.

Examination History

- Management represented that the Company has not been subject to any state income and franchise tax audits during FY10, FY11 and FY12.

Sales and Use Taxes

Nexus

- A sales tax is imposed upon the buyer of taxable products and/or services, and is collected and remitted to the taxing state by the registered seller. Generally, before a state can impose a sales tax collection responsibility on a company, an out-of-state seller must have physical presence. Physical presence for sales and use tax purposes includes visits into a state by employees or independent contractors (e.g. as little as one visit a year in some states). The nexus standards for establishing a sales/use tax collection responsibility traditionally are very broad.
- The Company is engaged in the construction of residential homes, which is specifically exempted from sales tax in the states in which the Company

Use Tax

- With regard to use tax, the Company is paying tax to its vendors on the majority of purchases. If the vendor does not charge sales tax, the Company is self-reporting and remitting the compensating use tax.

Examination History

- Management represented that the Company has not been subject to any sales and use tax audits during FY10, FY11 and FY12.

Property and Payroll Taxes

Property Tax

- The Company is headquartered in [redact] where it leases office space. The Company owns minimal personal property. FAI obtained the FY12 personal property tax return for and verified that the filing appears reasonable.
- Additionally, the Company pays real estate tax on the lots and constructed homes. Management represented that the Company receives real estate assessments each year and remits the tax on those assessments in a timely fashion. FAI obtained and verified the jurisdictions in which the Company and the corresponding payment amounts and dates paid. FAI finds the Company's real estate tax payments to be reasonable.

Examination History

- Management represented that the Company has not been subject to any revaluations, reassessments or property tax audits during FY10, FY11 and FY12.

Payroll Taxes

- On average, the Company employed approximately 30 people during FY12 and approximately 67 people during FY13.
- These employees were located in (i) the Company's headquarters in [redact]; and (ii) the Company's target construction markets in [redact].
- During FY12, the Company's previous CFO, [redact] prepared [redact] payroll tax returns. During FY13, the Company's payroll tax compliance was administered by [redact].
- To the Company's knowledge, it is current with its employment tax fling obligations. FAI examined [redact] IRS Forms 941, Employer's Quarterly Federal Tax Returns, for the fourth quarter of FY12 and the third quarter of FY13 and they appear to be reasonably filed.

Independent Contractors

- According to the Company, it used 61 independent contractors in FY12. Each independent contractor received a Form 1099.
- ***Post-Transaction, in order to mitigate any potential future federal and state reclassification issues, FAI recommends that the Company evaluate its formal internal controls to evaluate a worker's status and the extent of the Company's right to direct and control the worker.***

Examination History

- Management represented that the Company has not been subject to any payroll tax audits during FY10, FY11 and FY12.

IX. OTHER MATTERS

Accounting – Review of Audit Work Papers and Internal Controls

Examination of Audit Work Papers

- FAI examined the Auditor's work papers for the Company's FY12 period and analyzed certain financial statement components (e.g., interest expense, accounts payable, cutoff testing).

Accounting Processes

- FAI evaluated the Company's overall accounting processes and identified the following:
  - **Cash and accounts payable –** Management receives checks from the closing attorney and compares them to the closing statement. Checks are reviewed by the CFO and deposited in the Company's [redact] bank account. The CFO verifies cash receipts daily. The Controller prepares the bank reconciliations and the CFO reviews the reconciliation on a monthly basis. The Company makes all vendor payments via check; no wire transfers are used. The CFO prepares checks and the Company's stockholder signs the checks. All invoices are sent to the Company's [redact] headquarters.
  - **Inventory –** the inventory cycle begins when the Company purchases a lot. The Company determines the number of lots to purchase during weekly meetings with Management. The Company maintains an Excel database called a Staging Report which tracks the number of lots purchased, stages of the construction phase, cancellations and closing dates. The Company records subcontractor invoices in WIP and releases the WIP to cost of sales upon closing of the home.
  - **Payroll –** the Company pays salaried employees weekly through direct deposit or check. Sales agents are paid a commission upon the closing of a home, whereby the Controller receives the closing statement and authorizes the accounts payable clerk to create a check.

Closing Procedures

- FAI noted that the Company's monthly and annual closing procedures include the following:
  - The Controller reconciles cash at the end of the month and prepares journal entries to recognize all revenues and construction costs based on the homes closed within that month. The Controller maintains a spreadsheet which tracks the costs being reclassified from WIP to costs of construction by lot number. Management represented that the Company's monthly closing procedures are the same as annual closing procedures.

Internal Control Environment

- During on-site due diligence, FAI observed the following elements of the Company's internal control environment:
  - The CFO prepares and approves disbursement checks and the Company's stockholder [redact] signs all checks. The CFO keeps the Company's checkbook in a locked safe within his office.
  - The Company's Controller reconciles cash on a monthly basis and the CFO reviews the reconciliation.
  - The Company's CFO reviews the monthly journal entries prepared by the Controller.
  - The Company's staging report which tracks the construction process of all lots is reviewed by several members of Management (e.g., CEO, VP of Sales, CFO).

Variable Interest Entity (“VIE”)

Background

- Under GAAP, a reporting entity must consolidate any entity in which it has a controlling financial interest. Under the voting interest model, generally the investor that has voting control (usually more than 50 percent of an entity’s voting interests) consolidates the entity.
  - Under the VIE model, the party that has the power to direct the entity’s most significant economic activities and the ability to participate in the entity’s economics consolidates the entity. This party could be an equity investor, some other capital provider, or a party with contractual arrangements.
  - To determine which accounting model applies, and which—if any—party must consolidate a particular entity, a reporting entity must first determine whether the entity is a voting interest entity or a variable interest entity. An entity is considered a VIE if it possesses one of the following characteristics:
    - **Characteristic 1** —The entity is thinly capitalized: Traditionally, it has been presumed that the equity provided by residual equity holders is sufficient to support the entity’s operations. If the equity is not sufficient, voting power attributed to the entity’s equity holders (i.e., under the voting interest model) is not the only factor that should be considered in a determination of who should consolidate the entity.
    - **Characteristic 2** —Residual equity holders do not control the entity: The voting interest model should not be applied if the residual equity holders cannot control the entity’s destiny. This runs counter to conventional economic thinking, which suggests that the holder of an entity’s residual equity should be in a position to control its destiny.
    - **Characteristics 3 & 4** —Equity holders are shielded from economic losses or do not participate fully in an entity’s residual economics: Conventional economic thinking suggests that residual equity holders should not only enjoy the rewards of owning an entity, but also be exposed to the risks of ownership.

Background (continued)

- **Characteristics 3 & 4, continued** — Such thinking does not extend to contractual arrangements that shield equity holders from losses associated with the entity’s predominant risks or that either cap the return on equity or allow the returns to be shared with other parties. In the case of such arrangements, a reporting entity should not use the voting interest model to decide which party consolidates the entity

Issue:

- [Redact} provides approximately $45 million of financing and became shareholder for a nominal sum of the Company and may have been directing the firm before this date.
- Accordingly the FY13 audited consolidated financial statements perhaps should consolidated the results of [redact] other business as well.
- However, as you are buying the assets of the Company the risks, if any, of failing to prepare financial statements in accordance with GAAP should rest with the management team before the contemplated acquisition is completed.

X. APPENDICES

Overview and Financial Due Diligence

Overview

- At the request of Client FAI performed the following due diligence unless specifically noted:

Financial Due Diligence

- FAI analyses primarily consisted of:
  - Providing a Quality of Earnings Analysis ("EBITDA") for the years ended December 31, 2012 ("FY12"), and the most current twelve months ended, expected to be November 30, 2013 ("TTM13", together called the "Historical Period");
  - Providing a Forecast Analysis for (a) the year ending December 31, 2013 ("FY13-F") based upon eleven months of actual results through November 31, 2013 and one month's of projected information ("11+4 forecast" approach); and (b) the year ending December 31, 2014 ("FY14-F", together called the "Forecast Period"); and
  - Providing a working capital analysis to determine a normalized level.

Quality of Earnings Analysis

- Quality of Earnings analysis that addressed reported EBITDA, management proposed adjustments, and identified due diligence adjustments to arrive at an "Adjusted EBITDA" for the Historical Period. FAI also reflected the Quality of Earnings on a monthly basis for TTM13 of the Company to allow ready roll-forward of our analyses.
- Reconciled Adjusted EBITDA to Free Cash Flow (EBITDA considering capital expenditures and working capital requirements).
- Understood Company's methodologies used to carve-out operations, if applicable. Considered:
  - Unallocated sales or direct / indirect cost;
  - Identification / allocation of working capital items;
  - Allocation of outstanding debt and related costs;
  - System and back office support requirements;
  - Requirements for a Transition Service Agreement ("TSA").
- Revenue and Cost Accounting
  - Obtained an understanding of the mix of revenue by geography and construction project (consider: average selling price; number of units completed vs. sold per year; level of speculation units).
  - Obtained an understanding of the Company's percentage of completion revenue recognition policies (costs vs. effort expended basis).
  - Obtained an understanding how the Company accounts for deferred revenue and projects in progress but not yet invoiced including costs in excess of billings.
  - Highlighted concerns that may impact the Historical Period revenues/margins, differences between cash and GAAP reporting, and working capital considerations.
  - Obtained an understanding of drivers of changes in revenue, including seasonality.
  - Documented the process used by Management to forecast costs and how they determine final sales price.
  - Backlog & Pipeline/Prospects – To the extent available, provided a backlog trend analysis monthly during the Historical Period.
  - Enquired with Management about any key contracts lost as a result of lack of financing.
- Reconciled the bank account deposit activity for TTM13 to the Company's reported revenue as reflected in Company's books and records.

Overview and Financial Due Diligence, cont.

Quality of Earnings Analysis, continued

- Quality of Earnings analysis that addresses reported EBITDA, management proposed adjustments, and identified due diligence adjustments to arrive at an “Adjusted EBITDA” for the Historical Period. FAI also reflected the Quality of Earnings on a monthly basis for TTM13 of the Company to allow ready roll-forward of our analyses.
- Reconciled Adjusted EBITDA to Free Cash Flow (EBITDA considering capital expenditures and working capital requirements).
- Understood Company’s methodologies used to carve-out operations, if applicable. Considered:
  - Unallocated sales or direct / indirect cost;
  - Identification / allocation of working capital items;
- Margin analysis:
  - Obtained an understanding of the Historical Period margin trends by location/project and elements.
  - Cost of Sales Analysis – obtained the underlying account details for the significant components of costs of sales including financing to identify potential unusual and non-recurring items.
- Compensation Analysis
  - Prepared an analysis of wages by employees including the relationship of payroll taxes and employee benefits to total payroll costs for the Historical Period, and a schedule of highly compensated employees and benefits.
  - Obtained an understanding of any employment agreements in place with key employees (if any).
  - Confirmed annual compensation through stock option plan for key management and compare to proposed plan post Transaction.
  - Confirmed annual compensation adjustments for any union employees (if applicable), and compare to increases in projected periods to determine if consistent.
  - Reconciled FY12 payroll costs to W2/W3.
- Selling, General and Administrative Expenses (“SG&A”) Analysis – obtained the underlying account details for the significant components, especially marketing expenses, of SG&A expenses to identify potential unusual and non-recurring items.
- Occupancy Expense – obtained and analyzed the lease contracts to ensure it is assignable and to determine if there are any additional costs associated with the assignment.
- Other Operating Expenses – obtained and analyzed a schedule of the significant accounts within the other operating expenses to identify potential unusual and non-recurring items.
- Insurance and Accident Concerns (Incurred but Not Reported “IBNR”) – obtained an understanding from Management on the insurance coverage (e.g., self-insured versus fully insured) of the Company. Interface with Black Orchid’s insurance advisor as to potential insurance impacts on net working capital and recurring EBITDA.
- Executive Management – obtained an understanding of the proposed management structure post Transaction, and impact on Adjusted EBITDA.
- Operational Improvements and Profitability Enhancement – obtained an understanding and impact of operational improvement and profitability enhancements on the Historical Period Results.
- Operating Metrics – obtained a comparison of key operating metrics for the Historical and investigate significant fluctuations.
- Fixed/Variable Analysis – obtained an understanding of the Company’s summary of fixed and variable expenses in COGS and SG&A to determine breakeven volume required to cover fixed expenses.

Overview and Financial Due Diligence, cont.

Quality of Earnings Analysis, continued

- Enquired with Management about any key contracts or licenses with change of ownership clauses.

Working Capital and Net Assets

- Monthly working capital analysis (including operating metrics) since January 2012 to identify unusual trends, seasonality, movement to revenues, normalized working capital to support business, working improvement opportunities, customer deposits, etc.
- Bank Accounts and Banking arrangements – obtained an understanding of how payments are authorized and receipts are banked.
- Accounts Receivable – obtained the details of the accounts receivable as of December 31, 2012 and the latest balance sheet available (together called the "Historical Balance Sheet Dates"), analyzing the aging, key accounts, reserves, write-offs, etc.
- Prepaid Expenses – obtained and analyzed a schedule of prepaid expenses (including deposits for properties) as of the Historical Balance Sheet Dates to evaluate usefulness post Transaction.
- Inventory and Buildings:
  - Obtained an understanding of the Company's method for tracking and reporting work-in-process including the use of job costing information, billings in excess of cost and costs in excess of billings.
  - As of the Historical Balance Sheet Dates, obtained a detailed inventory schedule (including location/market, description of the buildings being built, the number of buildings, the unit cost, the extended cost and loan balance) separated by raw materials, labor, work in process and finished goods. Ensured the schedule agrees to the general ledger.
  - Obtained an understanding of the sustainability and consistency of progress billings, including, if any, project gross profit adjustments.
  - Obtained details on how the Company accounts for percentage of completion on applicable projects and methods used to establish estimates, account for project modifications, and track billings in relation to total contract value.
  - Reviewed in detail 5 inventory balances to supporting documentation.
  - Obtained details on a projected revenue waterfall by customer/building as of latest date.
  - Obtain an understanding of the trends in the monthly inventory position since January 2012.
- PP&E:
  - Obtained a detailed listing of existing fixed assets along with historical CAPEX, disposals and book depreciation for the Historical Period to roll forward the net balance of PP&E from January 1, 2011 through October 31, 2013.
  - Obtained the details of the Historical Period Capex (maintenance and growth).
- Trademarks and Patents – obtained a listing of all trademarks and determine if there are any capitalized costs associated with these items.
- Other Assets – obtained and analyzed a schedule of Other Assets as of the Historical Balance Sheet Dates.
- Accounts Payable – obtained and analyzed a schedule of accounts payable as of the Historical Balance Sheet Dates including an aging analysis, short pay accounts, write-offs, etc.
- Accrued Expenses – obtained the details of all accrued accounts, including wages, vacation, insurance, property taxes, volume rebates, warranty, etc. as of the Historical Balance Sheet Dates.

Overview and Financial Due Diligence, cont.

Working Capital and Net Assets, continued

- Contingent Liabilities – analyzed any contingent liabilities not recorded on the Company's financial statements including litigation in the ordinary course of business.
- Debt and Debt-Like Items
  - Obtained and analyzed a schedule of debt and debt like items as of the most current balance sheet date.
  - Obtained and analyzed schedule of borrowing facilities.
- Equity – analyzed the roll-forward of the equity accounts to verify there are not any current operational expenses flowing through which should be classified within the EBITDA analysis.

Projections

- Analyzed revenue and EBITDA bridge of adjusted TTM13 to FY13-F to FY14-F Projections and identify key drivers and assumptions (e.g., financing required, land acquisitions, average selling price) to meet the Projections.
- Obtained an understanding of the Company's assumptions (i.e., new construction projections, changes in industry compensation practices, changes in average selling prices, materials and land acquisition costs, financing and capital requirements and costs, pending and owned lots etc.).
- Cost Savings – obtained an understanding of cost savings and operational improvements, if any, built into the Projections.
- Documented the process used by Management to forecast sales volumes.
- Capital Expenditures ("Capex") – obtained the details of the Historical Period Capex (maintenance and growth) and compare projected Capex to determine if properly budgeted and key assumptions associated with pending Capex.
- Operating Metrics – obtained a comparison of key operating metrics for the Historical and Forecasted Periods and investigate significant fluctuations and assumptions.

Other Matters

- Internal controls – evaluated the overall internal control environment (high level) and identify potential weaknesses that may cause concern in financial reporting.
- Closing Procedures – discussed month-end, quarter-end and year-end closing procedures and potential EBITDA impact.
- Accounting Policies and Procedures – obtained an understanding of the existing accounting policies and procedures surrounding critical business functions.
- Audit Work Papers:
  - Obtained access and review the audit work papers as available for the prior fiscal year end (if available).

Tax Due Diligence

- Obtained and analyzed the three most recent years of income tax filings (federal, state and local) including amended returns. Assess the status of the 2012 income tax filing. If extended, obtain copies of relevant extension requests.
- Obtained an understanding of policies and procedures in place to ensure compliance with:
  - Federal and state employment tax requirements;
  - Independent contractor reporting requirements;
  - State sales and use tax requirements;
  - Real and personal property tax reporting requirements; and
  - International tax provisions.
- Obtained copies of and analyze the following for 2012:
  - Federal and state Forms 1099;
  - Real property tax returns;
  - Personal property tax returns;
  - Tax basis fixed asset schedules as of 2012 income tax filing; and
  - Local business income/excise tax filings.
- Obtained copies of and analyze the following for 2012 and 2013:
  - Federal and state quarterly employment tax returns Forms 941; and
  - State sales and use tax returns.
- Obtained an understanding of major accounting methods, including but not limited to:
  - Form 3115 accounting method changes; and
  - IRC Sec. 263(a) inventory reporting requirements.
- Obtained a schedule of jurisdictions in which the Target is qualified to do business (both domestically and internationally).
- Obtained copies of any federal or state tax examinations conducted in the prior five years or information that indicates an examination is pending.
- Obtained copies of correspondence with tax authorities, including but not limited to, information request, proposed changes, agreements, consents, elections and waivers filed taking place in the prior five years.
- Obtained copies of any tax indemnification, tax sharing, or tax allocation agreements involving the Target.
- Obtained an understanding of the income tax provision and uncertain tax positions under ASC 740 as of 2012.
- Obtained an understanding change-in-control payments or retention bonus agreements. Consider the applicability of IRC Sec. 280G in the event of a change-in-control payment.
- Obtained an understanding of the Target’s tax treatment of any significant transactions or corporate events during the past three years, including mergers, acquisitions, divestitures, restructurings, forgiveness or cancellation of debt, and bankruptcies; request and read any memorandum or letters regarding the tax treatment of such transactions or events.

X.B FY12 RECONCILIATION OF INTERNAL INCOME STAT. TO AUDITED INCOME STAT.

Reconciliation of Internal Income Statements to Audited Income Statement					
$ in 000s	Reported Internal	Audited	Difference	Audit Adjustments	Variance
Sales	**97,952**	**97,814**	**(138)**		**(138)**
Cost of sales	86,875	78,928	(7,947)	51	(7,896)
Gross profit	**11,077**	**18,886**	**7,809**	**(51)**	**7,758**
Operating expenses	6,376	-	(6,376)		(6,376)
Selling expenses	-	6,900	6,900		6,900
General and administrative expenses	-	2,857	2,857		2,857
Interest expense	-	4,235	4,235	188	4,423
Other (income) expense	(93)	(138)	(45)		(45)
Net income	**4,794**	**5,032**	**238**	**(239)**	**(1)**
Interest expense	4,422	4,235	(187)	188	1
Reported EBITDA	**9,216**	**9,267**	**51**	**(51)**	**-**

Source: Internal financial statements and FY12 audited financial statements.

Audit Adjustments

- The impact of the audit adjustments was reflected within Adjusted EBITDA via Due Diligence Adjustment D.1.

The above schedule is included for informational purposes only.

X.C FY12 AND FY13 CONSOLIDATING HISTORICAL INCOME STATEMENTS

FY12 Consolidating Historical Income Statements

$ in 000s	PC	PCRG	BFG	PIG	Eliminations	FY12
Sales	**97,952**	**3,817**	**644**	**3,879**	**(8,340)**	**97,952**
Cost of sales	88,100	2,592	644	3,879	(8,340)	86,875
Gross profit	**9,852**	**1,225**	-	-	-	**11,077**
Operating expenses	5,153	2,234	(2)	-	(1,009)	6,376
Income from operations	**4,699**	**(1,009)**	**2**	-	**1,009**	**4,701**
Other (income) expense	(93)	(1,009)	-	-	1,009	(93)
Net income	**4,792**	-	**2**	-	-	**4,794**
Interest	4,422	-	-	-	-	4,422
Reported EBITDA	**9,214**	-	**2**	-	-	**9,216**

Source: Internal financial statements provided by Management

FY13 Consolidating Historical Income Statements

$ in 000s	PC	PCRG	BFG	PIG	Eliminations	FY13
Sales	**163,463**	**6,438**	**130**	-	**(6,536)**	**163,495**
Cost of sales	143,019	4,351	130	-	(6,536)	140,964
Gross profit	**20,444**	**2,087**	-	-	-	**22,531**
Operating expenses	6,840	1,894	-	-	-	8,734
Income from operations	**13,604**	**193**	-	-	-	**13,797**
Other (income) expense	266	-	-	-	-	266
Net income	**13,338**	**193**	-	-	-	**13,531**
Interest	129	-	-	-	-	129
Reported EBITDA	**13,467**	**193**	-	-	-	**13,660**

Source: Internal financial statements provided by Management

Overview

- Management represented that [redact] are not part of the contemplated Transaction.
- Unless specifically noted in the Report, the results presented are from the internal financial statements for [redact] but exclude the results of [redact].
- The eliminations effectively eliminate marketing income and commission income as received in [redact] with the corresponding costs in [redact]. In FY12, [redact] received a marketing fee (in other income) which was offset with the marketing fee, as recorded in operating expenses.
- The consolidating schedules for FY12 and FY13 were agreed with the CFO.
- The monthly income statements for PC for FY12 and FY13 are summarized at Sections X.G and X.H, respectively.

The above schedule is included for informational purposes only.

X.D DETAILED CONSOLIDATING INCOME STATEMENT

Consolidating Historical Income Statement - FY12

$ in 000s	PCG	PCRG	BFG	PIG	Eliminations	FY12
New home sales	97,814	-	-	-	-	97,814
Miscellaneous income	138	-	-	-	-	138
Marketing income	-	921	-	-	(921)	-
Commission income	-	2,896	-	-	(2,896)	-
Interest income	-	-	644	3,879	(4,523)	-
Revenue	**97,952**	**3,817**	**644**	**3,879**	**(8,340)**	**97,952**
Cost of construction	71,788	-	-	-	-	71,788
Cost after close-out	2,848	-	-	-	-	2,848
Sales commissions	6,700	2,114	-	-	(3,817)	4,997
Closing cost	2,342	-	-	-	-	2,342
Profit distributions	4,422	-	-	-	-	4,422
Interest	-	-	644	3,879	(4,523)	-
Area manager bonus	-	478	-	-		478
Cost of sales	**88,100**	**2,592**	**644**	**3,879**	**(8,340)**	**86,875**
Gross margin	**9,852**	**1,225**	-	-	-	**11,077**
Gross margin %	***10.1***	***32.1***	***n/a***	***n/a***	***n/a***	***11.3***
Bonuses	-	-	-	-	-	-
Office, model and trailers	112	86	-	-	-	198
Model decorating	-	358	-	-	-	358
MLS fees	-	30	-	-	-	30
Sales meetings	-	8	-	-	-	8
Realtor supplies	-	36	-	-	-	36
Realtor copiers	-	37	-	-	-	37
Realtor telephones	-	55	-	-	-	55
Model utilities	-	33	-	-	-	33
American flags	-	10	-	-	-	10
Model furniture rental	-	6	-	-	-	6
Shop competition	-	2	-	-	-	2
Radio advertising	-	74	-	-	-	74
Internet advertising	-	145	-	-	-	145
Offsite signage	-	77	-	-	-	77
Kiosks	-	9	-	-	-	9
Off-sites	-	50	-	-	-	50
Weekend directionals	-	104	-	-	-	104
Website design	-	59	-	-	-	59
Community signage	-	109	-	-	-	109
Promotional events	-	59	-	-	-	59
Moving expenses	-	12	-	-	-	12
Marketing assistant	-	18	-	-	-	18
Cell phone	-	5	-	-	-	5
Other subdivision field cost	144	-	-	-	-	144
Warranty	1	-	-	-	-	1
Marketing fee	1,017	-	-	-	(1,009)	8

Consolidating Historical Income Statement - FY12

$ in 000s	PCG	PCRG	BFG	PIG	Eliminations	FY12
Market research	42	-	-	-	-	42
Plans and revisions	83	-	-	-	-	83
Land research	-	-	-	-	-	-
Advertising	4	-	-	-	-	4
Entertainment	1	-	-	-	-	1
Salaries and wages	2,340	637	-	-	-	2,977
Payroll taxes employer	132	40	-	-	-	172
Employee reimbursement.	5	-	-	-	-	5
Legal fees	28	-	(3)	-	-	25
Accounting fees	113	-	1	-	-	114
Bank fees	8	1	-	-	-	9
Contributions	1	26	-	-	-	27
Phone internet and fax	22	-	-	-	-	22
Consulting fees	8	24	-	-	-	32
Taxes and licenses	34	2	-	-	-	36
Office repair and maintenance	22	-	-	-	-	22
Computer systems	155	-	-	-	-	155
Rent expense	167	6	-	-	-	173
Office equipment	63	-	-	-	-	63
Office supplies	35	15	-	-	-	50
Office utilities	3	-	-	-	-	3
Office postage and freight	23	-	-	-	-	23
Car phones	44	-	-	-	-	44
Travel & lodging	67	45	-	-	-	112
Meeting expense	-	-	-	-	-	-
Gen liab. insurance	97	-	-	-	-	97
Builders risk	31	-	-	-	-	31
Workers comp insurance	99	-	-	-	-	99
Insurance benefit	80	24	-	-	-	104
Insurance - Life/health	4	16	-	-	-	20
Employee tuition reimbursement	-	-	-	-	-	-
Vehicle allowance	148	16	-	-	-	164
Company events	20	-	-	-	-	20
Operating expenses	5,153	2,234	(2)	-	(1,009)	6,376
Operating income	**4,699**	**(1,009)**	**2**	-	**1,009**	**4,701**
Refunds and rebates	(93)	-	-	-	-	(93)
Other expense	-	-	-	-	-	-
Marketing fee	-	(1,009)	-	-	1,009	-
Other (income)/expense	**(93)**	**(1,009)**	-	-	**1,009**	**(93)**
Net income	**4,792**	-	**2**	-	-	**4,794**
Profit margin %	***4.9***	-	***0.3***	-	-	
Interest	4,422	-	-	-	-	4,422
EBITDA, as reported	**9,214**	-	**2**	-	-	**9,216**

Source: Financial statements provided by Management

The above schedule is included for informational purposes only.

X.E FY13 DETAILED CONSOLIDATING HISTORICAL INCOME STATEMENTS

Consolidating Historical Income Statement - FY13 (continued)

$ in 000s	PCG	PCRG	BFG	PIG	Eliminations	FY13
New home sales	163,211	-	-	-	-	163,211
Miscellaneous income	252	30	-	-	-	282
Marketing income	-	1,535	-	-	(1,535)	-
Commission income	-	4,871	-	-	(4,871)	-
Referral fee	-	2	-	-	-	2
Interest income	-	-	130	-	(130)	-
Revenue	**163,463**	**6,438**	**130**	**-**	**(6,536)**	**163,495**
Cost of construction	123,070	-	-	-	-	123,070
Cost after close-out	5,412	-	-	-	-	5,412
Sales commissions	11,064	3,467	-	-	(6,406)	8,125
Closing cost	3,344	-	-	-	-	3,344
Profit distributions	-	-	-	-	-	-
Interest	129	-	130	-	(130)	129
Area manager bonus	-	884	-	-	-	884
Cost of sales	**143,019**	**4,351**	**130**	**-**	**(6,536)**	**140,964**
Gross margin	**20,444**	**2,087**	**-**	**-**	**-**	**22,531**
Gross margin %	***12.5***	***32.4***	***n/a***	***n/a***	***n/a***	***13.8***
Bonuses	106	-	-	-	-	106
Office, model and trailers	292	93	-	-	-	385
Model decorating	-	6	-	-	-	6
MLS fees	-	42	-	-	-	42
Sales meetings	-	-	-	-	-	-
Realtor supplies	-	17	-	-	-	17
Realtor copiers	-	30	-	-	-	30
Realtor telephones	-	57	-	-	-	57
Model utilities	-	11	-	-	-	11
American flags	-	13	-	-	-	13
Model furniture rental	-	1	-	-	-	1
Shop competition	-	-	-	-	-	-
Radio advertising	-	-	-	-	-	-
Internet advertising	-	147	-	-	-	147
Offsite signage	-	39	-	-	-	39
Kiosks	-	-	-	-	-	-
Off-sites	-	60	-	-	-	60
Weekend directionals	-	58	-	-	-	58
Website design	-	64	-	-	-	64
Community signage	-	70	-	-	-	70
Promotional events	-	8	-	-	-	8
Moving expenses	-	21	-	-	-	21
Storage rental	-	2			-	2
Marketing assistant	-	-	-	-	-	-
Cell phone	-	-	-	-	-	-
Other subdivision field cost	154	-	-	-	-	154

Consolidating Historical Income Statement -FY13 (continued)

$ in 000s	PCG	PCRG	BFG	PIG	Eliminations	FY13
Warranty	19	-	-	-	-	19
Marketing fee	-	-	-	-	-	-
Market research	76	-	-	-	-	76
Plans and revisions	141	-	-	-	-	141
Land research	2	-	-	-	-	2
Advertising	9	1	-	-	-	10
Entertainment	-	-	-	-	-	-
Salaries and wages	3,716	869	-	-	-	4,585
Payroll taxes employer	398	104	-	-	-	502
Employee reimbursement.	-	-	-	-	-	-
Legal fees	65	-	-	-	-	65
Accounting fees	61	-	-	-	-	61
Bank fees	11	4	-	-	-	15
Contributions	32	-	-	-	-	32
Phone internet and fax	20	-	-	-	-	20
Consulting fees	101	7	-	-	-	108
Taxes and licenses	19	10	-	-	-	29
Office repair and maintenance	-	-	-	-	-	-
Computer systems	145	-	-	-	-	145
Rent expense	201	3	-	-	-	204
Office equipment	6	-	-	-	-	6
Office supplies	40	25	-	-	-	65
Office utilities	11	-	-	-	-	11
Office postage and freight	39	-	-	-	-	39
Car phones	9	7	-	-	-	16
Travel & lodging	159	49	-	-	-	208
Meeting expense	1	-	-	-	-	1
Gen liab. insurance	248	-	-	-	-	248
Builders risk	103	-	-	-	-	103
Workers comp insurance	24	-	-	-	-	24
Insurance benefit	175	32	-	-	-	207
Insurance - Life/health	87	2	-	-	-	89
Employee tuition reimbursement	4	-	-	-	-	4
Vehicle allowance	332	32	-	-	-	364
Company events	34	-	-	-	-	34
Errors & Emissions - Insurance	-	10	-	-	-	10
Operating expenses	6,840	1,894	-	-	-	8,734
Operating income	**13,604**	**193**	-	-	-	**13,797**
Refunds and rebates	(50)	-	-	-	-	(50)
Other expense	316	-	-	-	-	316
Other (income)/expense	**266**	-	-	-	-	**266**
Net income	**13,338**	**193**	-	-	-	**13,531**
Profit margin %	***8.2***	***3.0***	-	-	-	***8.3***
Interest	129	-	-	-	-	129
EBITDA, as reported	**13,467**	**193**	-	-	-	**13,660**

Source: Financial statements provided by Management

The above schedule is included for informational purposes only.

X.F DEC12 RECONCILIATION OF INTERNAL BALANCE SHEET TO AUDITED

Reconciliation of Internal Balance Sheet to Audited Balance Sheet					
$ in 000s	Internal Dec12	Audited Dec12	Difference Dec12	Audit Adjustment	Variance
Assets					
Cash and cash equivalents	4,215	4,105	(110)	(115)	5
Real estate inventories, at cost	36,108	39,407	3,299	3,300	(1)
Accounts receivable	23	22	(1)	-	(1)
Other current assets	-	-	-	-	-
Other assets	174	175	1	-	1
Total assets	**40,520**	**43,709**	**3,189**	**3,185**	**4**
Liabilities and equity					
Accounts payable and accrued expenses	6,528	6,541	13	14	(1)
Construction loans	33,149	33,150	1	-	1
Payable to affiliates	843	1,308	465	593	(128)
Interest payable	-	558	558	428	130
Equity	-	2,152	2,152	2,150	2
Total liabilities and equity	**40,520**	**43,709**	**3,189**	**3,185**	**4**

Source: Internal financial statements and FY12 audited financial statements.

The above schedule is included for informational purposes only.

X.G DEC12 AND DEC13 CONSOLIDATING HISTORICAL BALANCE SHEETS

Consolidating Historical Balance Sheet - Dec12

$ in 000s	1	2	3	4	Eliminations	Consol. Dec12
Operating Cash	3,922	292	5	1	(1)	4,219
Accounts Receivable	-	23	-	-	-	23
Land Development, LLC	-	-	-	-	-	-
Intercompany receivable	-	-	843	33,149	(33,992)	-
Total Current Assets	**3,922**	**315**	**848**	**33,150**	**(33,993)**	**4,242**
Atlanta Work In Progress	23,011	-	-	-	-	23,011
Columbia, SC Work In Progress	8,947	-	-	-	-	8,947
Raleigh, NC Work In Progress	2,726	-	-	-	-	2,726
Fayetteville, NC Work In Progress	1,424	-	-	-	-	1,424
Total Work In Progress	**36,108**	-	-	-	-	**36,108**
Total Lots Owned	-	-	-	-	-	-
Total Inventory	**36,108**	-	-	-	-	**36,108**
Total Earnest Money	137	-	-	-	-	137
Bond - New Macland	5	-	-	-	-	5
LLOC GA Surety Company	-	-	-	-	-	-
Title Bond For N.C.	-	-	-	-	-	-
Prepaid Rent	32	-	-	-	-	32
Prepaid Builders Risk NC	-	-	-	-	-	-
Total Other Assets	**174**	-	-	-	-	**174**
Total Assets	**40,204**	**315**	**848**	**33,150**	**(33,993)**	**40,524**
Accounts Payable	6,194	315	1	-	-	6,510
Earnest Money	18	-	-	-	-	18
Payroll Withholding	-	-	-	-	-	-
Total Current Liabilities	**6,212**	**315**	**1**	-	-	**6,528**
BFG Inc Payable	843	-	-	-	-	843
Peachtree Investment Payable	33,149	-	-	-	-	33,149
Intercompany payable	-	-	716	33,150	(33,866)	-
Retained Earnings	-	-	-	-	-	-
Net Income	4,793	-	2	-	2	4,797
Equity	-	-	**2**	-	**2**	**4**
Total Liabilities & Equity	**40,204**	**315**	**848**	**33,150**	**(33,993)**	**40,524**

Source: Internal financial statements provided by Management

Consolidating Historical Balance Sheet - Dec13

$ in 000s	PCG	PCRG	BFG	PIG	Eliminations	Consol. Dec13
Operating Cash	9,930	496	4	1,000	-	11,430
Accounts Receivable	-	12	-	-	-	12
Land Development, LLC	-	-	-	-	-	-
Intercompany receivable	-	-	338	44,599	(44,937)	-
Total Current Assets	**9,930**	**508**	**342**	**45,599**	**(44,937)**	**11,442**
Atlanta Work In Progress	32,401	-	-	-	-	32,401
Columbia, SC Work In Progress	1,369	-	-	-	-	1,369
Raleigh, NC Work In Progress	8,697	-	-	-	-	8,697
Fayetteville, NC Work In Progress	1,247	-	-	-	-	1,247
Total Work In Progress	**43,714**	-	-	-	-	**43,714**
Total Lots Owned	202	-	-	-	-	202
Total Inventory	**43,916**	-	-	-	-	**43,916**
Total Earnest Money	345	-	-	-	-	345
Bond - New Macland	5	-	-	-	-	5
LLOC GA Surety Company	75	-	-	-	-	75
Title Bond For N.C.	2	-	-	-	-	2
Prepaid Rent	17	1	-	-	-	18
Prepaid Builders Risk NC	-	-	-	-	-	-
Total Other Assets	**444**	**1**	-	-	-	**445**
Total Assets	**54,290**	**509**	**342**	**45,599**	**(44,937)**	**55,803**
Accounts Payable	9,804	316	-	1,001	-	11,121
Earnest Money	-	-	-	-	-	-
Payroll Withholding	-	-	-	-	-	-
Total Current Liabilities	**9,804**	**316**	-	**1,001**	-	**11,121**
BFG Inc Payable	-	-	-	-	-	-
Peachtree Investment Payable	44,599	-	-	-	-	44,599
Intercompany payable	-	-	240	44,599	(44,839)	-
Intercompany interest payable	-	-	98		(98)	-
Long Term Liabilities	**44,599**	-	**338**	**44,599**	**(44,937)**	**44,599**
Profit Distribution - SDC	(4,396)	-	-	-	-	(4,396)
Profit Distribution - SIP	-	-	-	-	-	-
Profit Distribution - PIG	(9,054)	-	-	-	-	(9,054)
Retained Earnings	-	-	-	-	-	-
Net Income	13,337	193	4	(1)	-	13,533
Equity	**(113)**	**193**	**4**	**(1)**	-	**83**
Total Liabilities & Equity	**54,290**	**509**	**342**	**45,599**	**(44,937)**	**55,803**

Source: Internal financial statements provided by Management

Overview

- Management represented that [redact] are not part of the contemplated Transaction.

The above schedule is included for informational purposes only.

X.H FY12 HISTORICAL MONTHLY INCOME STATEMENTS – [REDACT]

Monthly P&L

$ in 000s	Jan12	Feb12	Mar12	Apr12	May12	Jun12	Jul12	Aug12	Sep12	Oct12	Nov12	Dec12	FY12	FY13
New home sales	3,341	5,999	6,775	7,749	6,951	9,682	8,964	11,347	7,531	7,945	9,868	11,662	97,814	163,211
Miscellaneous income	2	19	10	11	9	-	6	38	-	21	14	8	138	252
Revenue	**3,343**	**6,018**	**6,785**	**7,760**	**6,960**	**9,682**	**8,970**	**11,385**	**7,531**	**7,966**	**9,882**	**11,670**	**97,952**	**163,463**
Gross margin	**257**	**758**	**773**	**1,074**	**754**	**990**	**747**	**1,206**	**539**	**580**	**1,024**	**1,150**	**9,852**	**20,444**
Gross margin %	***7.7***	***12.6***	***11.4***	***13.8***	***10.8***	***10.2***	***8.3***	***10.6***	***7.2***	***7.3***	***10.4***	***9.9***	***10.1***	***12.5***
Operating expenses	264	276	376	318	334	353	396	470	597	511	528	730	5,153	6,840
Operating income	**(7)**	**482**	**397**	**756**	**420**	**637**	**351**	**736**	**(58)**	**69**	**496**	**420**	**4,699**	**13,604**
Refunds and rebates	-	-	-	-	-	(85)	(8)	-	-	-	-	-	(93)	(50)
Other expense	-	-	-	-	-	-	-	-	-	-	-	-	-	316
Other (income)/expense	-	-	-	-	-	**(85)**	**(8)**	-	-	-	-	-	**(93)**	**266**
Net income	**(7)**	**482**	**397**	**756**	**420**	**722**	**359**	**736**	**(58)**	**69**	**496**	**420**	**4,792**	**13,338**
Profit margin %	***(0.2)***	***8.0***	***5.9***	***9.7***	***6.0***	***7.5***	***4.0***	***6.5***	***(0.8)***	***0.9***	***5.0***	***3.6***	***4.9***	***8.2***
Interest	311	299	302	322	293	333	354	450	451	424	437	446	4,422	129
Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation/Amortization	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EBITDA, as reported	**304**	**781**	**699**	**1,078**	**713**	**1,055**	**713**	**1,186**	**393**	**493**	**933**	**866**	**9,214**	**13,467**

Source: Financial statements provided by Management

Note: These monthly financial statements relate to Peachtree Communities Group, Inc.

The above schedule is included for informational purposes only.

X.I FY13 HISTORICAL MONTHLY INCOME STATEMENTS – [REDACT]

Monthly P&L

$ in 000s	Jan13	Feb13	Mar13	Apr13	May13	Jun13	Jul13	Aug13	Sep13	Oct13	Nov13	Dec13	Rounding	FY12	FY13
New home sales	6,650	6,681	11,675	8,546	12,701	15,087	17,276	17,104	15,409	17,964	15,587	18,531	-	97,814	163,211
Miscellaneous income	40	68	(9)	34	6	13	11	15	11	25	19	19	-	138	252
Revenue	**6,690**	**6,749**	**11,666**	**8,580**	**12,707**	**15,100**	**17,287**	**17,119**	**15,420**	**17,989**	**15,606**	**18,550**	-	**97,952**	**163,463**
Gross margin	**291**	**589**	**1,096**	**2,233**	**2,016**	**1,986**	**1,863**	**2,700**	**1,963**	**1,656**	**1,879**	**2,171**	**1**	**9,852**	**20,444**
Gross margin %	***4.3***	***8.7***	***9.4***	***26.0***	***15.9***	***13.2***	***10.8***	***15.8***	***12.7***	***9.2***	***12.0***	***11.7***		***10.1***	***12.5***
Operating expenses	525	453	618	609	675	478	525	386	494	570	724	779	4	5,153	6,840
Operating income	**(234)**	**136**	**478**	**1,624**	**1,341**	**1,508**	**1,338**	**2,314**	**1,469**	**1,086**	**1,155**	**1,392**	**(3)**	**4,699**	**13,604**
Refunds and rebates	(20)	-	-		(4)	(28)	-	(8)	10	-	-	-	-	(93)	(50)
Other expense	-	-	-	-	-	-	-	-	-	166	94	56	-	-	316
Other (income)/expense	**(20)**	-	-	-	**(4)**	**(28)**	-	**(8)**	**10**	**166**	**94**	**56**	-	**(93)**	**266**
Net income	**(214)**	**136**	**478**	**1,624**	**1,345**	**1,536**	**1,338**	**2,322**	**1,459**	**920**	**1,061**	**1,336**	**(3)**	**4,792**	**13,338**
Profit margin %	***(3.2)***	***2.0***	***4.1***	***18.9***	***10.6***	***10.2***	***7.7***	***13.6***	***9.5***	***5.1***	***6.8***	***7.2***	***#DIV/0!***	***4.9***	***8.2***
Interest	469	455	455	(1,336)	11	12	11	12	12	12	12	4	-	4,422	129
Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation/Amortization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EBITDA, as reported	**255**	**591**	**933**	**288**	**1,356**	**1,548**	**1,349**	**2,334**	**1,471**	**932**	**1,073**	**1,340**	**(3)**	**9,214**	**13,467**

Source: Financial statements provided by Management

Note: These monthly financial statements relate to Peachtree Communities Group, Inc.

The above schedule is included for informational purposes only.

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