**Redacted Example of Sell-Side Preparation Report: Certain Numbers Changed to Maintain Confidentiality**


FARRELL ADVISORY INC.

M&A ▪ RESTRUCTURING ▪ CFO

# PROJECT MAYFAIR

## DRAFT FOR DISCUSSION PURPOSES ONLY

## STRICTLY PRIVATE AND CONFIDENTIAL



January 1st, 2018

# Limits on Report Access and Distribution

- This report ("Report") has been prepared for Client ("Client") pursuant to the terms of engagement letter dated January 1st, 2018 between Farrell Advisory Inc. ("FAI") and Client (together called "Engagement Letter") in relation to evaluating, supporting or negotiating divestments, acquisitions, financing or investments in Client (the "Transaction").
- 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.
- FAI has agreed with Client to allow access to this Report to other professional advisors of Client in connection with the potential Transaction provided that each person or entity obtaining access to this Report agrees to the terms set forth below (and signs a Release Letter):
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**January 1st, 2018**

**Client Address**

**Dear Client:**

**Project Mayfair: Transaction Preparation**

Farrell Advisory Inc. ("FAI") was asked by you to provide corporate finance and strategic advisory services (the "Services") which may include evaluating, supporting or negotiating divestments, acquisitions, financing or investments in Client ("Company" or the "Client", together called the "Transaction"). The Services, as further described in the engagement letter between FAI and Client date January 1st, 2018 ("Engagement Letter") and as set out at Appendix X.A. Scope of Corporate Finance and Strategic Advisory Services, are being provided in phases.

**Statement of Limitation**

Information with respect to Client's operations, account balances and accounting and operating procedures purported to be in effect and described in FAI's report ("Report") was obtained through analyses and information provided by Client's management ("Management") and discussions with Management.

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 Client or any financial or other information, or operating, procedures and internal controls of the Company.

With respect to prospective accounting, business, and industry information relative to Client 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.

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 and the shareholders 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 a potential 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 a 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.

### Valuation Disclosure

FAI's articulated or written views of possible valuation or ranges of valuation shall in no way represent a formal valuation that is normally performed, and shall not be used for any promotional, legal, tax, wealth management or contractual purposes. The valuation range should be used for discussion purposes only and any valuation analysis produced will be considered the Client's work product.

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 Redacted Report - Example***

**Farrell Advisory Inc.**

**The contact at Farrell Advisory Inc. associated with this Report is:**

**David Farrell**
**President**
**Tel: 202.525.2055**
**David@FarrellAdvisory.com**

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# Abbreviations and Definitions (1 of 2)

| ABBREVIATIONS | DEFINITIONS |
|---|---|
| Adjusted or Pro Forma EBITDA or EBITDA, As Adjusted | EBITDA after Management's and FAI's adjustments |
| Adjusted or Pro Forma NWC or ANWC | Net working capital after Management's and FAI's adjustments |
| AP | Accounts payable |
| AR | Accounts receivable |
| BD | Business development |
| BDM | Business Development Manager, name |
| BS | Balance sheet |
| CFO | Chief Financial Officer, name |
| Client or Company | [Name] |
| Contribution | Gross profit less leasing costs |
| CTO | Chief Technology Officer, name |
| CM | Contracts Manager, name |
| Company B | [Name] |
| CBPM | Company B Project Manager, name |
| DPO | Days accounts payable outstanding |
| DOH | Days on hand for inventory |
| DSO | Days sales outstanding |

| ABBREVIATIONS | DEFINITIONS |
|---|---|
| EA | Oracle, The Company's ERP system |
| EBIT | Earnings before interest and taxes |
| EBITDA | Earnings before interest, taxes, depreciation and amortization |
| Engagement Letter | Engagement letter dated January 1st, 2018 |
| FSR | Federal Sales Rep, name |
| FM | Financial Manager/HR, name |
| FAI | Farrell Advisory Inc. |
| FPDS | Federal Procurement Data System |
| Free Cash Flow | EBITDA less (1) Capex and repayments for funding of equipment; and (2) increase/(decrease) in NWC |
| FTE | Full time employees |
| GPO | Group Purchasing Organization |
| GSA | General Services Administration |
| GSA 36 | GSA Schedule 36 "The Office, Imaging & Document Solution" Schedule |
| GSA 70 | GSA Schedule 70 "IT" Schedule |
| Company E | [Name] |
| ITA | International Trade Administration |

# I. DEFINITION OF TERMS

## Abbreviations and Definitions (2 of 2)

| ABBREVIATIONS | DEFINITIONS |
|---|---|
| KPI | Key Performance Indicator |
| LEO | Large Enterprise Organization, Company D |
| Management | President, CFO, BDM, FM, CBPM, SM,CM, CTO, FSR |
| NAICS | North American Industry Classification System |
| NARS | LEO North American Resellers |
| NWC | Net working capital |
| OASIS | GSA One Acquisition Solution for Integrated Services |
| Company F | A joint venture between Client and Company C |
| PPA | Page Pack Contracts |
| President | President, name |
| SDE | Seller’s discretionary earnings |
| Segment | Revenue streams of the Company which includes Lease, Maintenance, Total Solution, Installation, Product Sales, Service and Part/ Sundry sales. |
| Senior Management | President, CFO and Finance Manager |
| SEWP | Solutions for Enterprise Wide Procurement |
| Shareholders | President and CFO |

| ABBREVIATIONS | DEFINITIONS |
|---|---|
| SIN | Special item number within each Schedule |
| SM | Service Manager, name |
| WOSB | Woman Owned program |
| YOY | Year over year |
| Company D | [Name] |

# II. BACKGROUND

### Background and Operations

- Client is a 27 year-old Small Business under the SBA category Woman Owned program (“WOSB”). Client has been serving the federal government for the last 27 years under the President and founder. President brought extensive technical and customer service experience.
- Client offers [redact]. Contractual service response times ranges from 2 to 4 to 8 hours.
- Contracts have potential multiple year terms if options are exercised and the top two agency customers represent almost 50% of revenue. Client operates in approximately 35 to 40 states within the US and approximately 62% of revenue is derived from the DC Metro area and Client is owned by President (51%) and Chief Financial Officer (49%).

### Financial Results

- Revenue from 2014 to 2017 grew at a compound growth rate of 30.0% and reached $1.23 billion in 2017. Adjusted earnings before interest and taxes ("EBIT") has been inconsistent over the 2014 to 2017 period and averaged $135 million with 2017 adjusted EBIT of $178 million.
- The Company incurs relatively high capital expenditure costs to adjusted earnings before interest, taxes, depreciation and amortization (“EBITDA”) ratio that was 1.0 in 2016 but decreased to 0.4 in 2017.
- Seller's discretionary earnings ("SDE"), defined as EBITDA plus one owner's compensation, is another important market measure of earnings for small businesses in the owner/operator market, and Client averaged $205 million of SDE over this period and the most recent period (2017) indicated SDE of $274 million. Management does not prepare budgets/projections.

# Financials – Income Statement – As Reported

| Client<br>$'m | 2014<br>(a) | | 2015<br>(a) | | 2016<br>(a) | | 2017<br>(b) | | 4-Year Average | | CAGR |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | **560** | **100.00%** | **770** | **100.00%** | **1020** | **100.00%** | **1230** | **100.00%** | 895 | 100.00% | 29.99% |
| Growth | n/a | | 0 | | 0 | | 0 | | | | |
| **Cost of revenues** | | | | | | | | | | | |
| Direct costs | (320) | -57.1% | (325) | -42.2% | (550) | -53.9% | (600) | -48.8% | (449) | 50.1% | 23.3% |
| Overhead costs | (72) | -12.9% | (170) | -22.1% | (210) | -20.6% | (230) | -18.7% | (171) | 19.1% | 47.3% |
| Cost of revenues | (392) | -70.0% | (495) | -64.3% | (760) | -74.5% | (830) | -67.5% | (619) | 69.2% | 28.4% |
| **Gross profit** | **168** | **30.0%** | **275** | **35.7%** | **260** | **25.5%** | **400** | **32.5%** | **276** | 30.8% | **33.5%** |
| Growth | n/a | | 1 | | (0) | | 1 | | | | |
| **Operating expenses** | | | | | | | | | | | |
| Selling | (16) | -2.9% | (80) | -10.4% | (90) | -8.8% | | 0.0% | (62) | 6.9% | -100.0% |
| General and administrative | (84) | -15.0% | (120) | -15.6% | (150) | -14.7% | (270) | -22.0% | (156) | 17.4% | 47.6% |
| Total operating expenses | (100) | -17.9% | (200) | -26.0% | (240) | -23.5% | (270) | -22.0% | (218) | 24.4% | 39.2% |
| Growth | n/a | | 1 | | 0 | | 0 | | | | |
| **Income (Loss) from operations** | **68** | **12.1%** | **75** | **9.7%** | **20** | **2.0%** | **130** | **10.6%** | **73** | 8.2% | **24.1%** |
| Growth | n/a | | 0 | | (1) | | 6 | | | | |
| **Other income/(expense)** | | | | | | | | | | | |
| Interest (expense) | (3) | -0.5% | (7) | -0.9% | (9) | -0.9% | (10) | -0.8% | (7) | 0.8% | 49.4% |
| Other income/(expense) (c) | 1 | 0.2% | 2 | 0.3% | 3 | 0.3% | 2 | 0.2% | 2 | 0.2% | 26.0% |
| Total other income/(expense) | (2) | -0.4% | (5) | -0.6% | (6) | -0.6% | (8) | -0.7% | (5) | 0.6% | 58.7% |
| **Pre-tax income** | **66** | **11.8%** | **70** | **9.1%** | **14** | **1.4%** | **122** | **9.9%** | **68** | 7.6% | **22.7%** |
| Income Tax Expense (Benefit) | (1) | -0.2% | (2) | -0.3% | (1) | -0.1% | 0 | 0.0% | (1) | 0.1% | -100.0% |
| **Net Income** | **65** | **11.6%** | **68** | **8.8%** | **13** | **1.3%** | **122** | **9.9%** | **67** | 7.5% | **23.4%** |
| Growth | n/a | | 5% | | -81% | | 838% | | | | |
| Dividends/Distributions | 60 | 10.7% | 55 | 7.1% | 60 | 5.9% | 0 | 0.0% | 44 | 4.9% | -100.0% |
| Capital expenditures | 80 | 14.3% | 100 | 13.0% | 90 | 8.8% | 70 | 5.7% | 85 | 9.5% | -4.4% |
| Capex/Adjusted EBITDA | 67% | | 51% | | 54% | | 28% | | 47% | | |
| Depreciation and amortization | 40 | 7.1% | 30 | 3.9% | 50 | 4.9% | 71 | 5.8% | 48 | 5.3% | 21.1% |
| Capex/Depreciation | 200% | | 333% | | 180% | | 99% | | 178% | | |
| Owner's compensation base | 10 | 1.8% | 28 | 3.6% | 26 | 2.5% | 26 | 2.1% | 23 | 2.5% | 37.5% |

Footnotes:
(a) Source: Reviewed financial statements
(b) Source: Preliminary internal financial statements
(c) Includes principally rebates and some interest income from related party notes (approx. $6k per annum).

# Financials – Income Statement – As Adjusted

| Client | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| $'m | 2014 | | 2015 | | 2016 | | 2017 | | 4-Year Average | | |
| | (a) | | (a) | | (a) | | (b) | | | | CAGR |
| **Net Income** | **65** | **11.6%** | **68** | **8.8%** | **13** | **1.3%** | **122** | **9.9%** | **67** | **54.30%** | **23.4%** |
| **Adjustments** | | 0.0% | | | | | | | | | |
| Less: Interest income | - | 0.0% | (2) | -0.30% | (2) | -0.23% | (2) | -0.19% | (2) | 0.2% | n/a |
| Add: Personal education expenses | - | 0.0% | 0 | 0.00% | 7 | 0.69% | 8 | 0.65% | 4 | 0.4% | n/a |
| Add: Related party lease in excess of market | 10 | 1.8% | 10 | 1.30% | 10 | 0.98% | 10 | 0.81% | 10 | 1.1% | 0.0% |
| Add: Cash Balance retirement plan expense | 0 | 0.0% | 80 | 10.39% | 80 | 7.84% | 30 | 2.44% | 48 | 5.3% | n/a |
| **Total adjustments** | **10** | **1.8%** | **88** | **11.4%** | **95** | **9.3%** | **45.7** | **3.7%** | **60** | **6.7%** | **65.9%** |
| Growth | n/a | | n/a | | n/a | | n/a | | n/a | | |
| Plus: Interest expense | 3 | 0.5% | 7 | 0.9% | 9 | 0.9% | 10 | 0.8% | 7 | 0.8% | 49.4% |
| Plus: Taxes | 1 | 0.2% | 2 | 0.3% | 1 | 0.1% | - | 0.0% | 1 | 0.1% | -100.0% |
| **Adjusted EBIT** | **79** | **14.1%** | **165** | **21.4%** | **118** | **11.5%** | **178** | **14.4%** | **135** | **15.1%** | **31.0%** |
| Growth | n/a | | n/a | | n/a | | n/a | | n/a | | |
| Plus: Depreciation and amortization | 40 | 7.1% | 30 | 3.9% | 50 | 4.9% | 71 | 5.8% | **48** | 5.3% | **21.1%** |
| **Adjusted EBITDA** | **119** | **21.3%** | **195** | **0** | **168** | **16.4%** | **249** | **20.2%** | **183** | **20.4%** | **27.9%** |
| Growth | n/a | | n/a | | n/a | | | | n/a | | |
| Plus: Owner's compensation and benefits | 10 | 1.8% | 28 | 0 | 26 | 2.5% | 26 | 2.1% | 23 | 2.5% | 37.5% |
| **Seller's Discretionary Earnings** | **129** | **23.0%** | **223** | **28.9%** | **193.70** | **19.0%** | **274.70** | **22.3%** | **205** | **22.9%** | **28.7%** |
| Growth | n/a | | 73% | | -13% | | 42% | | | | |

**Footnotes:**

(a) Source: Reviewed financial statements

(b) Source: Preliminary internal financial statements

# II. BACKGROUND

## Financials – Balance Sheet – As Reported

| Client<br>$'000 | | 12/31/2014<br>(a) | | 12/31/2015<br>(a) | | 12/31/2016<br>(a) | | 12/31/2017<br>(b) | | 4-Year Average | | CAGR |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | | | |
| **Current assets** | | | | | | | | | | | | |
| Cash and cash equivalents | | 1,031 | 25.6% | 1,399 | 22.6% | 1,103 | 17.6% | 1,473 | 17.5% | 1,252 | 20.1% | **12.6%** |
| Accounts receivable | | 1,129 | 28.1% | 1,223 | 19.7% | 1,076 | 17.2% | 2,639 | 31.3% | 1,517 | 24.3% | **32.7%** |
| Inventory | | 262 | 6.5% | 445 | 7.2% | 379 | 6.0% | 432 | 5.1% | 379 | 6.1% | **18.1%** |
| Prepaids and other current assets | | 41 | 1.0% | 6 | 0.1% | 10 | 0.2% | 12 | 0.1% | 17 | 0.3% | **-33.4%** |
| **Total current assets** | | **2,462** | **61.2%** | **3,073** | **49.5%** | **2,569** | **41.0%** | **4,555** | **54.1%** | **3,165** | **50.8%** | **22.8%** |
| **Property and equipment, at cost** | | | | | | | | | | | | |
| Furniture, equipment, vehicles & software | | 259 | 6.4% | 271 | 4.4% | 302 | 4.8% | 283 | 3.4% | 279 | 4.5% | **2.9%** |
| Rental Assets | | 2,501 | 62.2% | 3,758 | 60.6% | 5,221 | 83.3% | 6,356 | 75.4% | 4,459 | 71.6% | **36.5%** |
| Less: accumulated depreciation and amortization | | (1,199) | -29.8% | (1,511) | -24.4% | (2,401) | -38.3% | (3,448) | -40.9% | (2,140) | -34.3% | **42.2%** |
| **Total property and equipment, net** | | **1,562** | **38.8%** | **2,518** | **40.6%** | **3,122** | **49.8%** | **3,190** | **37.9%** | **2,598** | **41.7%** | **26.89%** |
| **Other assets** | | | | | | | | | | | | |
| Notes receivable | (c) | - | 0.0% | 600 | 9.7% | 568 | 9.1% | 669 | 7.9% | 459 | 7.4% | 0 |
| Investment in Company D | | - | 0.0% | 12 | 0.2% | 12 | 0.2% | 12 | 0.1% | 9 | 0.1% | 0 |
| **Total other assets** | | **-** | **0.0%** | **612** | **9.9%** | **580** | **9.2%** | **681** | **8.1%** | **468** | **7.5%** | **0.00%** |
| **Total assets** | | **4,024** | **100.0%** | **6,203** | **100.0%** | **6,270** | **100.0%** | **8,426** | **100.0%** | **6,231** | **100.0%** | **27.94%** |
| **Liabilities** | | | | | | | | | | | | |
| **Current liabilities** | | | | | | | | | | | | |
| Accounts payable and accrued expense | | (908) | 34.7% | (1,087) | 27.6% | (1,235) | 26.2% | (2,259) | 36.6% | (1,372) | 31.5% | 35.49% |
| Accrued payroll expenses | | - | 0.0% | (395) | 10.0% | (404) | 8.6% | (508) | 8.2% | (327) | 7.5% | 0 |
| Notes payable and line of credit | | (463) | 17.7% | (661) | 16.8% | (921) | 19.5% | (200) | 3.2% | (561) | 12.9% | -24.41% |
| Deferred revenue, current portion | | (202) | 7.7% | (178) | 4.5% | (174) | 3.7% | (79) | 1.3% | (158) | 3.6% | -26.83% |
| Corporate income tax payable | | - | 0.0% | (19) | 0.5% | (4) | 0.1% | (37) | 0.6% | (15) | 0.3% | 0 |
| **Total current liabilities** | | **(1,573)** | **60.2%** | **(2,341)** | **59.3%** | **(2,737)** | **58.1%** | **(3,083)** | **50.0%** | **(2,433)** | **55.8%** | **25.15%** |
| **Long-term liabilities** | | | | | | | | | | | | |
| Notes payable | | (1,041) | 39.8% | (1,589) | 40.3% | (1,947) | 41.3% | (3,055) | 49.5% | (1,908) | 43.8% | 43.19% |
| Deferred tax liability | | - | 0.0% | (15) | 0.4% | (28) | 0.6% | (28) | 0.5% | (18) | 0.4% | |
| **Total long-term liabilities** | | **(1,041)** | **39.8%** | **(1,605)** | **40.7%** | **(1,975)** | **41.9%** | **(3,083)** | **50.0%** | **(1,926)** | **44.2%** | **43.63%** |
| **Total liabilities** | | **(2,613)** | **100.0%** | **(3,945)** | **100.0%** | **(4,712)** | **100.0%** | **(6,166)** | **100.0%** | **(4,359)** | **100.0%** | **33.13%** |
| **Net Assets/ Equity** | | **1,410** | **100.0%** | **2,257** | **100.0%** | **1,559** | **100.0%** | **2,260** | **100.0%** | **1,872** | **100.0%** | **17.02%** |

**Footnotes:**

(a) Source: Reviewed financial statements

(b) Source: Preliminary internal financial statements

(c) Notes receivable from related party, secured by real estate leased by the Company, term of 60 months, bearing interest at 1.68%

# Financials – Balance Sheet – As Adjusted

| Client<br>$'000 | 12/31/2014 | | 12/31/2015 | | 12/31/2016 | | 12/31/2017 | | 4-Year Average | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | (a) | | (a) | | (a) | | (b) | | | | CAGR |
| **Net Cash/(Debt)** | | | | | | | | | | | |
| Cash and cash equivalents | 1,031 | 73.1% | 1,399 | 62.0% | 1,103 | 70.8% | 1,473 | 65.2% | 1,252 | 66.9% | 12.64% |
| Notes Receivable | - | 0.0% | 600 | 26.6% | 568 | 36.4% | 669 | 29.6% | 459 | 24.5% | 0.00% |
| Cash and Notes Receivable | 1,031 | 73.1% | 1,999 | 88.6% | 1,671 | 107.2% | 2,142 | 94.7% | 1,711 | 91.4% | 27.61% |
| Debt | | | | | | | | | | | |
| Notes payable and line of credit | (463) | -32.8% | (661) | -29.3% | (921) | -59.1% | (200) | -8.8% | (561) | -30.0% | -24.41% |
| Notes payable | (1,041) | -73.8% | (1,589) | -70.4% | (1,947) | -124.9% | (3,055) | -135.1% | (1,908) | -101.9% | 43.19% |
| Total debt | (1,504) | -106.6% | (2,250) | -99.7% | (2,868) | -184.0% | (3,255) | -144.0% | (2,469) | -131.9% | 29.36% |
| **Total Net Cash/(Debt)** | **(473)** | **-33.5%** | **(251)** | **-11.1%** | **(1,196)** | **-76.7%** | **(1,113)** | **-49.2%** | **(758)** | **-40.5%** | **33.02%** |
| **Net Working Capital** | | | | | | | | | | | |
| **Current Assets** | | | | | | | | | | | |
| Accounts receivable | 1,129 | 80.0% | 1,223 | 54.2% | 1,076 | 69.1% | 2,639 | 116.7% | 1,517 | 81.0% | 32.71% |
| Inventory | 262 | 18.6% | 445 | 19.7% | 379 | 24.3% | 432 | 19.1% | 379 | 20.3% | 18.13% |
| Prepaids and other current assets | 41 | 2.9% | 6 | 0.2% | 10 | 0.6% | 12 | 0.5% | 17 | 0.9% | -33.38% |
| Total Current Assets | 1,431 | 101.5% | 1,674 | 74.1% | 1,465 | 94.0% | 3,083 | 136.4% | 1,913 | 102.2% | 29.14% |
| **Current Assets** | | | | | | | | | | | |
| Accounts payable and accrued expense | (908) | -64.4% | (1,087) | -48.2% | (1,235) | -79.2% | (2,259) | -99.9% | (1,372) | -73.3% | 35.49% |
| Accrued payroll expenses | - | 0.0% | (395) | -17.5% | (404) | -25.9% | (508) | -22.5% | (327) | -17.5% | 0.00% |
| Deferred revenue, current portion | (202) | -14.3% | (178) | -7.9% | (174) | -11.2% | (79) | -3.5% | (158) | -8.4% | -26.83% |
| Total Current Liabilities | (1,110) | -78.7% | (1,660) | -73.5% | (1,812) | -116.3% | (2,846) | -125.9% | (1,857) | -99.2% | 36.87% |
| **Total Net Working Capital** | **322** | **22.8%** | **13** | **0.6%** | **(347)** | **-22.3%** | **237** | **10.5%** | **56** | **3.0%** | **-9.70%** |
| Total property and equipment, net | 1,562 | 110.7% | 2,518 | 111.5% | 3,122 | 200.3% | 3,190 | 141.1% | 2,598 | 138.8% | 26.89% |
| Investment in Company D | - | 0.0% | 12 | 0.5% | 12 | 0.8% | 12 | 0.5% | 9 | 0.5% | 0.00% |
| Corporate income tax payable | - | 0.0% | (19) | -0.9% | (4) | -0.2% | (37) | -1.6% | (15) | -0.8% | 0.00% |
| Deferred tax liability | - | 0.0% | (15) | -0.7% | (28) | -1.8% | (28) | -1.2% | (18) | -1.0% | 0.00% |
| **Net Assets** | **1,410** | **100.0%** | **2,257** | **100.00%** | **1,559** | **100.0%** | **2,260** | **100.00%** | **1,872** | **100.0%** | **17.02%** |
| | 0 | | 0 | | 0 | | 0 | | 0 | | |
| **Working Capital Metrics (based on revenue)** | | | | | | | | | | | |
| DSO | 53.6 | | 48.8 | | 39.4 | | 75.2 | | 55.9 | | 12.0% |
| DIO | 12.4 | | 17.8 | | 13.9 | | 12.3 | | 14.0 | | -0.3% |
| DSOO | 1.9 | | 0.2 | | 0.4 | | 0.3 | | 0.6 | | -43.8% |
| **Current Assets** | **67.9** | | **66.8** | | **53.6** | | **87.8** | | **70.5** | | **8.9%** |
| DPO | (43.1) | | (43.4) | | (45.2) | | (64.4) | | (50.6) | | 14.3% |
| DPOO | - | | (15.8) | | (14.8) | | (14.5) | | (12.0) | | 0.0% |
| Deferred Revenue | (9.6) | | (7.1) | | (6.4) | | (2.3) | | (5.8) | | -38.3% |
| **Current Liabilities** | **(52.6)** | | **(66.2)** | | **(66.3)** | | **(81.1)** | | **(68.4)** | | **15.5%** |
| Net Working Capital | 15.3 | | 0.5 | | (12.7) | | 6.7 | | 2.1 | | -23.8% |

**Footnotes:**

(a) Source: Reviewed financial statements

(b) Source: Preliminary internal financial statements

(c) Notes receivable from related party, secured by real estate leased by the Company, term of 60 months, bearing interest at 1.68%

# Financials – Balance Sheet – Aging A/R and A/P

| Working Capital Aging<br>$'000 | Total | Current | 1 to 30 | 31 to 60 | 61 to 90 | Over 90 | Total | Current | 1 to 30 | 31 to 60 | 61 to 90 | Over 90 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | $ | | | | | | $ | | | | | |
| **Accounts Receivable** | | | | | | | | | | | | |
| December 31, 2017 | 2,565 | 1,321 | 566 | 282 | 64 | 331 | 100% | 52% | 22% | 11% | 2% | 13% |
| January 31, 2018 | 2,182 | 928 | 719 | 148 | 195 | 192 | 100% | 43% | 33% | 7% | 9% | 9% |
| February 28, 2018 | 2,429 | 1,295 | 457 | 282 | 151 | 244 | 100% | 53% | 19% | 12% | 6% | 10% |
| March 31, 2018 | 1,686 | 907 | 395 | 54 | 110 | 221 | 100% | 54% | 23% | 3% | 7% | 13% |
| **Accounts Payable** | | | | | | | | | | | | |
| December 31, 2017 | 2,358 | 710 | 650 | 245 | 498 | 254 | 100% | 30% | 28% | 10% | 21% | 11% |
| January 31, 2018 | 2,502 | 869 | 277 | 514 | 402 | 441 | 100% | 35% | 11% | 21% | 16% | 18% |
| February 28, 2018 | 1,980 | 518 | 501 | 384 | 280 | 297 | 100% | 26% | 25% | 19% | 14% | 15% |
| March 31, 2018 | 1,273 | 501 | 328 | 204 | 29 | 211 | 100% | 39% | 26% | 16% | 2% | 17% |

### Aging of Accounts Receivable and Accounts Payable

- There are significant number of aged and over due accounts receivable balances.

# Market, Real Estate, Tax, Pension and JV

### Market Analysis

- Client competes [redact]. Client's profit margins and return on assets and equity compare favorably to the industry. The overall industry, however, is expected to have long-term negative growth rates of approximately one percent a year because of the continued shift toward technology based paperless/digital alternatives and due to environmental concerns.
- The high concentration in a declining industry, customer concentration, inconsistent earnings, and set aside contracts are considered risk factors in the valuation and marketability of the company.

### Real Estate

- In November 2006, a related party, Company E ("Company E") purchased the property which is occupied by Client. The real property financed through the lease facility has a carrying amount of $839k, with related debt of $329k as of December 31, 2016. The results of Company E and Client are not consolidated.
- The lease agreement is renewed from year to year with a rent charge of $118k in 2016.

### Tax

- Client is an S-Corp. However, various states, including the DC, Georgia and North Carolina does not recognize Subchapter S status, requires a tax on non-resident corporations; consequently, tax liabilities may be incurred and reported on profits resulting from operations apportioned to these states.

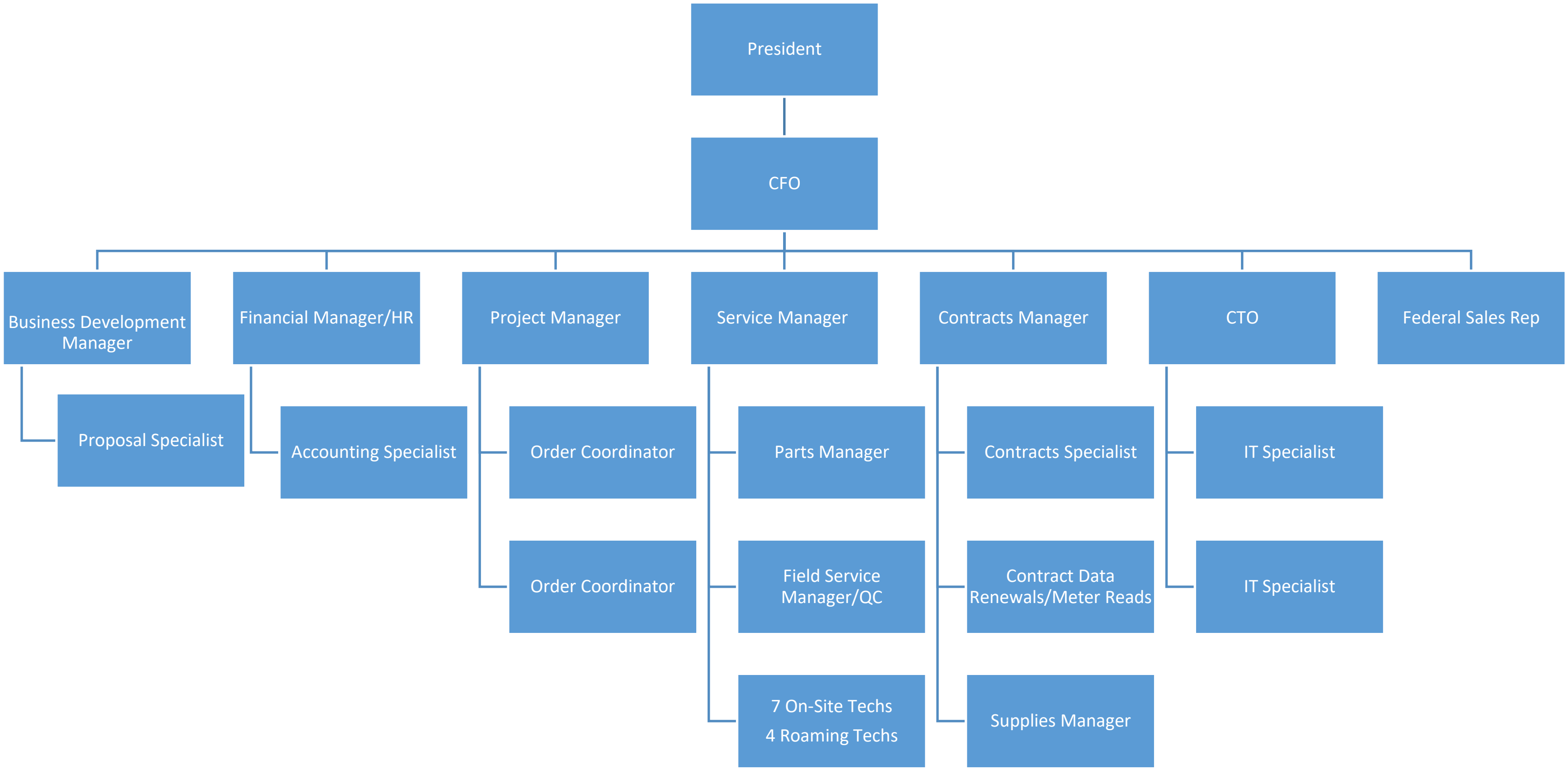
### Pension

- Client adopted a cash balance defined benefit plan, a profit sharing defined contribution plan and a 401k defined contribution plan during 2015.

### Company C

- Client entered into a joint venture with Company C in August 2010. The two parties formed Company F, a general partnership, to perform copier maintenance on government contracts. The joint venture is accounted for using the equity method and Client has a 49% interest.

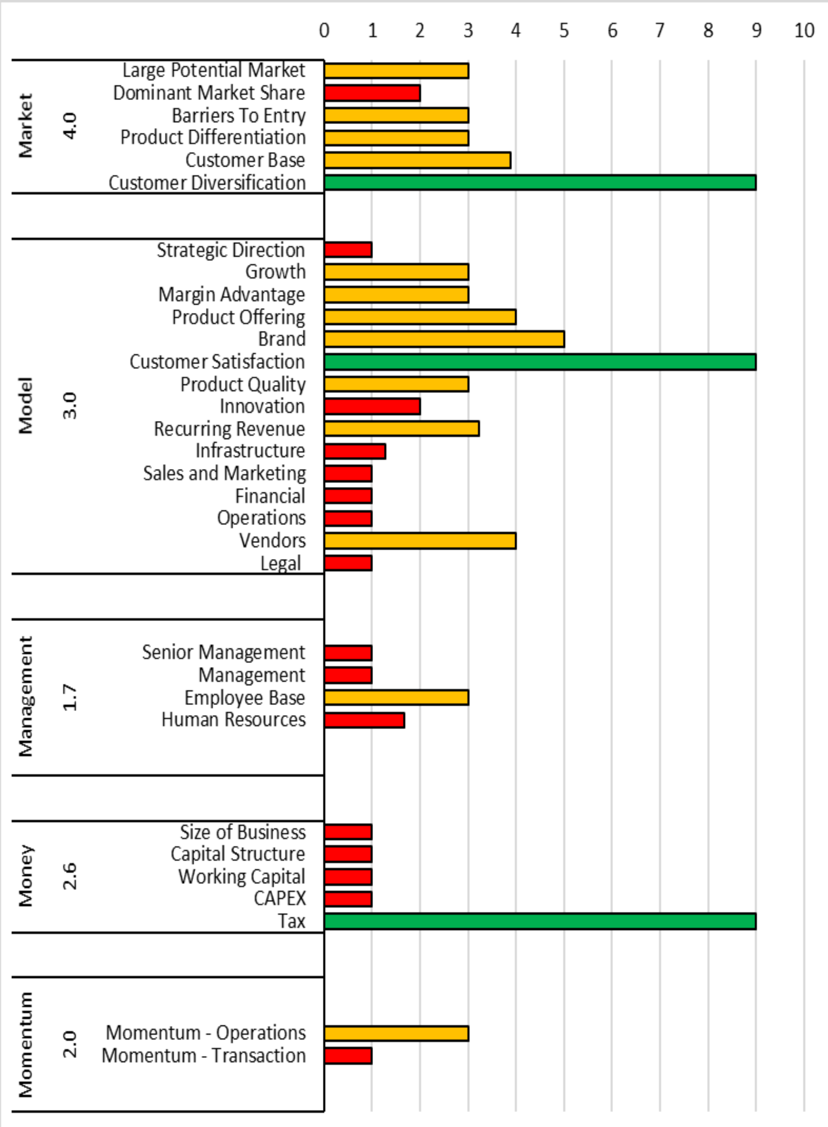
# Organization Chart




**Organization: 85 FTEs (Office: 50; Techs: 25) excluding one open position (BDM)**

# III. EXECUTIVE SUMMARY

# Key Value Drivers – Assessment for Readiness to Sale and Valuation




**The 5 Main Value Drivers (The 5 "Ms") of the Company are categorized and scored as follows:**

1. Market: Average Score = 4.0
2. Model: Average Score = 3.0
3. Management: Average Score = 1.7
4. Money: Average Score = 2.6
5. Momentum: Average Score = 2.0

**Overall Average Score = 2.8**

**The scoring of the 5 Main Value Drivers are based on analysis of the 32 Key Value Drivers** (see IX.B Key Value Drivers for further details) which are scored using a high differentiating system as follows:

- Does not meet expectations: 0
- Weak: 1
- Medium: 3
- Strong: 9

The above scores is used to evaluate the readiness of the Company for sale and opportunities were management can increase valuation and improve business performance.

# Readiness for Sale

**The Company is not ready for sale and needs at least 18 to 24 months preparation before the Company should go to market.**

**Key reasons why Company is not ready to go to market:**

- Relationships:
  - Over reliant on one OEM for providing equipment and service support.
  - Reliant on CEO and CFO relationships with key OEM and major customers.
- Poor operational and financial reporting
  - Unknown pipeline and backlog.
  - Management does not know the mix of full and open and set-aside business.
  - Weak financial reporting and controls and non-audited results.
  - Lack of projections.
  - Inability to report on quality/delivery of service in a timely manner.
- Management:
  - Capacity, structure and expertise issues and lack of branding.
  - Key management wishes to depart on sale; middle management not of sufficient quality
  - Weak sales management.
  - Poor delivery of service with OEM to deliver on time to major customer.
- Capital intensive business (including significant debt and poor working capital management) which impacts free cash flow.
- Early stage of APP development.

**Significant risk that Company could not sell at technical valuation due to size of company and customer (contract) and vendor concentration.**

# Current Factors Contributing To A Higher Valuation

- Established business.
- Good margins.
- Desirable and sticky customer base.
- Clients consider the Company to be effective.
- Won Company B contract.
- Huge potential for new business (albeit market size is presently unknown).
- Have won full and open contracts.
- More than one account.
- Some promising solution (app) offerings and potential ability to pre-install on new equipment.
- Loyal and tenured workforce.
- Systems which could be improved and make the Company scalable.

# Current Challenges To Maximizing Valuation

- Relationships:
  - Over reliant on Company D especially with Full Solution support and need to improve performance of Company D on Company B contract.
  - Company D likes to bid directly for large full and open contracts.
  - Reliant on CEO and CFO relationships with Company D and major customers.
  - Poor delivery of service with OEM to deliver on time to major customer.
- Contracts:
  - Company B is a pass-through contract.
  - Unknown mixture of contracts (Set-Aside, Prime and Full and Open contracts).
  - Unknown potential to grow out of NAISC Code revenue and employee cap.
- Poor operational and financial reporting ("If you do not measure, you can not improve."):
  - Unknown pipeline and backlog.
  - Weak financial reporting and controls and non-audited results.
  - Manual processes and over reliance of Excel spreadsheets rather than ERP system generated ("EA")) reports for pricing, purchase ordering and tracking service and installation issues (e.g., Company B/Company D).
  - Inability to report on quality/delivery of service in a timely manner.
- Management:
  - Capacity, structure and expertise issues and lack of branding.
  - Lack of targets and incentives.
- Capital intensive business (including significant debt and poor working capital management) which impacts free cash flow.
- Declining market (albeit ability to win market share).
- Not big enough company to command premium pricing.
- Potentially limited buyer market.

# Enhancements That Can Increase Valuation

- Increase the recurring earnings base (operations) of the Company.
  - Increase sales and pipeline:
    - Enhance deal shaping and capture processes.
    - Add 2 to 3 large full-and-open contracts.
    - Add 2 or more new accounts.
    - Position for re-compete wins.
    - Understand mix of contract base.
  - Management:
    - Make some organizational changes.
    - Enhance talent management.
    - Improve working capital management.
  - Address infrastructure and reporting capacity:
    - Introduce one key metric for management to focus on to improve operational performance
    - Address financial and budgetary matters so that Management can make better decisions.
    - Address system database and reporting matters.
    - Add back office staff, particularly in Finance and BD.
  - Development new vendor (stronger) relationships.
  - Partner with leasing companies who will provide leasing solutions directly to customers (reduce financing facilities) while Client still provides maintenance support and receives commission for sale (need to understand profitability considerations).
  - Consider accelerating develop of Apps (software solutions) for [redact] and pre-install on Company C equipment.
- Quality of Service
  - Monitor, communicate and increase quality of delivery of equipment.
  - Introduce client satisfaction scoring system.
- Corporate Growth:
  - Make an acquisition.
  - Consider a partial sale/investment which brings in additional skills and/or resources.

# IV. DISCUSSION ON VALUATIONS

# Valuation – Standard Methodology

- **Valuation Methods of Enterprise Value (Cash Free Debt Free Basis)**
  - Comparable public company valuations.
  - Comparable acquisition transactions.
  - Discounted Cash Flow Value (Capitalized of Earnings Model).
  - Seller's Discretionary Earnings (looking at private expenses).
  - Before a formal valuation can be performed an assessment of contract mix, a quality of earnings and a detailed budget will need to be prepared, at a minimum.
  - Valuation will also depend on market and transaction structure (including tax issues i.e., stock vs. asset sale).
  - The Enterprise Cash Free Debt Free valuation is typically what you will be quoted.

- **Fair Market Value** (Gross Proceeds That You Will Receive excluding (i) Expenses (e.g., attorney, Investment Bank), (ii) Distributions to Other Shareholders (e.g., Option Holders); and (iii) federal and state taxes (e.g., capital gains, earned income)).
  - **Enterprise Value or Strategic Valuation**
  - **Less**
    - Debt and debt-like instruments (i.e., Seller needs to work on reducing debt levels to maximize value)
  - **Add**
    - Cash
    - Excess assets (e.g., property)
  - **(Less)/Add** (Deficit)/Excess net working capital (i.e., reducing working capital is beneficial)

**= Fair Market Value**

## Valuation – Phase I – Client and Structural Issues

### Valuation Overview

- The valuation is intended to estimate a range of fair market values for the total stockholder's equity of Client and is to be treated as a Client internal work product. Fair market value is defined as the price that would be obtained between a hypothetical willing buyer and willing seller, both having reasonable knowledge of relevant facts and circumstances. It is not uncommon for transactions involving small business service firms like Client to include a portion of the purchase price (value) that is paid over time (deferred payments and/or seller notes), contingent payout based on future performance, or include rollover equity (i.e., the seller takes a portion of the value as equity in the buyer or merged company).
  - A non-cash portion of the purchase price is considered probable because the strategic and financial buyers with the ability to do principally cash purchases may not be willing to invest the time, cost and energy in a transaction process for a small business with the attributes of Client. While a "nominal" description of price/valuation may count deferred, contingent, and equity consideration dollar for dollar, fair market value represents the cash equivalent value at closing.
  - Additionally, the value and marketability of the business is significantly reduced by the set aside contracts. A complete analysis of the value/reduction in value because offset aside contracts requires further analysis. The valuation assumes that 50% of to Client's contracts and revenue are set aside contracts. A significant discount has been estimated related to the set-aside business, but this may not completely reflect the reduction in value and marketability that results from the likely substantial reduction in number of willing buyers, and from the limited capital resources of the remaining willing buyers.

### Structure

- A potential acquisition would likely be structured as a stock sale because of the difficultly and cost of novating government contracts and because there would be additional complexity in assigning/novating each individual asset and related liability in an asset sale. Client is structured as an S corporation and it is likely that both Client and a buyer would benefit by structuring a potential transaction as a Section 338(h)10 election, which is a stock sale from a legal perspective, but an asset sale for tax purposes.
  - For tax purposes in a 338(h)10 transaction, the buyer would receive a benefit from a tax step-up in the basis of assets including intangible assets and the estimated value of the step-up to a buyer should increase the purchase price and has been considered in the valuation. Client's stockholder would have ordinary income related to the sale of receivables and recapture of depreciation, and capital gain related to the sale of intangible assets and goodwill.

### Company B Contract

- It is considered unlikely that a separate transaction for the Company B Contract rights, which appears to represent approximately 28% of 2017 revenue (based on the waterfall), will result in a transferable value because of the small size, novation issues, pass-through nature of the contract, and possibly set-aside issues.

# Valuation – Phase I – Client Methodologies and Ranges

| Company C<br>Valuation<br>$'000<br>Method | | RANGE OF VALUE INDICATIONS<br>LOW | Medium | High | |
|---|---|---|---|---|---|
| Capitalization of Earnings Method | | 9,054 | 9,821 | 10,638 | |
| Guideline Company Method | | 8,932 | 9,808 | 10,684 | |
| Comparative Transactions Method | | 8,932 | 9,808 | 10,684 | |
| Seller's Discretionary Earnings | | 6,096 | 6,688 | 7,281 | |
| **Average** | | **8,300** | **9,000** | **9,800** | |
| Preliminary Adjustment For Set Aside | | (2,100) | (2,300) | (2,500) | |
| **Enterprise Value** | | **6,200** | **6,700** | **7,300** | |
| Cash | | 2,142 | 2,142 | 2,142 | |
| Debt | | (3,255) | (3,255) | (3,255) | |
| **Net Cash/(Debt)** | | **(1,113)** | **(1,113)** | **(1,113)** | |
| **Total Equity Value or Indicated Fair Market Value** | | **5,087** | **5,587** | **6,187** | |
| **Enterprise Valuation Multiples:** | | | | | |
| 2017 Adjusted EBITDA | 2,864 | 2.2 | 2.3 | 2.5 | |
| Average Adjusted EBITDA | 2,143 | 2.8 | 3.0 | 3.3 | |
| 2017 Seller's Discretionary Earnings | 3,129 | 2.0 | 2.1 | 2.3 | |
| Adjusted Seller's Discretionary Earnings | 2,374 | 2.6 | 2.8 | 3.1 | |

**Footnotes:**

(a) Total Equity Value represents the market value of invested capital (i.e., the value of equity plus debt) minus
- Interest bearing debt and other long-term liabilities in the amount of 3,255
- Total equity value also includes cash and notes receivable in the amount of 2,142

(b) Preliminary adjustment reflects a 50% adjustment on approximately 50% of the business (a net adjustment of 25%) and additional analysis is needed to quantify. 25%

- This strategic valuation indicates a preliminary range of fair market value of equity from $400 million to $600 million. **It is also important to note that the information utilized in the preliminary valuation (Phase I) was limited, and not sufficient for a reliable valuation or as a basis for information to utilize to market the company. These limitations includes a lack of information needed to understand the inconsistent earnings, the differences between the original and revised data for 2017, profitability of the individual contracts including Company B, details on contracts and the waterfall, set aside status of contracts, quality of billings, and supportable projections. These issues are intended to be addressed in the proposed Phase III (additional valuation) but it is not recommend that further valuation analysis is performed until the additional information is prepared BY Management.**
- It is also important to note that the valuation of the business can only be truly ascertained in the market place with actual buyers. Client's small size, industry, and customer and set aside concentrations not only impacts (lowers) its pricing multiples, but also reduces the number of larger, well capitalized buyers that would be interested in engaging in a potential transaction. Smaller buyers would likely have less ability for large up-front cash payments and require more deferred/contingent payments and/or rollover equity.

# Valuation – Drivers (Guidance Purposes Only)

**Strategic Valuation – In Simple Terms – What is a Buyer Prepared to Pay, When and Why**

- **The valuation of the Company is going to be impacted by:**

**Adjusted Recurring Free Cash Flow (EBITDA less Capex less NWC Requirements)**

**(Revenue (Quantity * ASP) less COGS (Quantity * Av. Cost * Efficiency) Less Overheads)**

(e.g., As adjusted for add backs, potential synergies, benefits and risks of current and potential contracts)

**Multiplied**

**Market Valuation Multiplier As Adjusted by Company Differentiators**

- **You can not adjust the Market Valuation Multiplier (depends on issues outside your control) but you can impact Recurring Free Cash Flow and Company Differentiators (compared to other businesses).**

- **Strategic Valuation does not necessarily mean CASH ON CLOSING as proceeds depends on ability of buyer to fund and proceeds can take many different forms:**
  - Cash.
  - Deferred consideration (based on achieving several objectives and multiple time periods).
  - Stock (in acquiring company) and Seller loan notes.
  - Definition of normalized working capital.
  - Escrow accounts.

# Valuation - Drivers Are Influenced by Industry & Company Factors

**Key**
- Present characteristics
- **Improvements achievable**
- **Characteristics unlikely to be obtained**

Range of Valuation EBITDA Multiples

## 2x – 3x
- Significant % of subcontracts or pass through contracts
- Less attractive service offering (e.g., rental) in a declining market)
- Commodity-type services
- Low functional skill set
- Small business
- 8(a), women-owned and set-aside contracts
- Short-term contracts, weak backlog
- Low profit (cash flow) margins

## 3x – 5x
- Contracts awarded based on strictly lowest price with little differentiation
- Weak or resource constraint infrastructure
- Low growth
- Weak pipeline and backlog
- Skills shortages and high employee turnover
- Less attractive service offering (e.g., IT staffing, facilities management)
- Subcontractor
- Department of Education, HHS, HUD, DOL, DOT, State and Local

## 5x – 6x
- Well defined remuneration, benefits, and HR policies
- Medium sized business
- Longer-term contracts
- Relative stronger backlog and pipeline
- Good senior management which Buyer can retain
- Customer intimacy
- Well communicated strategy
- Good corporate governance and risk management
- Dominated by key vendors
- Some cleared employees
- Non-compete and IP projection employment clauses
- Long-term contract with key vendors.
- Improved functional skill set (e.g., system or network administrator)

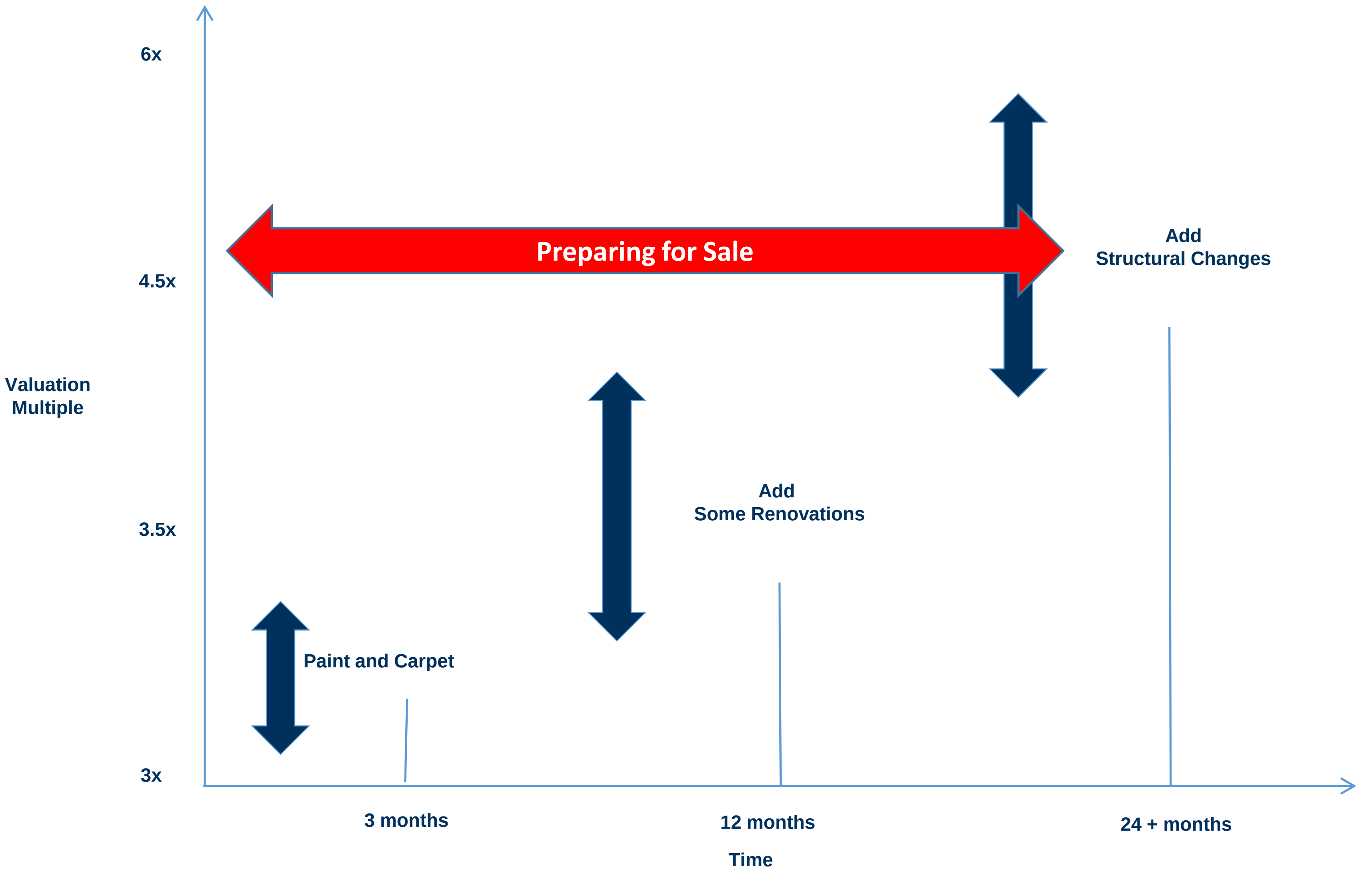
## 6x – 8x
- Recession resistant
- Branded products and service offerings
- Fixed pricing
- Long-term customer relations, customer intimacy by multiple employees, and a good understanding of current market
- High % of prime contracts
- Long-term, unrestricted contracts
- Strong backlog
- Significant % of own employees
- Enhanced talent management of motivated employees with regular feedback provided
- Customer within DoD, DHS
- Effective operational and financial reporting
- Good quality systems
- On-time delivery pf products.
- Requires strategic or innovative thinking
- Approved to use Government Cloud
- Secret & top secret clearances

## 8x – 10x
- High margin (quality vs. price)
- Low tax rate
- Mission critical contracts with Secured Agencies
- R&D (Apps within OEM equipment)
- Recurring revenue
- Remote monitoring
- Retainable quality senior management and employee
- Sustained, high profitable growth in growing market
- Good account management, strong pipeline and backlog
- Assignable Prime , long-term, Full and Open contracts
- Non-highly concentrated customer base
- Minimal working capital and debt requirements
- Minimal capex
- Strong infrastructure
- Good brand
- High barriers to entry (e.g., protected IP, non-compete clauses, strong contractual terms, minimal competition)
- Well developed product solutions

## 10x +
- Unrestricted prime contracts
- Strong senior and middle management with authority to act based on good information
- Human Capital strategies
- Mission critical capabilities and entrenched IP
- Highly cleared work (e.g., life style polygraph, counter intelligence) working for CIA, NSA, NRO, NGA, ODNI, DIA, Black Programs
- Intelligence/Health IT/Cyber/Data Analytics
- High function skills (e.g., policy advisor, system architect or program manager)
- Large companies
- Sole source

# V. TRANSACTION SCENARIOS AND CONSIDERATIONS

# Three Scenarios – At Least 18 months of Work for Improvements (Guidance)



# Sales Process Timetable

**For the Seller, Preparation For Sale Starts Well Before You Open Discussions with the Investment Banker and Management.**

## Preparation Before Sale Process Starts

- Improved reporting and understanding of contract base
- Audits for at least one (best two) year
- Key management informed, focused and incentivized
- Positive trending results
- Good backlog/pipeline
- Good organization structure and strategic and budgetary plans
- Vendor due diligence including preparing data room, "What the Company Is", and quality of earnings review
- Appointment of advisors (e.g., Investment Banker, attorney (M&A & IP), tax, financial advisor)
- Tax and financial planning

Need to establish when is a good time to sell; risk of value destruction increases after going to market.

**Management Time Commitment**

**Go to Market Once, Well**

Define market strategy

Prepare Tear Sheet, Information Memorandum & update electronic data room

Potential acquirer list & define criteria for evaluating acquirer

Marketing & Management preparation

Initial meetings with potential acquirers

Receive & evaluate indicative Offers. Select preferred bidder

**Formal due diligence**

**Negotiate Contracts & Exchange**

**Closing & Integration**

18 to 24 months

0 1 2 3 No. of months 4 5 6 7

**Iceberg Effect**

**Uncertainty and Time are the biggest killers of transactions and value in business**

**Excellent project management and analysis are required.**

# Alternative Sales Strategies

| | Traditional Broad Auction | Limited Targeted Solicitation | One-on-One |
|---|---|---|---|
| **Mechanisms** | Contact the most potential buyers (50 - 200). Respond to direct inquiries where appropriate. Select most qualified buyers, request indications of interest, negotiate with highest bidders until definite agreement is reached. | Identify likely buyers. Contact (5 to 50) parties, disseminate information and request indications of interest. Select highest bids and negotiate with each until definite agreement is reached. | Identify 1 to 4 most logical buyers. Contact such parties, disseminate information and negotiate until definite agreement is reached. |
| **Degree of Competitive Bidding** | Most competitive if company is well-known; may deter some interested buyers. | Competitive | Negotiated |
| **Pressure on Buyers** | Most | Moderate | Least (then same as other options once sign LOI) |
| **Management Time Commitment** | Most | Slightly less | Least |
| **Confidentiality** | Large groups susceptible to leak | More confidential | Most confidential |
| **Flexibility** | High incidence of preemptive bids | Relatively (including loose deadlines). | Most if no dominant party (or reactive to one offer) |
| **Disruption to Business** | Most | Slightly less | Least |
| **Key Benefits** | For well-know companies, auction maximizes values; keeps pressure on buyers and ensures timely responses. | Less likely to leak than auction; can streamline process and timing. | Good protection against leaks and business disruptions. Can lead to quick transactions if there is a “best” candidate. |
| **Key Drawbacks** | Certain buyers are reluctant to participate in public auctions. Cost. Potential damage to reputation if no transaction develops. Severe business disruption. | Risk of excluding a potential candidate | Overall lower valuations; lose some negotiating leverage. |

# Critical Roles and Advisors

- **Project Manager**
  - Proactive leadership from the top.
  - Critical, established goals that "Must be Achieved" by certain times.
  - Responsible parties for every goal.
  - An urgent corporate tempo.
  - No place to hide – Tasks must be performed well on Time.

- **Attorney**
  - Legal structure and employee incentive plans.
  - Internal review (including change of ownership clauses, key contracts, employment agreements and accreditations, Confidentiality Agreement ("CIM") and tear sheet).
  - M&A (including reviewing terms for the Investment Banker, Letter of Intent and Sale and Purchase Agreement).

- **Wealth Advisor/ Financial Advisor**
  - Revaluate net proceeds required.
  - Estate planning/charitable donations structure.
  - Importance of timing (before letter of intent signed).

- **Tax Advisor**
  - Assess tax efficiency and proceeds waterfall for the proceeds of the transaction.
  - Understand potential transaction structure and trade-offs.
  - Internal tax review.
  - Tax efficiency of Company.
  - Tax planning including residency of shareholders.

- **Investment Bankers**
  - Marketing the company to buyers.

- **Insurance**
  - Insurance of owner from now to point of sale, warranty and indemnity insurance.

# Critical Deliverables – Pre-Transaction and Marketing

- **Pre-Transaction**
  - **Project Plan**
    - Detailed project plan from now to close of Transaction which is best managed through a project management software program.
  - **5 Year Strategic Plan**
    - This document should cover the 5 "M"s : (i) Market (e.g., size and competitive pressures); (ii) Management; (iii) Model; (iv) Money; and (v) Momentum.
    - In addition, it should include (i) a detailed budget for 2 years; (ii) plus less detailed 3 further years of projections (both including income statement by Company and contract, balance sheet and cash flow statement); and (iii) historical quality of earnings and working capital analysis.
  - **Updated Website and Company Collateral**
    - " What are We" 30 second elevator speech
    - Develop the corporate presentation for potential advisors.
    - Update website and company collateral.
    - Bios of key executives and brand employees (website and LinkedIn).
  - **Employment Agreements and Long-Term Incentive Plans**
    - New employment agreements and incentive plans to retain key management through to close of the Transaction plus a further one year, as a minimum, post close.
  - **Waterfall Analysis**
    - Summarizes net proceeds to shareholders and other key stakeholders after reviewing for tax and wealth management issues.
  - **Advance Prepared Announcement**
    - In case the potential transaction is leaked and stakeholders become aware of the corporate discussions.

- **Transaction Marketing Documents**
  - **Potential Buyers List**
    - A potential list of buyers together with reasons they would like to buy your business.
  - **Teaser**
    - One-page document that summarizes the opportunity to buyers on a "no name" basis.
  - **Non-Disclosure Agreement ("NDA")**
    - Document negotiated with each interested buyer.
    - Includes a non-solicitation provision preventing buyers from soliciting your employees.
  - **Confidential Information Memorandum ("CIM")**
    - Presents the relevant facts and information required for a buyer to make an informed offer.
    - Can be in document or presentation format depending on the process.
    - Extensive preparation to effectively position all aspects of the business.
    - Provided to interested buyers only after they have signed a non-disclosure agreement.
  - **Management or Corporate Presentation**
    - This document is also needed when attracting and briefing new professional advisors.
    - Based on information provided in the CIM and organized in a similar manner.
    - Serves as a speaking platform from which buyers can discuss specific areas of interest.
    - Can be used to provide an update on the business reflecting new growth opportunities.

# Critical Deliverables - Legal

- **Due Diligence Room**
  - **Virtual Data Room**
    - Repository of documentation on all areas of the Company's business (corporate records, finance and accounting, capitalization, tax matters, property and assets, contracts, material agreements, human resources, IP, insurance, and legal matters).
    - The data room should also include a workbook of the historical and forecast results of the Company.

- **Legal Transaction Documents**
  - **Letter of Intent ("LOI")**
    - LOI is a written document that outlines the intentions of the buyer and the seller during a transaction. Simply put, the LOI is the roadmap to the transaction.
    - Among other matters, the LOI will include the purchase price for the subject business (and the associated payment terms) as well as the other key considerations and conditions (e.g., asset or stock deal, requirements for employees) to the transaction. In the end, the LOI is a written expression of the buyer's intentions to purchase your business and with its submission to the seller indicates the buyer's intentions for the deal.
    - Unlike a typical contract, the terms of an LOI are frequently non-binding on the parties except as specifically (e.g., confidentiality and exclusivity terms) called out in the LOI. Even though most terms are non-binding, it is still imperative that legal and tax advise is taken before signing the LOI.

- **Definitive Agreement**
  - Stock Purchase Agreement ("SPA") or Asset Purchase Agreement ("APA") and associated documentation including loan, non-competition, employment and/or consulting agreements.
  - There are several key sections of a purchase and sale agreement including valuation/consideration, execution provisions, representations and warranties, covenants, conditions to closing, termination provision, break-up fees, etc.
    - Execution provisions detail the way in which the deal is structured and the form of consideration. For example, an asset purchase and an all cash consideration.
    - Representations and warranties outline exactly what is being sold and that the seller is delivering a clean title which is proof of ownership.
    - Covenants are the agreements made between the buyer and seller. For example, a seller could be required by the buyer to keep certain employees.
    - Conditions to closing are conditions that must be met such as regulatory approval prior to the closing of the transaction.
    - Termination provisions are conditions in which the transaction could be terminated. For example, if the buyer cannot finance the acquisition.
    - Break-up fees are the fees that must be paid in the event that one party backs out of the transaction.

# VI. RECOMMENDATIONS

# Increase And Document Validated Sales Pipeline

| # | Area | Key Initiatives | Valuation Impact | Business Impact | Investment | Timing (months) | | | Lead |
|---|---|---|---|---|---|---|---|---|---|
| 1 | BD | Grow documented and validated pipeline (with a focus on full and open work) | High | High | • Create a true account management organization and related processes.<br>• Review level of resources within BD.<br>• Accelerate development, marketing and selling of Apps.<br>• Training.<br>• Development of probability weighted reporting of pipeline.<br>• Assess leads before follow up/ diverting significant resources.<br>• Report on reasons for loss of proposals. | 1 | to | 9 | President |
| 2 | BD | Development of central library | Low | Low | • Collate and centrally store all (i) proposals and marketing literature; and (ii) employee and company accreditations. | 1 | to | 2 | BDM |
| 3 | BD | Branding of key employees | Medium | Low | • Elevate the branding of key management on the Company's website and LinkedIn. | 2 | to | 4 | BDM |

# Improve Financial Controls and Reporting (1 of 3)

| # | Area | Key Initiatives | Valuation Impact | Business Impact | Investment | Timing (months) | | | Lead |
|---|---|---|---|---|---|---|---|---|---|
| 4 | Finance and Reporting | Enhance performance targeting (budgeting), reporting and monitoring | Medium | High | • Develop daily, weekly and monthly operational and financial (income statement, balance sheet and cash flow) reporting packages by Company, Divisions, Revenue Streams, Contract type and Purchase method/Vendor.<br>• Introduce variance analysis against budget and prior year (month and year to date), KPIs, working capital metrics, additional financial metrics (e.g., EBITDA, EBITDA Adjusted, Free Cash Flow, Capex (actual and committed)) and common size against relevant revenue.<br>• Develop exception reporting.<br>• Explanations of variances and results presented to President and management team on at least a monthly basis.<br>• Develop budgets and forecasts.<br>• Communicate targets to Management. | 1 | to | 5 | CFO |
| 5 | Finance and Reporting | Improve financial controls and consider a full audit | Medium | High | • All balance sheet items (particularly bank account, fixed assets (and reconciled to operational reports), deferred revenue, accounts receivable and accounts payable, payroll) should be reconciled on a monthly basis.<br>• Service tickets should be reviewed on a weekly basis (not quarterly).<br>• Payroll costs should be posted on at least a monthly basis and accrued for (including for pension and bonus liabilities) should pay periods differ to relevant accounting periods.<br>• Sales invoices and purchasing should be coded to the correct month rather than on a quarterly basis.<br>• Investigate and explain inventory adjustments so adjustments are minimized on an ongoing basis.<br>• Review fixed asset register (with NBV per equipment) regularly and update register promptly (e.g., missing serial numbers, disposed assets). Consider a FA system rather than utilizing Excel to record.<br>• Consider reinvesting expenditure from external accountant to internal resources and having an external audit.<br>• Reconcile internal monthly financial statements to annual financial statements (to ensure all year-end adjustments are posted) and tax returns. | 1 | to | 5 | FM |

# Improve Financial Controls and Reporting (2 of 3)

| # | Area | Key Initiatives | Valuation Impact | Business Impact | Investment | Timing (months) | | | Lead |
|---|---|---|---|---|---|---|---|---|---|
| 6 | Finance and Reporting | Improve monitoring of working capital particularly collection and aging of accounts receivable | High | High | • The aging of accounts payable and accounts payable and working capital metrics should be reported on at least a monthly basis; the aging of inventory should be reported on at least a quarterly basis. Better control of working capital will enable a more efficient capital structure.<br>• Allocate additional resources to improve DSO and aged debts (> 23.6% of AR is overdue by 31 days plus as of 3/26/2018).<br>• Consideration should be looked at automating/quickening speed to collecting "pages used" information on PPA contracts and/or invoicing excess pages 2 months in arrears so that base lease is invoiced quicker.<br>• All comments on accounts receivable should be recorded in EA (with an ability to produce summarized reports). | 1 | to | 5 | FM |
| 7 | Finance and Reporting | Record all purchase invoices on EA by equipment | Low | Medium | • Company should utilize recurring purchase orders (which can be used to match purchase invoices and produce accurate accruals when invoices not yet received) for recurring maintenance and lease costs.<br>• All vendor purchase orders and invoices should be coded by item and contract within EA.<br>• Automate purchase invoices being entered onto EA especially for DLA contract. | 2 | to | 4 | FM |
| 8 | Finance and Reporting | Improve Weekly Management Meetings | Low | Medium | • Develop standard reporting (e.g., number of installations for week (internally and externally) or late installations, customer satisfaction scoring, number of outstanding services or on stop customers, summary of wins and losses with reasons for proposals). | 1 | to | 2 | CFO |

# Improve Financial Controls and Reporting (3 of 3)

| # | Area | Key Initiatives | Valuation Impact | Business Impact | Investment | Timing (months) | | | Lead |
|---|---|---|---|---|---|---|---|---|---|
| 9 | Finance and Reporting | Accounting Presentation | Low | Medium | • GSA, GPO and SEUP administrative fees should be coded to cost of goods sold.<br>• Employee costs for service engineers and for installations should be coded to cost of goods sold.<br>• Interest income should generally be recorded as a Non-Operating item.<br>• Introduce Contribution metric which would be Gross Profit less leasing payments.<br>• Produce summary income statements (revenue, cost of sales, gross profit and contribution) by Segment.<br>• Sub-total expenses by categories (e.g., employee, insurance, professional, marketing, utilities, property etc.).<br>• Inventory obsolesce should be recorded separately on the Balance Sheet.<br>• Present summarized balance sheet (e.g., working capital, net debt/cash, fixed assets, other long-term assets). | 2 | to | 4 | FM |

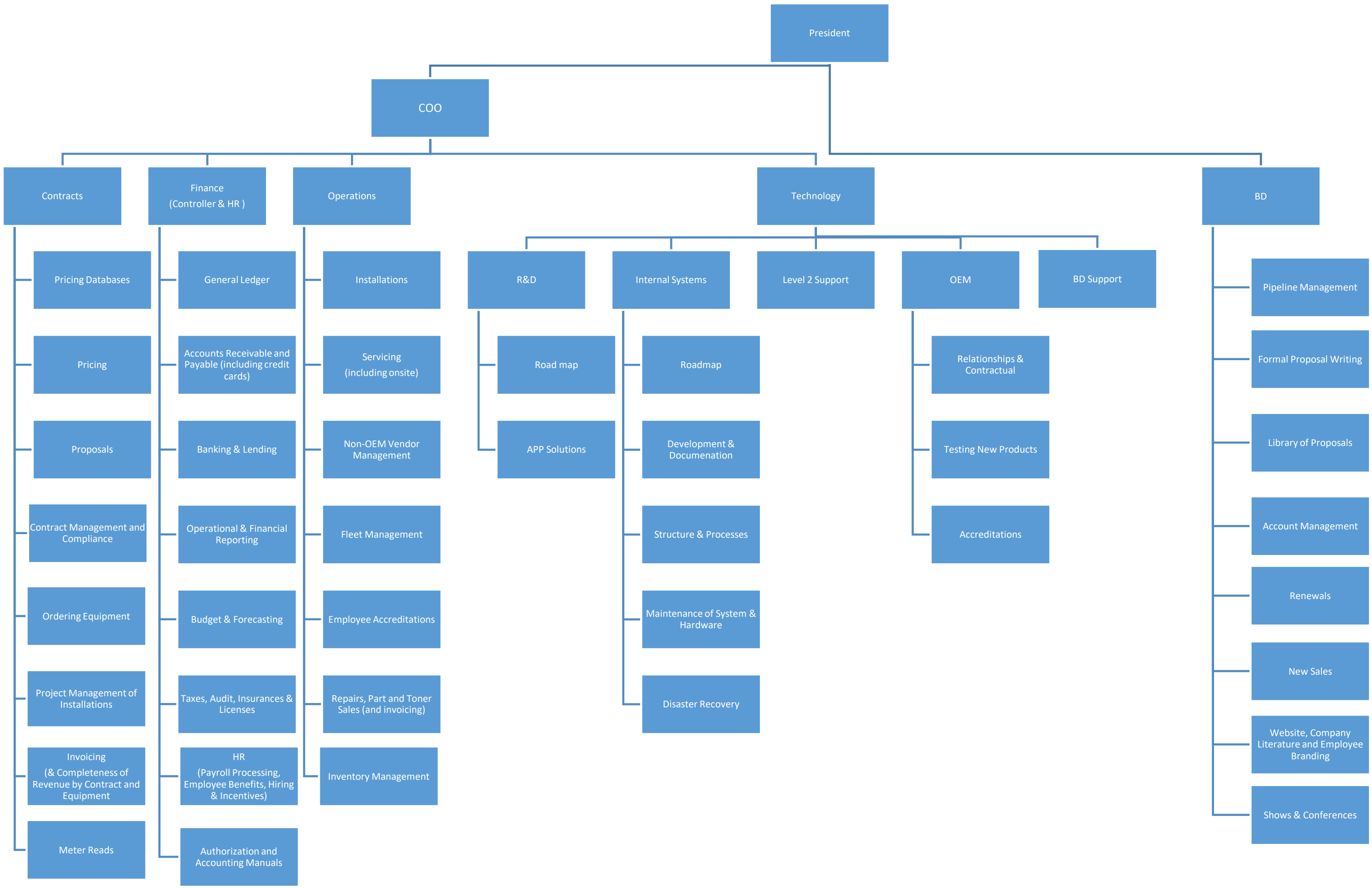
# Seize Financial Planning And Tax Efficiency Opportunities

| # | Area | Key Initiatives | Valuation Impact | Business Impact | Investment | Timing (months) | Lead |
|---|---|---|---|---|---|---|---|
| 10 | Tax & Wealth Management | Size financial planning and tax efficiency opportunities | High | Low | • Review tax efficiency and wealth management issues of Company and shareholders.<br>• Consider insurance for Shareholders to protect wealth.<br>• Perform a Waterfall analysis based on net transaction proceeds and compare with requirements per wealth | 2 to 6 | FM |
| 11 | Tax & Wealth Management | Identify potential tax exposures | Medium | Low | • Investigate Sales and Use and Nexus issues.<br>• Understand the potential tax liability (pre 2017) issues regarding Sales and Use and Nexus. | 2 to 6 | FM |

# Make Some Organizational Changes - Less Reliance on President & CFO (1 of 2)

| # | Area | Key Initiatives | Valuation Impact | Business Impact | Investment | Timing (months) | | | Lead |
|---|---|---|---|---|---|---|---|---|---|
| 12 | HR | Restructure management team and duties to ensure less reliance on President and CFO and their time spent more efficiently | Medium | High | • Evaluate management team.<br>• Train and elevate key managers.<br>• See next page for suggested revised responsibilities by department. Improve systems so management can focus on improving efficiencies.<br>• Train and allocate responsibilities from President and CFO to staff for key relationships (e.g., Xerox and key customers).<br>• CTO doing installations is not effective for the business.<br>• Improve reporting and target setting.<br>• Develop and train managers for their new responsibilities and targets. | 4 | to | 6 | CFO |
| 13 | HR | Introduce long-term incentive plan | Medium | Medium | • Develop long-term incentive plan. | 1 | to | 6 | CFO |
| 14 | HR | Enhance performance targeting and short-term bonus plans | Medium | Medium | • Introduce monthly, quarterly and annual targets for all employees.<br>• Develop financial and non-financial targets (in conjunction with budgets) and bonus plans. | 6 | to | 8 | FM |
| 15 | HR | Add back office staff (finance and contracts/BD) | Low | High | • The depth of the finance department needs to be reviewed so that there is enough resources to report at least monthly.<br>• The BD department needs to be supported so that President and Federal Sales Rep can be focus more on defined external matters from data supplied by internal resources. | 2 | to | 4 | CFO |
| 16 | Quality and Operations | Improve on-time delivery of equipment to customers | High | High | • Liaise with Xerox and find solutions (e.g., forecasting demand, better information from client) to improving on-time delivery of equipment.<br>• Introduce customer satisfaction and quality scoring and proactively chase potential late deliveries before event happens and communicate to client.<br>• Quality reporting should be displayed predominantly in the office so all staff know what the issues are and what progress is being made without President getting involved. | 2 | to | 4 | President |

## Make Some Organizational Changes - Less Reliance on President & CFO (2 of 2)



# VI. RECOMMENDATIONS
## Make Some Organizational Changes – Suggested Key Roles – CEO

- Driving recurring (profitable) revenue from Full-and Open multi-year contracts.
- Managing and maintain long-term relationships with:
  - Key OEMS:
    - Company D (including pricing and terms)
    - Redact
  - Alternatives to Company D:
    - Redact
  - Developers of new equipment models.
  - Key agencies:
    - Company B
    - Company G
    - Company H
    - Company I
    - Company J
    - Company K
- Mentoring Employees
  - Encouraging employers to deepen relationships with key stakeholders (e.g., OEMs, vendors and customers) of Client
- Company and employee branding
- Apps
  - Developing new road map for App development
  - Accelerate development, marketing and selling of Apps.
- Managing Business Development:
  - Ensuring adequately staffed BD department.
  - Building documented pipeline (as adjusted for probability):
    - Identifying potential opportunities (e.g., from FPDS, renewals).
    - Defining which proposals to pursue in a timely manner.
    - Deciding which events to attend.
  - Understanding reasons for lost proposals.
  - Ensuring quality of proposals and standard documentation.
- Competitor analysis.
- Reviewing Financial Statements and Reporting
  - Ensuring management are tracking variances and taking appropriate action.

# VI. RECOMMENDATIONS
## Make Some Organizational Changes – Suggested Key Roles – CFO

- Title should be changed to Chief Operating Officer
  - Managing profitability, quality and efficiency of organization given certain parameters.
- Restructuring organization and roles and responsibilities.
- Preparing 5 Year Strategic Plan.
- Managing weekly Management meetings.
- Managing Departmental Heads:
  - Contracts:
    - Authorizing pricing.
    - Quality (accuracy) of proposals and contracts.
    - Ensuring all equipment and services provided are invoiced promptly.
    - Authorizing new equipment and ensuring ordered and installed on time once executed customer order received.
    - Ensuring compliance with contracts.
    - Company documenation (or templates from EA).
  - Finance (Controller):
    - Setting new report format and KPIs.
    - Ensuring accurate and timely reporting (weekly and monthly) and explaining variances and taking follow up action.
    - Preparing budgets.
    - Improving financial controls.
    - Improving working capital (e.g., accounts receivable, accounts payable and inventory).
    - Managing banking and lending relationships.
    - Commercial insurances and employee benefits.
    - Audit
  - HR:
    - Setting and monitoring targets for employees.
    - Introduce short-term and long-term incentives.
    - Mentoring employees.
    - Adequacy of employee terms to protect Company.
  - Operations:
    - Efficient servicing and appropriate use of external vendors (minimizing down time) and recovery of warranty costs.
    - Ensuring all installations are completed on time, well and collection of SPIFF cards.
    - Efficient replenishment of toners.
    - Expanding automated data gathering from equipment.
  - Technology:
    - Reviewing road map for improvements in EA.
    - Understanding reporting requirements.
    - Upgrade of IT systems.
- Managing operational relationship with Company D:
  - Accounts payable.
  - On time delivery of orders (equipment, installations and servicing).
  - Quality of servicing.
- Transaction Readiness:
  - Project management.
  - Tax efficiency of organization and shareholders.
  - Wealth management efficiency.

# Address ERP System – Set-Up of Database

| # | Area | Key Initiatives | Valuation Impact | Business Impact | Investment | Timing (months) | Lead |
|---|---|---|---|---|---|---|---|
| 17 | IT Systems | Address and improve data management and set-up/ categorization of equipment, contracts, service and transactions within E-Automate | High | High | **• Prepare road map for system changes which should include the following:**<br>**(i) Proposal and contract database**<br>• Categorize proposals and contract by contract type, type of services providing and by NAICS code.<br>• All proposals should be entered into EA and reasons for loss tracked<br>• Pricing (and costing including communication of requests for costing) of proposals should be performed within EA with standard pricing already populated<br>• Pricing for schedules (e.g., GSA 36) should be kept within EA rather than spreadsheets.<br>• Contract checklist generated from EA (not manually)<br>**(ii) Lease/purchase of equipment and installations**<br>• More communications should be through EA not emails (e.g., quote to confirmed orders for equipment, installation instructions and status).<br>• Summarize reasons for delay in installations (e.g.., Xerox, wrong address from client).<br>• Status of installations recorded directly onto EA (not via Excel).<br>**(iii) Servicing**<br>• Internal labor and financing costs should be costed by item with follow up tags to ensure all potential warranty work is recharged.<br>• Warranty of new parts fitted so that warranty claims can be made. | 1 to 6 | CTO |

# Address ERP System – Reporting

| # | Area | Key Initiatives | Valuation Impact | Business Impact | Investment | Timing (months) | | | Lead |
|---|---|---|---|---|---|---|---|---|---|
| 18 | IT Systems | Address and improve system reporting capabilities (including updating E-Automate from version 8.5) | Medium | High | • Improve revenue and profitability analysis by types of revenue streams.<br>• Allocate revenue and expenses (including internal labor) by item (and contract).<br>• All reporting should be performed via EA (not Excel).<br>• Expenses should be linked to revenue so that vendors are not paid until customer pays.<br>• Introduce Exception Reporting.<br>• GSA, GPO and SEWP administrative fees should be calculated via the EA system (not via Excel) and automatically accrued on a monthly at the equipment level.<br>• Automate invoicing (and recharging information) to EPA via | 1 | to | 6 | CFO |
| 19 | IT Systems | Improve communication with | Medium | Medium | • All orders raised and tracked through EA; these orders should be cross-referenced to proposals/contracts.<br>• Improve reporting (e.g., (i) high level of summary of outstanding equipment (i.e., by clin) and timescale required); (ii) installations; this information should be available via web so Xerox can look any time).<br>• Development of deeper relations with Xerox with other employees than Shareholders.<br>• Obtain a pre-agreed minimum pricing schedule for LEO purchases for a defined period to speed up pricing. | 1 | to | 5 | FM |





FARRELL ADVISORY INC.

# Develop 5 Year Strategy and Projections

| # | Area | Key Initiatives | Valuation Impact | Business Impact | Investment | Timing (months) | | | Lead |
|---|---|---|---|---|---|---|---|---|---|
| 20 | Strategy | Prepare a 5 Year Strategy Document with projections | Medium | Medium | • Develop and document a 5 Year Strategic Document.<br>• Set-out timeline with key dates. | 1 | to | 6 | CFO |
| 21 | Strategy | Prepare a Corporate Presentation | Medium | Low | • Develop a 30 page corporate presentation. | 8 | to | 10 | CFO |
| 22 | Strategy | Document the size of the market | Medium | Medium | • Define the size of the government contracting market by contract vehicle and agency. | 1 | to | 2 | President |
| 23 | Strategy | Develop road map for product development | High | High | • Develop road map and costings for initiatives (e.g., Secure Safe, Print Save, Mobile Print, Usage Tracking, Leaf Save).<br>• Continue to press for accreditation to use Government Cloud.<br>• Assess revenue/profitability streams and pricing model<br>• Reallocate resources. | 1 | to | 3 | CTO |
| 24 | Strategy | Ensure continuance of long-term contracts, with no change in ownership clauses and competitive pricing, with | High | Medium | • Management should continue to develop the relationship with Xerox.<br>• Look to continue to put CTI internally develop apps on Xerox equipment. | 1 | to | 18 | President |
| 25 | Strategy | Development of a stronger alternative to | High | High | • Management should continue to develop the relationship with Kyocera to reduce (Xerox concentration) risk in the business.<br>• Management should investigate alternative financing solutions for customers so that CTI does not have to fund leases (i.e., third parties lease directly to customers and CTI | 1 | to | 5 | President |
| 26 | Strategy | Consider alternative financing strategies | High | Medium | • Consider entering into a sale and leaseback with equipment currently on lease from Company to customer.<br>• Consider the benefits of financing new equipment versus a third party leasing the equipment for the Company with the customers.<br>• Perform a valuation analysis to see if reduction in debt out weights a lower EBITDA (because now lease charges rather than depreciation charges). | 1 | to | 3 | CFO |

# VII. SALES STRATEGY

# Transaction Plan Overview – For Discussion Purposes

- Assign Project Manager.
- Complete performance improvement issues by June 2019 (subject to tax planning)
  - Via razor-focused project management.
  - Hybrid of the "Some Renovations" and "Structural Changes" scenarios.
- Wealth planning review by June 2018.
- Transaction readiness completed by September 2019 (timing predominately dictated by pipeline building):
  - Tax planning.
  - Key internal employees notified, incentivized and prepared.
  - Collation of data.
  - 2018 audit, market assessment, quality of earnings and budgets.
  - Advisors appointed by July 2019.
- Pursue a "Targeted Solicitation" approach:
  - Identify likely buyers (we estimate that there may be 10-30).
  - Contact parties, disseminate information and request indications of interest.
  - Select highest bids and negotiate with each until definite agreement is reached.
  - October 2019 to March 2020.

# VII. SALES STRATEGY
## Prospective Buyers

- Recognize that this transaction could be:
  - **Platform acquisition** (if infrastructure is improved); or
  - **Add-on acquisition** by firms with existing Federal practices.

| Characteristic | Possible Examples |
|---|---|
| Key OEM Vendor | Company D (unlikely to be other OEMs due to significant (not yet quantified) relationship with Company D). |
| Non-OEM competitors | Competitor A, Competitor B, Competitor C |
| Small preference federal contractors | Competitor D and Competitor E |
| Strategic companies | Company H, Company I, Company J, Company K, Company L |
| Selected private equity firms seeking scale to drive up valuation of existing platform company and with a longer exit strategy | Private Equity A, Private Equity B, Private Equity C, Private Equity D, Private Equity E, Private Equity F, Private Equity G, Private Equity H |
| Management | ESOP (but would need additional talent and support for financing). |

**Strategic or private equity firms looking to enter the Federal market for the first time are not as likely to be seriously interested.**

# Recommended Potential Advisors

- **Investment Bankers (i.e., to market the Company)**
  - Investment Bank A, Name
  - Investment Bank B, Name
  - Investment Bank C, Name
- **M&A Attorney (including long-term incentives)**
  - Firm A, Name
  - Firm B, Name
  - Firm C, Name
- **Tax Advisory** (i.e., ensuring that the company is sold in the most tax efficient manner and distribution of proceeds is understood)
  - Tax Firm A, Name
  - Tax Firm B, Name
  - Tax Firm C, Name
- **Audit**
  - Accounting Firm A, Name
  - Accounting Firm B, Name
  - Accounting Firm C, Name
- **Wealth Management Advisor** (i.e., ensuring wealth management and tax efficiency strategies are set and implemented, receipt of monies is maximized and properly invested, insurance of shareholders and key management to protect until sale)
  - Wealth Management Firm A, Name
  - Wealth Management Firm B, Name
  - Wealth Management Firm C, Name
- **Insurance for M&A** (i.e., seller may consider insuring certain warrantied and indemnities)
  - Your own insurance agent
  - Insurance A, Name
  - Insurance B, Name

**Differences in M&A advisors is determined by:**

- The personal involvement, effort and proactive honest () advice of the senior advisor;
- The ability to exchange data and work as a multi-discipline team for the benefit of the client; and
- Excellent project management to ensure all areas are covered quickly, once, well by the right advisor rather than several times poorly by the wrong advisors

## Other Project Considerations

- **Tempo and Leadership from Senior Management as supported by Project Management.**
  - You understand why you want to sell the business and you know what you want to do next.
  - Time is the Killer of all deals. Time leads to uncertainty.
  - Leadership must comes from the Top.
- **Partial/staggered sale (plus a complementary investor) vs. management partial buy-in vs. one-time sale vs. roll in of equity.**
- **Strategic (understanding market size and potential) and 5-Year Financial Plans.**
  - Understand corporate ownership issues over Company D and implications for Company and potential requirement to diversify OEM vendor base.
- **Waterfall Analysis of Net Proceeds:**
  - Owner Requirements; vs.
  - Expected Proceeds split (e.g., cash proceeds, earn out, rolled over equity, distribution amounts to others, escrow accounts); vs.
  - Present income generated for shareholders.
  - Property – valuation of property and potential rental value (sale or rental to other parties).
- **Timetable Issues:**
  - Timing of sell vs. tax planning vs. expiring/renewal of (client and vendor) contracts and accreditations vs. retirement of key Management.
  - Consider an acquisition.
- **Management**
  - Assessment of management team.
  - Owner and others staying post-transaction, non-competition and IP clauses, incentives
  - When do you tell the Management team.
- **Confidentiality**
  - Personnel email addresses.
  - Confidentiality agreements for employees brought into the know,
  - Electronic data rooms.

# VIII. NEXT STEPS

# VIII. NEXT STEPS
## Getting Started

- Do you still want to (partial or fully) sell the Company and are you totally committed?
- Assign the project manager.
- Revise and finalize the transaction plan (utilizing project management software).
- Decide which people internally need to be engaged, how and when.
- Decide on external support needs and hire as needed.

# VIII. NEXT STEPS
## How Farrell Advisory Can Continue To Help You Maximize Value

### Transaction Support

- Selection of other advisors.
- Project management support:
  - Transaction preparation.
  - Coordinating work of advisors.
  - Avoid pitfalls and complete on time.
  - Prepping key managers for meetings with prospective buyers.
- Company presentation – What is Client ?
- Data management:
  - Review of quality of earnings and other data.
  - Document preparation and validation.
- Review of prospective deals – another set of eyes and heads.
- Finding potential investors for Company.

### Preparing the Organization

- Board advisory role.
- Office of CFO support and Project Management:
  - Performance report development (standardization and efficiency improvement) and target setting.
  - Working capital improvements.
  - Assessment of funding strategy.
  - Development of 5-year strategy and budget.
  - If appropriate, Buy-side M&A to supplement organic growth.
  - Development of IT requirements and process changes.
- Organizational changes:
  - Organization chart.
  - Senior staff selection and role definition.
  - Executive one-on-one role counsel.
- Process development and training:
  - Deal shaping and capture process and training.
  - Pipeline development and training.
  - Account development and training.
- Go to market strategies for solution offerings for Apps on ………
- Change management:
  - Revised incentive and retention plans.
  - Employee communications and engagement plan.

# IX. APPENDICES

# Overview by Phases

### Services

- FAI is being engaged by Client to provide corporate finance and strategic issues which may include evaluating, supporting or negotiating divestments, acquisitions, financing or investments in Client (the "Services") as set out in the Engagement Letter. The Services are expected to be continued to be provided in "phases" with the next phase, if any, of work dependent on the findings of the prior evaluations and work.
- The objectives of FAI's Phase I work was to:
  - Assist Client in developing a strategic valuation for planning purposes and provide an informal, 3-5 page assessment of the estimated value of Client if sold today as it operates without making any improvements, also an informal valuation estimate for the Company B contract being sold separately, and finally an informal valuation for Client after the Company B contract has been sold. All analysis produced is considered the clients work product.
  - Advised Senior Management on its sales strategy and plan, whether it is best to sell the Company B contract value separately or together with Client , the pros and cons of this approach and also general business sale strategies.

### Phase II – Preparing Client for sale

- The objectives of this Phase, as reported within this Report, is to:
  - Assess the Company's readiness to maximize its potential sales value for the shareholders.
  - Identify possible improvement areas that, if addressed in a timely manner, can help increase the potential sales value.
  - Advise the Executive on its sales strategy and plan, including the selection of an investment banking firm and a merger & acquisition attorney.
- Throughout this project, FAI will be mindful of Company Cs need to "get it right" the first time and its desire to reduce the risk of a failed transaction in every aspect of its sales strategy.
- The scope of work will consist of a high-level review of the following:
  - Financial position, information and operations;
  - Contracts, client relationships, and delivery performance;
  - Account presence, management, planning and growth potential;
  - Solution offerings and tools;
  - Organization structure, executive capabilities and staff capabilities; and
  - Operations, processes, and systems.

### Phase III - Sales Valuation of Company (Not Yet Started)

- Phase I provided an indicative and high-level sales valuation of the Company. At your request, FAI can also perform a more formal sales valuation with additional sources of data on the Company and valuation comparatives of the Company.

# IX.B KEY VALUE DRIVERS
## Definitions – Market and Model

**Market**

- Large Potential Market
  - Size of tapped and untapped market
  - Growing market
  - Attractive market in terms of products and services (“Products”) and location
- Dominant Market Share
  - Portion of available market controlled relative to competitors
  - Focus of primary market
- Barriers to Entry
  - Significant obstacles (legal, capital, or market) facing new entrants
  - Laws and regulations
- Product Differentiation
  - Unique product with strong competitive advantage
- Customer Base
  - Quality and attractiveness of customer base
- Customer Diversification
  - Diversity of customer base

**Model**

- Strategic Direction
  - Course of action which leads to the achievement of goals of an organization
  - Strategy understood by key stakeholders
- Growth
  - Top line revenue growth
- Margin Advantage
  - Efficiency of making money
- Product Offering
  - Quality and price of products within market place
  - Demand for products
- Brand
  - Brand name resonance with consumers
  - Reinforces marketplace presence
- Customer Satisfaction
  - Degree to which customer is satisfied with product or service
- Product Quality
  - How product or service compares to competitors
  - Company’s ability to meet their promises
- Innovation
  - Systematic processes to drive innovation and leverage collaboration
- Recurring Revenue
  - Contracts, firm commitments, long-term leases, and strong loyalty programs to ensure recurring revenue

# Definitions - Model

## Model

- Infrastructure
  - Strong and efficient infrastructure
  - Flexible and good facilities management
  - Well located to a good pool of employee resources
  - Good disaster recovery procedures
  - Secured facilities
- Sales and Marketing
  - Marketing plan
  - Sales and pipeline management
  - Accurate and timely marketing and sales metrics
  - Sales skills of employee
- Financial
  - Good corporate governance and risk management
  - Full audits performed
  - Strong financial controls
  - Appropriate and conservative accounting policies
  - Food financial and operational reporting
  - Management able to make effective decisions based on good information
  - Adequate tax controls
  - Adequate insurance, banking, and risk strategies
- Operations
  - Good quality of systems
  - Quality of delivery
  - Deliver on sales promises
  - Ease of doing business for customers

## Model (continued)

- Vendors
  - A person or company offering something for sale
- Legal
  - Claims against company, process to handle liability issues, contracts with key customers, suppliers, contractors, etc.
- IT
  - Well developed and documented IT systems
  - Good well documented procedures and processes
  - Good back up procedures
  - Fully licensed software
  - Good IT capex policy
  - Good disaster recovery systems
  - Reliable and expandable systems

# Definitions – Management

**Management**

- Senior Management
  - Good and well trained senior leadership in place
  - Able to make decisions within clearly defined authorization limits and strategy
  - Well respected in market place
  - Ability to grow with company
  - Low employee turnover
  - Would transfer to buyer
  - Understand culture
- Management
  - Good and well trained middle management leadership
  - Ability to grow with company
  - Promotional candidates
  - Able to make decisions within clearly defined authorization limits
  - Would transfer to buyer
  - Low employee turnover
- Employee Base
  - Highly trained and skilled employee base
  - "Classified" employee base
  - Low employee turnover
- Human Resources
  - Development of employees
  - Training
  - HR policies and procedures
  - Well defined renumeration, bonuses and benefits
  - Employee satisfaction

# Definitions – Money and Momentum

**Money (continued)**

- Size of Business
  - Size of business relative to competitors
- Capital Structure
  - Reasonably leveraged company
  - Efficient cost of capital
- Working Capital
  - Good management over DSO, DPO, and DIO
  - Controls over monitoring of inventory
  - Controls over unbilled revenue
- CAPEX
  - Funds used by company to acquire, upgrade, and maintain physical assets
- Tax
  - Effective tax rates

**Momentum**

- Momentum - Operations
  - Strong leadership to take the company through a profitable organic growth strategy
- Momentum - Transaction
  - Strong leadership to take the company through an M&A transaction

# Sales, Cost of Goods Sold, Gross Profit

**Company C**

| Account | | Jan-17 | Feb-17 | Mar-17 | Apr-17 | May-17 | Jun-17 | Jul-17 | Aug-17 | Sep-17 | Oct-17 | Nov-17 | Dec-17 | Jan-18 | 2017 | TTM 1/2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | | | | | | | | | | |
| 41000 - Hardware Sales | 1 | 71,089 | - | 108,662 | - | 5,314 | 144,974 | - | 29,877 | 106,506 | - | - | 3,221 | - | 469,643 | 398,554 |
| 42100 - Document Management | 2 | - | 4,416 | - | - | - | - | 240 | - | 5,657 | - | - | - | - | 10,313 | 10,313 |
| 43000 - Other Sales Revenue | 3 | 2,390 | 1,242 | 2,070 | - | - | - | - | - | - | - | 14,125 | - | - | 19,827 | 17,437 |
| 44000 - Supplies | 4 | 26,328 | 10,344 | 47,829 | 10,998 | 19,792 | 23,195 | 6,026 | 19,670 | 20,518 | 9,736 | 34,194 | 13,555 | 13,396 | 242,186 | 229,254 |
| 45000 - Parts | 5 | 12,221 | (795) | 6,414 | 4,940 | 2,965 | 10,088 | 1,097 | 2,195 | 4,865 | 1,476 | 9,515 | 6,865 | 1,264 | 61,844 | 50,887 |
| 46000 - Labor | 6 | 5,190 | 540 | 20,211 | 3,620 | 4,265 | 7,225 | 21,080 | 5,365 | 6,839 | 3,120 | 9,914 | 9,123 | 4,444 | 96,492 | 95,746 |
| 47004 - Contract Sup | 7 | 9,578 | 12,718 | 8,277 | 15,802 | 12,731 | 12,671 | 10,691 | 10,595 | 7,078 | 13,889 | 10,190 | 19,040 | 7,924 | 143,260 | 141,605 |
| 47005 - Contract Part | 8 | 169,408 | 166,319 | 163,239 | 172,757 | 174,092 | 201,935 | 180,643 | 179,184 | 184,789 | 178,623 | 129,911 | 216,970 | 148,388 | 2,117,871 | 2,096,850 |
| 47006 - Contract Labr | 9 | 416,685 | 412,695 | 602,500 | 430,318 | 444,450 | 704,110 | 449,933 | 445,450 | 660,303 | 442,731 | 323,917 | 654,923 | 353,329 | 5,988,015 | 5,924,659 |
| 47007 - Company F Contract Revenue | 10 | - | - | 167,236 | 3,918 | 242,198 | 200,089 | 144,980 | 155,549 | 230,731 | 283,792 | 302,826 | 426,703 | 320,785 | 2,158,023 | 2,478,808 |
| 47920 - Lease Revenue | 11 | 94,176 | 91,347 | 70,678 | 90,835 | 105,103 | 217,833 | 132,558 | 107,989 | 114,108 | 105,805 | 95,071 | 129,283 | 139,027 | 1,354,787 | 1,399,637 |
| 48000 - Freight | 12 | 0 | 273 | 203 | 32 | 255 | - | - | - | - | - | 259 | - | - | 1,023 | 1,022 |
| 49000 - Miscellaneous | 13 | 8,120 | 10,390 | 5,519 | (1,556) | 796 | 31,993 | 2,668 | 9,260 | 116 | 2,738 | 77 | 21,115 | 168 | 91,237 | 83,285 |
| 49002 - Payable Refunds | 14 | 10,607 | 615 | 574 | 25 | 2,465 | 37 | 1,970 | - | 2,589 | 12,186 | 1,063 | 720 | 256 | 32,850 | 22,499 |
| 49900 - Interest Income | 15 | - | - | - | - | - | 609 | 712 | 582 | (41) | 554 | 540 | 526 | 513 | 3,483 | 3,996 |
| **Total** | | **825,794** | **710,104** | **1,203,412** | **731,689** | **1,014,425** | **1,554,760** | **952,599** | **965,717** | **1,344,058** | **1,054,650** | **931,602** | **1,502,044** | **989,492** | **12,790,854** | **12,954,551** |
| **Cost of Goods Sold** | | | | | | | | | | | | | | | | |
| 51000 - Hardware COGS | 1 | (59,149) | (8,890) | (86,976) | - | (4,084) | (102,006) | - | (24,980) | (82,715) | - | - | (1,260) | - | (370,060) | (310,910) |
| 52100 - Document Management | 2 | - | - | - | - | - | (4,416) | (2,880) | - | (612) | - | - | - | - | (7,908) | (7,908) |
| 53000 - Other COGS | 3 | (3,587) | (746) | (4,074) | (746) | - | (1,119) | (3,436) | - | (9,438) | (1,050) | (1,434) | (5,223) | - | (30,854) | (27,267) |
| 54000 - Supplies COGS | 4 | (72,082) | (96,106) | (145,038) | 19,496 | (93,035) | (189,365) | (25,035) | (120,232) | (61,604) | (41,579) | (222,026) | (144,549) | (18,552) | (1,191,156) | (1,137,626) |
| 54820 - Restocking FEES | 5 | - | - | (6) | - | - | - | - | - | - | (478) | - | - | (28) | (484) | (512) |
| 55000 - Parts COGS | 5 | (10,465) | (911) | (7,196) | (2,547) | (3,666) | (8,300) | (557) | (3,294) | (2,703) | (909) | (10,934) | (3,668) | (1,220) | (55,150) | (45,905) |
| 56000 - Labor | 6 | (100) | (100) | - | - | - | - | - | - | - | - | - | - | - | (200) | (100) |
| 56001 - Sub Contracted Labor | 11 | (9,791) | (8,688) | (10,519) | (7,498) | (12,474) | (14,376) | (9,454) | (8,302) | (13,860) | (11,172) | (12,303) | (20,022) | (1,244) | (138,458) | (129,912) |
| 56002 - Toshiba Maintenance Contracts | 12 | (6,518) | (4,842) | (1,673) | (950) | (2,104) | (2,384) | (2,276) | (1,971) | (2,067) | (1,936) | (2,441) | (1,952) | (615) | (31,113) | (25,210) |
| 56005 - Xerox Maintenance Contracts | 13 | (142,201) | (147,912) | (161,489) | (190,852) | (187,357) | (170,606) | (167,656) | (147,285) | (209,314) | (219,599) | (188,644) | (159,041) | (199,845) | (2,091,957) | (2,149,600) |
| 56007 - Company F COGS | 10 | (890) | (633) | (135,354) | (170,105) | (86,696) | (108,901) | (243,363) | (159,335) | (162,569) | (259,539) | (258,845) | (257,503) | (159,970) | (1,843,734) | (2,002,814) |
| 57400 - Contract Supplies COGS | 7 | (61,294) | (70,074) | (113,380) | (50,121) | (72,806) | (92,882) | (45,182) | (63,967) | (69,675) | (43,088) | (57,524) | (75,888) | (26,717) | (815,882) | (781,305) |
| 57500 - Contract Parts COGS | 8 | (9,907) | (15,747) | (24,900) | (13,115) | (10,867) | (13,517) | (2,855) | (8,420) | (9,855) | (5,812) | (8,220) | (12,386) | (5,851) | (135,602) | (131,546) |
| 57910 - Depreciation | 21 | - | - | (271,372) | - | (1,015) | (276,057) | - | - | (302,167) | - | - | (292,617) | - | (1,143,228) | (1,143,228) |
| 58000 - Freight | 12 | (2,613) | (1,797) | (3,958) | (1,500) | (1,932) | (1,689) | (1,961) | (1,737) | (1,769) | (1,981) | (1,215) | (3,040) | (1,628) | (25,190) | (24,205) |
| 59000 - Miscellaneous | 13 | - | - | - | - | - | - | - | - | (2,199) | - | - | - | - | (2,199) | (2,199) |
| 59999 - Inventory Adjustment | 20 | 18,773 | 11,187 | 5,211 | (35,147) | 312 | (10,988) | 14,085 | 14,609 | (41,536) | 1,568 | (475) | (25,830) | 5,773 | (48,231) | (61,230) |
| **Total** | | **(359,824)** | **(345,258)** | **(960,725)** | **(453,086)** | **(475,724)** | **(996,608)** | **(490,570)** | **(524,915)** | **(972,082)** | **(585,575)** | **(764,061)** | **(1,002,978)** | **(409,897)** | **(7,931,406)** | **(7,981,479)** |
| **Gross Margin** | | **465,970** | **364,845** | **242,687** | **278,603** | **538,701** | **558,153** | **462,028** | **440,802** | **371,975** | **469,074** | **167,541** | **499,066** | **579,595** | **4,859,447** | **4,973,072** |

| Account | Jan-17 | Feb-17 | Mar-17 | Apr-17 | May-17 | Jun-17 | Jul-17 | Aug-17 | Sep-17 | Oct-17 | Nov-17 | Dec-17 | Jan-18 | 2017 | TTM 1/2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | | | | | | | | | |
| 41000 - Hardware Sales | 9% | 0% | 9% | 0% | 1% | 9% | 0% | 3% | 8% | 0% | 0% | 0% | 0% | 4% | 3% |
| 42100 - Document Management | 0% | 1% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 43000 - Other Sales Revenue | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 2% | 0% | 0% | 0% | 0% |
| 44000 - Supplies | 3% | 1% | 4% | 2% | 2% | 1% | 1% | 2% | 2% | 1% | 4% | 1% | 1% | 2% | 2% |
| 45000 - Parts | 1% | 0% | 1% | 1% | 0% | 1% | 0% | 0% | 0% | 0% | 1% | 0% | 0% | 0% | 0% |
| 46000 - Labor | 1% | 0% | 2% | 0% | 0% | 0% | 2% | 1% | 1% | 0% | 1% | 1% | 0% | 1% | 1% |
| 47004 - Contract Sup | 1% | 2% | 1% | 2% | 1% | 1% | 1% | 1% | 1% | 1% | 1% | 1% | 1% | 1% | 1% |
| 47005 - Contract Part | 21% | 23% | 14% | 24% | 17% | 13% | 19% | 19% | 14% | 17% | 14% | 14% | 15% | 17% | 16% |
| 47006 - Contract Labr | 50% | 58% | 50% | 59% | 44% | 45% | 47% | 46% | 49% | 42% | 35% | 44% | 36% | 47% | 46% |
| 47007 - Company F Contract Revenue | 0% | 0% | 14% | 1% | 24% | 13% | 15% | 16% | 17% | 27% | 33% | 28% | 32% | 17% | 19% |
| 47920 - Lease Revenue | 11% | 13% | 6% | 12% | 10% | 14% | 14% | 11% | 8% | 10% | 10% | 9% | 14% | 11% | 11% |
| 48000 - Freight | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 49000 - Miscellaneous | 1% | 1% | 0% | 0% | 0% | 2% | 0% | 1% | 0% | 0% | 0% | 1% | 0% | 1% | 1% |
| 49002 - Payable Refunds | 1% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 1% | 0% | 0% | 0% | 0% | 0% |
| 49900 - Interest Income | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| **Total** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** |
| **Cost of Goods Sold** | | | | | | | | | | | | | | | |
| 51000 - Hardware COGS | -7% | -1% | -7% | 0% | 0% | -7% | 0% | -3% | -6% | 0% | 0% | 0% | 0% | -3% | -2% |
| 52100 - Document Management | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 53000 - Other COGS | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | -1% | 0% | 0% | 0% | 0% | 0% | 0% |
| 54000 - Supplies COGS | -9% | -14% | -12% | 3% | -9% | -12% | -3% | -12% | -5% | -4% | -24% | -10% | -2% | -9% | -9% |
| 54820 - Restocking FEES | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 55000 - Parts COGS | -1% | 0% | -1% | 0% | 0% | -1% | 0% | 0% | 0% | 0% | -1% | 0% | 0% | 0% | 0% |
| 56000 - Labor | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 56001 - Sub Contracted Labor | -1% | -1% | -1% | -1% | -1% | -1% | -1% | -1% | -1% | -1% | -1% | -1% | 0% | -1% | -1% |
| 56002 - Toshiba Maintenance Contracts | -1% | -1% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 56005 - Xerox Maintenance Contracts | -17% | -21% | -13% | -26% | -18% | -11% | -18% | -15% | -16% | -21% | -20% | -11% | -20% | -16% | -17% |
| 56007 - Company F COGS | 0% | 0% | -11% | -23% | -9% | -7% | -26% | -16% | -12% | -25% | -28% | -17% | -16% | -14% | -15% |
| 57400 - Contract Supplies COGS | -7% | -10% | -9% | -7% | -7% | -6% | -5% | -7% | -5% | -4% | -6% | -5% | -3% | -6% | -6% |
| 57500 - Contract Parts COGS | -1% | -2% | -2% | -2% | -1% | -1% | 0% | -1% | -1% | -1% | -1% | -1% | -1% | -1% | -1% |
| 57910 - Depreciation | 0% | 0% | -23% | 0% | 0% | -18% | 0% | 0% | -22% | 0% | 0% | -19% | 0% | -9% | -9% |
| 58000 - Freight | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 59000 - Miscellaneous | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 59999 - Inventory Adjustment | 2% | 2% | 0% | -5% | 0% | -1% | 1% | 2% | -3% | 0% | 0% | -2% | 1% | 0% | 0% |
| **Total** | **-44%** | **-49%** | **-80%** | **-62%** | **-47%** | **-64%** | **-51%** | **-54%** | **-72%** | **-56%** | **-82%** | **-67%** | **-41%** | **-62%** | **-62%** |
| **Gross Margin** | **56%** | **51%** | **20%** | **38%** | **53%** | **36%** | **49%** | **46%** | **28%** | **44%** | **18%** | **33%** | **59%** | **38%** | **38%** |

## Monthly Financial Statements

- There are considerable variances in monthly results, particularly at quarter end when quarterly results are prepared and reviewed by the external accountant, Snyder Cohn, PC.

# IX.C MONTHLY INCOME STATEMENTS – JANUARY 2017 THROUGH JANUARY 2018

## Operating Expenses and Operating Income

| Company C | Jan-17 | Feb-17 | Mar-17 | Apr-17 | May-17 | Jun-17 | Jul-17 | Aug-17 | Sep-17 | Oct-17 | Nov-17 | Dec-17 | Jan-18 | 2017 | TTM 1/2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Operating Expenses | | | | | | | | | | | | | | | |
| 60000 - Salaries | (141,937) | (136,862) | (150,178) | (152,813) | (153,429) | (228,656) | (172,523) | (147,846) | (188,156) | (109,874) | (145,624) | (204,432) | (149,783) | (1,932,330) | (1,940,176) |
| 60005 - Salaries - Officers | (7,846) | (7,846) | (7,846) | (7,846) | (7,846) | (7,846) | (11,769) | (7,846) | (7,846) | (7,846) | (7,846) | (179,769) | (7,846) | (270,000) | (270,000) |
| 60110 - Payroll Taxes | (19,506) | (12,276) | (11,831) | (11,866) | (11,836) | (39,295) | 10,641 | (11,308) | (14,249) | (8,470) | (10,373) | (21,204) | (13,512) | (161,573) | (155,579) |
| 60200 - Auto | (200) | (400) | - | (200) | (200) | (200) | (200) | 530 | (4,000) | - | (400) | - | (200) | (5,270) | (5,270) |
| 60220 - Auto-Maintenance | (1,468) | (692) | (2,111) | (111) | (1,454) | (180) | - | (1,865) | (108) | (645) | (35) | (246) | (75) | (8,916) | (7,523) |
| 60221 - Metro Card | (412) | (749) | (677) | (936) | (786) | (786) | (786) | (1,063) | (806) | (806) | (806) | (819) | (825) | (9,432) | (9,845) |
| 60223 - Auto-GPS Tracking Expense | (280) | (280) | (280) | (280) | (85) | (313) | (335) | (270) | (270) | | | (270) | - | (2,660) | (2,381) |
| 60224 - Auto-Reg. Fees And Emissions | - | - | - | - | (90) | (298) | - | - | (203) | (354) | - | - | - | (944) | (944) |
| 60225 - Auto- Citations | (285) | (247) | (138) | (154) | - | (177) | (154) | (110) | (452) | (146) | - | (29) | - | (1,893) | (1,608) |
| 60241 - Employee Training | (13,761) | (5,085) | (8,145) | (6,520) | (5,050) | (10,234) | - | (10,067) | (6,322) | (381) | (4,529) | (4,164) | (41) | (74,259) | (60,538) |
| 60300 - Employee Incentives | (150) | - | (1,950) | (250) | (750) | (950) | (300) | - | (300) | (500) | - | (500) | (500) | (5,650) | (6,000) |
| 60350 - Life Insurance | (1,431) | - | (1,252) | (626) | (2,260) | - | (2,544) | - | - | - | - | (2,475) | - | (10,588) | (9,157) |
| 60400 - Medical Insurance | (3,414) | (5,550) | (6,127) | (5,839) | (5,849) | (5,495) | (2,438) | (18,928) | 14,757 | (6,356) | (5,388) | (1,968) | (5,388) | (52,595) | (54,568) |
| 60401 - HSA Reimbursment Account | (9,668) | (4,915) | (3,987) | (11,779) | (6,713) | (10,898) | (10,764) | (15,231) | (18,078) | (6,421) | (7,407) | (6,923) | (6,522) | (112,783) | (109,637) |
| 60443 - 401k Retirement Plan, PS/CB contributions | - | - | - | - | - | - | - | - | - | - | - | (400,562) | - | (400,562) | (400,562) |
| 60460 - Insurance-Auto | (6,677) | (4,732) | (4,673) | (7,147) | (5,340) | (5,125) | (3,559) | (5,585) | (2,409) | (11,077) | (2,175) | (2,176) | (2,972) | (60,674) | (56,969) |
| 60500 - Marketing | (1,824) | (400) | (4,585) | - | (12,162) | (2,266) | (441) | (795) | (1,900) | (5,309) | (880) | (2,734) | - | (33,296) | (31,471) |
| 60550 - Telephone | (150) | (150) | (150) | (251) | (204) | (166) | (320) | (240) | (305) | (283) | (313) | (279) | (189) | (2,812) | (2,850) |
| 60590 - Fuel Charges | (3,053) | (949) | (1,891) | (6,054) | - | (1,957) | (1,052) | (3,436) | 2,879 | (1,663) | (1,537) | (329) | (1,773) | (19,043) | (17,763) |
| 60600 - Parking | (1,467) | (1,422) | (970) | (809) | (1,770) | (821) | (2,001) | (1,295) | (1,471) | (2,101) | (1,261) | (1,092) | (1,070) | (16,479) | (16,083) |
| 60610 - Temporary Help | (1,356) | (972) | - | - | - | - | - | - | - | - | - | - | - | (2,328) | (972) |
| 60620 - Tools For Technicians | (12) | - | - | (13) | (26) | - | (27) | (89) | (52) | - | (66) | (26) | - | (311) | (300) |
| 60660 - Uniforms | 268 | (92) | - | - | (460) | (303) | (444) | - | - | (1,008) | (384) | (120) | (136) | (2,542) | (2,946) |
| 60816 - Accounting | (5,000) | (12,000) | (20,480) | (5,500) | (21,500) | (15,000) | (4,650) | - | (10,440) | - | - | (7,887) | (360) | (102,457) | (97,817) |
| 60826 - Bad Debt Provision | (64) | (0) | (620) | (1,164) | - | - | (181) | - | - | - | (3,259) | (3,881) | (27,474) | (9,170) | (36,580) |
| 60827 - Credit Card Fees | (620) | (1,175) | (876) | (2,152) | (703) | (637) | (1,054) | (662) | (1,075) | (980) | (1,510) | (782) | (925) | (12,225) | (12,531) |
| 60828 - Bank Fees | 52 | - | - | (4,711) | - | - | - | (3,307) | - | - | - | - | - | (7,966) | (8,018) |
| 60829 - Charitable Contributions | - | - | - | - | - | (2,000) | - | - | - | - | - | - | - | (2,000) | (2,000) |
| 60831 - Consulting | (1,755) | (2,079) | (10,713) | (2,098) | (1,285) | (4,759) | (5,317) | (2,500) | (2,728) | - | 2,700 | (338) | (2,545) | (30,873) | (31,663) |
| 60837 - Dues & Subscriptions | - | - | - | - | - | (1,100) | - | - | - | - | - | - | - | (1,100) | (1,100) |
| 60839 - Employee Meals | (28) | (46) | - | - | - | - | (241) | - | (227) | (15) | (1,170) | (2,305) | - | (4,033) | (4,005) |
| 60842 - GSA Fee | (17,058) | - | - | (11,453) | (345) | (2,198) | (18,256) | - | - | (17,786) | - | - | - | (67,096) | (50,038) |
| 60847 - 401k Safe Harbor Employer Contributions | (1,784) | (7,195) | (3,707) | (5,570) | (1,910) | (9,325) | (3,696) | (5,216) | (1,796) | (3,687) | (5,446) | (3,585) | (3,637) | (52,916) | (54,769) |
| 60848 - Legal Fees | (1,017) | (10,475) | (3,092) | - | (4,158) | (2,878) | - | - | (9,392) | (460) | (3,373) | (5,487) | (3,486) | (40,332) | (42,801) |
| 60849 - Office Cleaning Service | (300) | (450) | (300) | (300) | (150) | (300) | (300) | (300) | (228) | (450) | (650) | (600) | (200) | (4,328) | (4,228) |
| 60855 - Pension Account Administrative Fees | (4,544) | - | - | (4,735) | - | - | (7,013) | - | - | (3,962) | (1,622) | - | (5,813) | (21,876) | (23,144) |
| 60856 - Office Expense | (3,063) | (794) | (3,501) | (2,122) | (3,180) | (4,452) | (1,314) | (3,305) | (2,404) | (2,387) | (444) | (135) | (367) | (27,101) | (24,405) |
| 60857 - Payroll Servicing Fee | (817) | (528) | (915) | (535) | (535) | (804) | (542) | (550) | (546) | (546) | (539) | (786) | (532) | (7,646) | (7,360) |
| 60858 - Postage-FEDEX-UPS | (3,573) | (2,561) | (1,804) | (2,196) | (1,482) | (1,423) | (1,683) | (1,542) | (2,200) | (2,326) | (1,475) | (1,589) | (1,757) | (23,855) | (22,040) |
| 60862 - Company C - Deliveries | (3,686) | (2,295) | (2,194) | (2,170) | (1,110) | - | - | - | - | - | - | - | - | (11,455) | (7,770) |
| 60865 - Rent | (8,972) | (8,972) | (10,252) | (8,972) | (8,972) | (8,972) | (8,972) | (8,972) | (8,972) | (8,972) | (8,972) | (8,972) | (8,972) | (108,948) | (108,948) |
| 60866 - Xerox Taxes charges | (2,341) | (6,221) | 15,218 | (2,648) | (1,186) | (3,671) | (951) | (2) | - | (19) | (369) | 52 | 23 | (2,139) | 225 |
| 60867 - Repairs and Maintenance | (1,792) | - | - | - | - | - | - | - | - | - | - | - | - | (1,792) | - |
| 60868 - Security System | - | - | (222) | - | - | (232) | - | - | (232) | - | - | (232) | - | (919) | (919) |
| 60870 - Taxes and License | - | (3,561) | (3,115) | (2,004) | - | 619 | (34) | - | - | (103) | (4,741) | (7,165) | - | (20,106) | (20,106) |
| 60875 - Sftwre & Hrdwre Support & Exp | (1,731) | (1,742) | (1,804) | (1,763) | (1,763) | (2,263) | (1,932) | (1,868) | (2,169) | (1,848) | (1,874) | (3,156) | (1,515) | (23,913) | (23,697) |
| 60876 - Trash Removal | (180) | (180) | (180) | (180) | (180) | (185) | - | (185) | - | - | (740) | (190) | (190) | (2,202) | (2,212) |
| 60877 - Travel Expenses | (2,908) | (615) | (4,847) | (587) | (1,011) | (895) | (1,780) | (643) | - | (2,414) | (2,036) | (1,690) | - | (19,425) | (16,517) |
| 60880 - Utilities | - | - | - | - | - | - | - | - | - | - | - | (16) | (69) | (16) | (85) |
| 60881 - Vendor Late Fees | 79 | - | - | - | (15) | - | - | - | - | - | - | - | - | 64 | (15) |
| 60882 - Utilities Pepco | (641) | (698) | (618) | (621) | (690) | (476) | (929) | (1,105) | (992) | (1,037) | (951) | (645) | (667) | (9,403) | (9,429) |
| 60883 - Utilities Comcast- High Speed Internet | (1,009) | (1,010) | (1,019) | (1,025) | (1,022) | (1,036) | (1,174) | (1,119) | (1,122) | (1,125) | (191) | (2,081) | (1,128) | (12,933) | (13,053) |
| 60885 - Utilities Verizon - Fax Lines | (2,075) | (2,550) | (1,927) | (2,716) | (1,640) | (1,675) | (1,370) | (1,887) | (1,610) | (2,317) | (1,870) | (1,496) | (1,490) | (23,132) | (22,547) |
| 60887 - Aflac Expense | (152) | (228) | (152) | (303) | - | (303) | - | (63) | 31 | 198 | (3) | 311 | (191) | (663) | (702) |
| 60900 - Other Expenses | - | 6,510 | (6,843) | 824 | (10) | - | (377) | (150) | - | - | - | - | (170) | (45) | (216) |
| 60901 - Payables Sales Tax | (13) | (95) | (141) | 229 | (65) | (95) | 305 | - | (22) | (59) | (131) | - | (108) | (86) | (181) |
| 91150 - State Income Tax DC | - | - | - | - | - | - | - | - | (37,226) | - | - | - | - | (37,226) | (37,226) |
| 91151 - State Income Tax-GA | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 91152 - State Income Tax-NC | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Total** | **(279,620)** | **(242,583)** | **(270,895)** | **(277,967)** | **(269,223)** | **(380,028)** | **(260,479)** | **(258,819)** | **(312,642)** | **(213,533)** | **(227,689)** | **(882,773)** | **(252,405)** | **(3,876,251)** | **(3,849,036)** |
| **Operating Income** | **186,350** | **122,262** | **(28,207)** | **636** | **269,478** | **178,125** | **201,550** | **181,983** | **59,334** | **255,541** | **(60,148)** | **(383,707)** | **327,190** | **983,196** | **1,124,036** |

| Company C | Jan-17 | Feb-17 | Mar-17 | Apr-17 | May-17 | Jun-17 | Jul-17 | Aug-17 | Sep-17 | Oct-17 | Nov-17 | Dec-17 | Jan-18 | 2017 | TTM 1/2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Operating Expenses | | | | | | | | | | | | | | | |
| 60000 - Salaries | -17% | -19% | -12% | -21% | -15% | -15% | -18% | -15% | -14% | -10% | -16% | -14% | -15% | -15% | -15% |
| 60005 - Salaries - Officers | -1% | -1% | -1% | -1% | -1% | -1% | -1% | -1% | -1% | -1% | -1% | -12% | -1% | -2% | -2% |
| 60110 - Payroll Taxes | -2% | -2% | -1% | -2% | -1% | -3% | 1% | -1% | -1% | -1% | -1% | -1% | -1% | -1% | -1% |
| 60200 - Auto | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60220 - Auto-Maintenance | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60221 - Metro Card | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60223 - Auto-GPS Tracking Expense | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60224 - Auto-Reg. Fees And Emissions | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60225 - Auto- Citations | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60241 - Employee Training | -2% | -1% | -1% | -1% | 0% | -1% | 0% | -1% | 0% | 0% | 0% | 0% | 0% | -1% | 0% |
| 60300 - Employee Incentives | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60350 - Life Insurance | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60400 - Medical Insurance | 0% | -1% | -1% | -1% | -1% | 0% | 0% | -2% | 1% | -1% | -1% | 0% | -1% | 0% | 0% |
| 60401 - HSA Reimbursment Account | -1% | -1% | 0% | -2% | -1% | -1% | -1% | -2% | -1% | -1% | -1% | 0% | -1% | -1% | -1% |
| 60443 - 401k Retirement Plan, PS/CB contributions | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | -27% | 0% | -3% | -3% |
| 60460 - Insurance-Auto | -1% | -1% | 0% | -1% | -1% | 0% | 0% | -1% | 0% | -1% | 0% | 0% | 0% | 0% | 0% |
| 60500 - Marketing | 0% | 0% | 0% | 0% | -1% | 0% | 0% | 0% | 0% | -1% | 0% | 0% | 0% | 0% | 0% |
| 60550 - Telephone | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60590 - Fuel Charges | 0% | 0% | 0% | -1% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60600 - Parking | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60610 - Temporary Help | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60620 - Tools For Technicians | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60660 - Uniforms | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60816 - Accounting | -1% | -2% | -2% | -1% | -2% | -1% | 0% | 0% | -1% | 0% | 0% | -1% | 0% | -1% | -1% |
| 60826 - Bad Debt Provision | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | -3% | 0% | 0% |
| 60827 - Credit Card Fees | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60828 - Bank Fees | 0% | 0% | 0% | -1% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60829 - Charitable Contributions | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60831 - Consulting | 0% | 0% | -1% | 0% | 0% | 0% | -1% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60837 - Dues & Subscriptions | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60839 - Employee Meals | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60842 - GSA Fee | -2% | 0% | 0% | -2% | 0% | 0% | -2% | 0% | 0% | -2% | 0% | 0% | 0% | -1% | 0% |
| 60847 - 401k Safe Harbor Employer Contributions | 0% | -1% | 0% | -1% | 0% | -1% | 0% | -1% | 0% | 0% | -1% | 0% | 0% | 0% | 0% |
| 60848 - Legal Fees | 0% | -1% | 0% | 0% | 0% | 0% | 0% | 0% | -1% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60849 - Office Cleaning Service | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60855 - Pension Account Administrative Fees | -1% | 0% | 0% | -1% | 0% | 0% | -1% | 0% | 0% | 0% | 0% | 0% | -1% | 0% | 0% |
| 60856 - Office Expense | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60857 - Payroll Servicing Fee | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60858 - Postage-FEDEX-UPS | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60862 - Company C - Deliveries | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60865 - Rent | -1% | -1% | -1% | -1% | -1% | -1% | -1% | -1% | -1% | -1% | -1% | -1% | -1% | -1% | -1% |
| 60866 - Xerox Taxes charges | 0% | -1% | 1% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60867 - Repairs and Maintenance | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60868 - Security System | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60870 - Taxes and License | 0% | -1% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | -1% | 0% | 0% | 0% | 0% |
| 60875 - Sftwre & Hrdwre Support & Exp | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60876 - Trash Removal | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60877 - Travel Expenses | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60880 - Utilities | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60881 - Vendor Late Fees | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60882 - Utilities Pepco | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60883 - Utilities Comcast- High Speed Internet | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60885 - Utilities Verizon - Fax Lines | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60887 - Aflac Expense | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60900 - Other Expenses | 0% | 1% | -1% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60901 - Payables Sales Tax | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 91150 - State Income Tax DC | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | -3% | 0% | 0% | 0% | 0% | 0% | 0% |
| 91151 - State Income Tax-GA | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 91152 - State Income Tax-NC | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| **Total** | **-34%** | **-34%** | **-23%** | **-38%** | **-27%** | **-24%** | **-27%** | **-27%** | **-23%** | **-20%** | **-24%** | **-59%** | **-26%** | **-30%** | **-30%** |
| **Operating Income** | **23%** | **17%** | **-2%** | **0%** | **27%** | **11%** | **21%** | **19%** | **4%** | **24%** | **-6%** | **-26%** | **33%** | **8%** | **9%** |

### Monthly Financial Statements

- There are considerable variances in monthly results, particularly at quarter end when quarterly results are prepared and reviewed by the external accountant, Snyder Cohn, PC.



FARRELL ADVISORY INC.

## Non-Operating Expenses and Adjustments and EBITDA

| Company C | Jan-17 | Feb-17 | Mar-17 | Apr-17 | May-17 | Jun-17 | Jul-17 | Aug-17 | Sep-17 | Oct-17 | Nov-17 | Dec-17 | Jan-18 | 2017 | TTM 1/2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Non - Operating Items** | | | | | | | | | | | | | | | |
| 49001 - Rebates | - | - | 1,100 | 2,000 | 11,647 | 2,138 | 1 | - | 29,569 | - | - | - | - | 46,455 | 46,455 |
| 49003 - Interest Income Receiveable | 10 | 9 | 2,012 | 9 | 11 | 1,878 | - | - | - | - | - | - | - | 3,930 | 3,919 |
| 60822 - Interest Expense | (12,144) | (10,868) | (9,916) | (10,034) | (16,033) | (13,514) | (12,935) | (12,853) | (11,997) | (15,924) | (13,498) | (10,693) | (15,011) | (150,408) | (153,275) |
| 79450 - Finance Charges | - | - | - | - | - | - | - | (50) | (25) | - | - | - | - | (75) | (75) |
| 91170 - State Income Tax - Outside DC/MD | - | - | - | (1,005) | - | 1,005 | - | - | - | - | - | - | - | - | - |
| **Total** | **(12,133)** | **(10,858)** | **(6,804)** | **(9,029)** | **(4,375)** | **(8,493)** | **(12,934)** | **(12,903)** | **17,547** | **(15,924)** | **(13,498)** | **(10,693)** | **(15,011)** | **(100,098)** | **(102,975)** |
| **Net Income/(Loss):** | **174,217** | **111,403** | **(35,011)** | **(8,393)** | **265,103** | **169,632** | **188,616** | **169,080** | **76,881** | **239,617** | **(73,646)** | **(394,400)** | **312,180** | **883,098** | **1,021,061** |
| **Technical Adjustments** | | | | | | | | | | | | | | | |
| 49003 - Interest Income Receiveable | (10) | (9) | (2,012) | (9) | (11) | (1,878) | - | - | - | - | - | - | - | (3,930) | (3,919) |
| 60822 - Interest Expense | 12,144 | 10,868 | 9,916 | 10,034 | 16,033 | 13,514 | 12,935 | 12,853 | 11,997 | 15,924 | 13,498 | 10,693 | 15,011 | 150,408 | 153,275 |
| 91170 - State Income Tax - Outside DC/MD | - | - | - | 1,005 | - | (1,005) | - | - | - | - | - | - | - | - | - |
| 49900 - Interest Income | - | - | - | - | - | (609) | (712) | (582) | 41 | (554) | (540) | (526) | (513) | (3,483) | (3,996) |
| 57910 - Depreciation | - | - | 271,372 | - | 1,015 | 276,057 | - | - | 302,167 | - | - | 292,617 | - | 1,143,228 | 1,143,228 |
| **Total** | **12,133** | **10,858** | **279,276** | **11,029** | **17,038** | **286,079** | **12,223** | **12,271** | **314,205** | **15,370** | **12,957** | **302,784** | **14,498** | **1,286,224** | **1,288,588** |
| **EBITDA, As Reported** | **186,350** | **122,262** | **244,265** | **2,636** | **282,141** | **455,711** | **200,838** | **181,351** | **391,086** | **254,987** | **(60,688)** | **(91,616)** | **326,678** | **2,169,322** | **2,309,649** |
| **Quality of Earnings Adjustments** | | | | | | | | | | | | | | | |
| 60443 - 401k Retirement Plan, PS/CB contributions | - | - | - | - | - | - | - | - | - | - | - | 400,562 | - | 400,562 | 400,562 |
| Personnel Education Expenses | 2,712 | 2,712 | 2,712 | 2,712 | 2,712 | 2,712 | 2,712 | 2,712 | 2,712 | 2,712 | 2,712 | 2,712 | 2,712 | 32,539 | 32,539 |
| Related Party Lease in Excess of Market | 2,800 | 2,800 | 2,800 | 2,800 | 2,800 | 2,800 | 2,800 | 2,800 | 2,800 | 2,800 | 2,800 | 2,800 | 2,800 | 33,600 | 33,600 |
| **Total** | 5,512 | 5,512 | 5,512 | 5,512 | 5,512 | 5,512 | 5,512 | 5,512 | 5,512 | 5,512 | 5,512 | 406,074 | 5,512 | 466,701 | 466,701 |
| **EBITDA, As Adjusted** | **191,862** | **127,774** | **249,776** | **8,148** | **287,653** | **461,222** | **206,350** | **186,863** | **396,597** | **260,498** | **(55,177)** | **314,457** | **332,189** | **2,636,023** | **2,776,350** |
| Difference | | | | | | | | | | | | | | 228,417 | |
| **Per Original Information** | | | | | | | | | | | | | | **2,864,440** | |

| Company C | Jan-17 | Feb-17 | Mar-17 | Apr-17 | May-17 | Jun-17 | Jul-17 | Aug-17 | Sep-17 | Oct-17 | Nov-17 | Dec-17 | Jan-18 | 2017 | TTM 1/2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Non - Operating Items** | | | | | | | | | | | | | | | |
| 49001 - Rebates | 0% | 0% | 0% | 0% | 1% | 0% | 0% | 0% | 2% | 0% | 0% | 0% | 0% | 0% | 0% |
| 49003 - Interest Income Receiveable | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60822 - Interest Expense | -1% | -2% | -1% | -1% | -2% | -1% | -1% | -1% | -1% | -2% | -1% | -1% | -2% | -1% | -1% |
| 79450 - Finance Charges | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 91170 - State Income Tax - Outside DC/MD | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| **Total** | **-1%** | **-2%** | **-1%** | **-1%** | **0%** | **-1%** | **-1%** | **-1%** | **1%** | **-2%** | **-1%** | **-1%** | **-2%** | **-1%** | **-1%** |
| **Net Income/(Loss):** | **21%** | **16%** | **-3%** | **-1%** | **26%** | **11%** | **20%** | **18%** | **6%** | **23%** | **-8%** | **-26%** | **32%** | **7%** | **8%** |
| **Technical Adjustments** | | | | | | | | | | | | | | | |
| 49003 - Interest Income Receiveable | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 60822 - Interest Expense | 1% | 2% | 1% | 1% | 2% | 1% | 1% | 1% | 1% | 2% | 1% | 1% | 2% | 1% | 1% |
| 91170 - State Income Tax - Outside DC/MD | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 49900 - Interest Income | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 57910 - Depreciation | 0% | 0% | 23% | 0% | 0% | 18% | 0% | 0% | 22% | 0% | 0% | 19% | 0% | 9% | 9% |
| **Total** | **1%** | **2%** | **23%** | **2%** | **2%** | **18%** | **1%** | **1%** | **23%** | **1%** | **1%** | **20%** | **1%** | **10%** | **10%** |
| **EBITDA, As Reported** | **23%** | **17%** | **20%** | **0%** | **28%** | **29%** | **21%** | **19%** | **29%** | **24%** | **-7%** | **-6%** | **33%** | **17%** | **18%** |
| **Quality of Earnings Adjustments** | | | | | | | | | | | | | | | |
| 60443 - 401k Retirement Plan, PS/CB contributions | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 27% | 0% | 3% | 3% |
| Personnel Education Expenses | | | | | | | | | | | | | | | |
| Related Party Lease in Excess of Market | | | | | | | | | | | | | | | |
| **Total** | 1% | 1% | 0% | 1% | 1% | 0% | 1% | 1% | 0% | 1% | 1% | 27% | 1% | 4% | 4% |
| **EBITDA, As Adjusted** | **23%** | **18%** | **21%** | **1%** | **28%** | **30%** | **22%** | **19%** | **30%** | **25%** | **-6%** | **21%** | **34%** | **21%** | **21%** |
| Difference | | | | | | | | | | | | | | | |
| **Per Original Information** | | | | | | | | | | | | | | | |

### Original Information vs. Revised Monthly Financial Statements

- The original annual information provided for 2017 indicated that EBITDA, As Adjusted ($2,864k) was approximately $200k higher than the revised monthly results ($2,636k).

### Additional Reporting

- The financial statements should report through to EBITDA, As Reported, EBITDA, As Adjusted and Free Cash Flow.

# IX.D REPORTING STRUCTURE
## Suggestions (Further Work Required by Management or Advisor)

### Structure (The Order Should be Kept Constant on Every Report)

- **One Page Executive Summary (see right column for further information)**

- **Income Statement and KPIs**
  - Company
  - Divisions
    - Company B
    - Company G (based on per page used)
    - Other
  - Contracts by Division.

- **Balance Sheet, Cash Flow Statement and KPIs**
  - Company

### Reporting

- **Periods**
  - Month
  - Year-to-date
  - Forecast for the Year

- **Comparisons**
  - Periods:
    - Actual
    - Budget
    - Prior year period
  - Types of contracts:
    - Purchase and warranty
    - Purchase and maintenance
    - Maintenance only
    - Lease and maintenance
    - Company B Lease and maintenance
    - Rental and maintenance

### One Page Executive Summary

- **Income Statement**
  - Revenue
  - Gross Profit
  - Contribution
  - Net Income
  - EBITDA, As Adjusted
  - Capex
  - Lease payments
  - (Increase)/decrease in Net Working Capital
  - Free Cash Flow, As Adjusted
- **Key Performance Indicators**
  - Revenue growth
  - Margins (Gross Profit, Contribution and EBITDA, As Adjusted)
  - Percentage of revenue from full and open contracts.
  - Signed contracts but open equipment (and revenue lost and reasons)
  - Business Development:
    - Signed contracts ($).
    - Lost proposals ($) and reasons.
    - Lost recompetes ($) and reasons.
    - Percentage of revenue committed for the remainder of the year and the following year ($ and %).
    - Backlog ($) and Pipeline ($).
- **HR**
  - Work performed by subcontractor (% of total revenue).
  - Employee turnover.
  - Days after period end before all timesheets submitted and approved.
- **Working Capital**
  - Working Capital as Days Sales.
  - Billed accounts receivable greater than 30 days ($).
  - Unbilled revenue ($).
  - Average days post period end to issue invoices.
  - Accounts Payable greater than 30 days over due ($)
  - Company D
  - Company
- **Cash and Gross Debt ($).**

# Suggestions (1 of 2) (Further Work Required by Management or Advisor)

**By Company, Division, Revenue Stream and By Contract and by Contract Type**

- **Financials**
  - Revenue
  - Gross Profit
  - Contribution (includes external and internal leasing costs)
  - Net Income
  - EBITDA, As Adjusted
  - Capex
  - Lease payments
  - (Increase)/decrease in Net Working Capital
  - Free Cash Flow, As Adjusted

- **Margins**
  - Gross Profit
  - Contribution
  - Net income
  - EBITDA, As Adjusted

- **Revenue Streams**
  - Revenue
  - Gross Profit
  - Contribution (includes external and internal leasing costs)

- **Non-Financials**
  - Revenue, cost and profit per item by model
  - Revenue, cost and profit per page
  - Average service cost per equipment
  - Utilization % of equipment

- **Reliability**
  - Uptime
  - Downtime by reasons

**Balance Sheet**

- **Working Capital Metrics at Company Level (unless noted)**
  - Receivables:
    - Billed $ (At Company and contract levels) and Days Sales outstanding.
    - Unbilled (At Company and contract levels):
      - $ (At Company and contract levels) and Days Sales outstanding.
      - By Reason (e.g., At risk, award fee, invoiced next month, subcontractor).
    - Total ($ and Days outstanding).
  - Payables:
    - Accounts Payable ($, % and days outstanding).
      - Company D
      - Other
      - Company
    - Other Accrued Expenses ($ and days outstanding).
    - Total ($ and days outstanding).
  - Other net working capital assets ($ and days outstanding).
  - Total Working capital ($ and days outstanding).
  - Summary aging of accounts receivable and payable (% and %)
  - Net Debt:
    - Cash ($).
    - Gross debt ($).

# Suggestions (2 of 2) (Further Work Required by Management or Advisor)

## Performance Metrics

- **Subcontractor**
  - Internal vs. Internal mix:
    - Service costs.
    - Installation costs.

- **Service**
  - Number of toners replaced before say 2% empty.
  - Open service tickets and reasons.

- **Installations**
  - Outstanding installations and reasons.
  - Capex (actual and committed).

- **Invoicing (Company and Contract Level)**
  - Speed of invoicing (days after month end).
  - Credit notes issued (Number and $).

- **Employees**
  - Open Positions:
    - Number of Open positions together with reasons for (i) Employees; and (ii) Subcontractors.
  - Employee turnover.
  - Days after period end before all timesheets submitted and approved.
  - Outstanding performance reviews.

## Business Development

- **Pipeline**
  - Size:
    - Gross $
    - Discounted $
    - Average discount %
  - Status:
    - Prospecting
    - Identification
    - Qualification
    - Capture
    - Initial Proposal Development
    - Final Proposal Development
    - Under Evaluation
  - Contract type:
    - Full and Open
    - Set-aside
    - Women Owned
    - Small (revenue or number of employees)
    - Loss $ (and reasons)
- **Proposals**
  - Proposals made
  - Won $ (and competitor)
  - Loss $ (and reasons)
  - Outstanding ($)
- **Backlog**
  - Revenue and profitability by:
    - Present year by month.
    - By future years.

# IX.F EXCEPTION REPORTING
## Suggestions (Further Work Required by Management or Advisor)

- **Loss Proposals ($, reasons, customer, contract, reasons, competitor)**

- **Poor Performance**
  - By Equipment:
    - No revenue.
    - Bottom 10% profitability.
    - Excessive cost per page.
  - **Contracts:**
    - Contracts with too high or too low revenue and profit against budget.
    - Poor profitability for toner supplies.

- **Contracts**
  - Contract terms expiring or requiring new funding within 2 months.
  - Contracts not meeting contractual terms.
  - Complaints on contracts or missed customer targets.
  - Outstanding quotes ($, model and reasons):
    - To customers.
    - From vendors.

- **Accounts Receivable**
  - Written-off accounts receivable and unbilled revenue.

- **Servicing**
  - Excessive number of repairs in time periods (not just one month but for say 2 weeks, 1, 2 and 3 months).
  - Excessive down time
  - Outstanding servicing by reasons.
  - Open service tickets by reason.
  - Spiff cards ($) not collected.

- **Installations**
  - Capex committed.
  - Outstanding installations by reasons.
  - Non-collection of SPIFF cards.

- **Divisions**
  - EPA
  - Company B
  - Other

- **Revenue Streams**
  - Contractual
    - Purchase and warranty
    - Purchase and maintenance
    - Maintenance only
    - Lease and maintenance
    - Total solutions
    - Company B lease and maintenance
    - Rental and maintenance
  - Other
    - Page Pack
    - Repair and maintenance
    - Software
      - Recurring
      - One-Off
    - Sundry sales

- **Contract Type**
  - Full and Open
  - Set-aside
    - Women Owned
    - Small (revenue)
    - Small (number of employees)

- **Customer Type**
  - Prime
  - Subcontractor
    - End customer

# IX.G CATEGORIZATION WITHIN IT SYSTEM

## Suggestions (Further Work Required by Management or Advisor)

- **Purchase Methods**
- **Contract Vehicle**
  - GPO
  - GSA Schedule 36 “The Office, Imaging & Document Solution” Schedule
  - GSA Schedule 70 “IT” Schedule
  - GSA OASIS
  - Solutions for Enterprise Wide Procurement
- **SIN Code**
- **NAICS Code**
- **By State**
- **Reasons for Credit Notes**
  - Poor service
  - Credit and reinvoice
  - Others?

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