

# DoubledayTelecom, Inc.

Summary Report of the  
Measurement of Goodwill  
as of December 31, 2010

Drysdale  Valuation

**SAMPLE REPORT:** The names and amounts in this sample report are fictionalized and do not represent any actual individuals or companies. Any similarities to actual individuals or companies are purely coincidental.

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February 28, 2011

Abner Doubleday  
 Chief Executive Officer  
 DOUBLEDAY TELECOM, INC.  
 9999 Main Street  
 Cooperstown, New York 13326

Re: Goodwill Measurement

Dear Mr. Doubleday:

Drysdale Valuation, PLLC has performed Step 1 of a goodwill impairment test by measuring the fair value of DoubledayTelecom, Inc. and comparing it to the carrying amount of the enterprise as of December 31, 2010. The following summary report is intended to provide our analysis, including an estimate (opinion) of the fair value of DoubledayTelecom, Inc.

This measurement was performed solely to assist management in compliance with the provisions of Accounting Standards Codification Topic 350, *Intangibles—Goodwill and Other*, in connection with the annual audit of the Company's financial statements. The resulting estimate of value should not be used for any other purpose or by any other party.

Based on our analysis, as described in the following summary measurement report, we have concluded that the fair value of DoubledayTelecom, Inc. exceeds its carrying amount at December 31, 2010 and that a Step 2 analysis is not needed, as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Equity Value	\$ 24,870,000	\$ 25,587,000
Enterprise Value	\$ 71,991,000	\$ 72,708,000

This estimate and opinion of value is subject to the Statement of Assumptions and Limited Conditions found in the appendices to the report. This letter, and the following report, are a single document and are not to be considered separately.

Respectfully,  
 DRYSDALE VALUATION, PLLC



Don M. Drysdale, CPA/ABV, ASA

**SAMPLE REPORT: Not representative of any actual individuals or companies.**

**Drysdale Valuation, PLLC**

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# Introduction

## **Subject of the Measurement**

### **Subject Entity**

DoubledayTelecom, Inc. (DTI, Company or Reporting Unit) is a corporation organized under the laws of the State of New York. It provides telephone and other communication services to rural areas of New York, and is headquartered in Cooperstown, New York.

### **Subject Interest**

Doubleday Telecom, Inc. engaged Drysdale Valuation, PLLC to perform Step 1 of a fair value measurement analysis of the goodwill recorded on its balance sheet as of December 31, 2010 (Valuation Date).

## **Purpose of the Measurement**

This measurement is prepared in connection with the Company's annual financial statement audit, to determine a value in accordance with Accounting Standards Codification (ASC) Topic 350, *Intangibles—Goodwill and Others*. The report and measurement are restricted for this purpose only, and are not to be used for any other purpose or by any other party.

This report is not designed nor intended to be used for selling this business to outside individuals or other entities. It may not contain sufficient descriptive information to satisfy an uninformed prospective buyer of the Subject Interest. It is also not designed to adequately portray desirable qualities of the business, which may be informative to a potential buyer. Such information should be addressed in an offering document designed for a that purpose.

## **Standard of Value**

The standard of value is "fair value." The Glossary of the ASC defines fair value as:

*The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.*

1. Ibid., 820-10-35-5-a.
2. Ibid., 820-10-35-5-b.
3. Ibid., 820-10-35-7.
4. Ibid., 820-10-20.

## **Most Advantageous Market**

Fair value assumes the hypothetical transaction would occur in the principal market for the asset or liability,<sup>1</sup> or in the absence of a principal market, the most advantageous market.<sup>2</sup> In addition, fair value does not take into account transaction costs.<sup>3</sup>

In this case no principal market exists because the Subject Assets do not trade on any established market. We believe the most advantageous market would be private transactions involving others in the same industry.

## **Market Participant**

Market participants are buyers and sellers in the most advantageous market who are independent of each other, knowledgeable about the asset, have the ability to enter into the transaction, and who are not forced or compelled to enter into the transaction.<sup>4</sup> In this case, we believe a market participant would be other in the same industry having established business enterprises. These market participants would have some synergies and economies-of-scale to gain in the elimination of redundant administrative functions.

## **Highest and Best Use**

With regard to highest and best use, ASC states the following:

*A fair value measurement assumes the highest and best use of the asset by market participants, considering the use of the asset that is physically possible, legally permissible, and financially feasible at the measurement date. Highest and best use is determined based on the use of the asset by market participants, even if the intended use of the asset by the reporting entity is different. The highest and best use of the asset establishes the valuation premise used to measure the fair value of the assets, specifically:*

a. *In-use.* The highest and best use of the asset is in-use if the asset would provide maximum value to market participants principally through its use in combination with other assets as a group (as installed or otherwise configured for use). For example, that might be the case for certain nonfinancial assets.

b. *In-exchange.* The highest and best use of the asset is in-exchange if the asset would provide maximum value to market participants principally on a standalone basis. For example, that might be the case for a financial asset.<sup>5</sup>

We believe the highest and best use of the Subject Assets would be “in-use” of a telecommunications service provider.

### **Fair Value Hierarchy**

The ASC prioritizes the inputs to be used in fair value measurements as Level 1, Level 2 and Level 3 inputs.

Level 1 inputs are:

*Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.*

Level 2 inputs are:

*Inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly or indirectly.*

The list of Level 2 inputs provided in the ASC is lengthy and need not be included here. The most salient example of Level 2 inputs are quoted prices for similar assets or liabilities in active markets, and quoted prices for identical or similar assets.

Level 3 inputs are:

*Unobservable inputs for the asset or liability.*

Level 3 inputs are to be used to the extent that observable inputs are not available. They reflect the reporting units own assumptions about market participants.

### **Premise of Value**

Drysdale Valuation, PLLC has assumed that the Company will continue in its current form, operating its current line(s) of business. Drysdale Valuation, PLLC has also assumed that there is no planned or contemplated discontinuance of any line of business nor any liquidation of the Company.

### **Basis of Value**

The Company is the sole owner of the goodwill, and as such has complete control over its management and use.

The goodwill lacks marketability. Marketability (also referred to as liquidity) is the ability to sell and liquidate an ownership interest within a short period of time.

### **Measurement Report**

#### **American Society of Appraisers**

This engagement was conducted in accordance with the Business Valuation Standards (BVS) of the American Society of Appraisers (ASA) and is intended to be an appraisal, which is described by the BVS as follows:

*An Appraisal is the act or process of determining the value of a business, business ownership interest, security or intangible asset.*

*The objective of an appraisal is to express an unambiguous opinion as to the value of a business, business ownership interest, or security, which opinion is supported by all procedures that the appraiser deems to be relevant to the valuation.<sup>6</sup>*

This report is intended to be a “summary report.” The BVS calls for business valuation reports to comply with the minimum content requirements of Standard 10.2 of the Uniform Standards of Professional Appraisal Practice (USPAP).<sup>7</sup> Under USPAP this report is also referred to as a “Restricted Use Appraisal.”

5. Ibid., 820-10-35-10.

6. American Society of Appraisers, Business Valuation Standards, *BVS-I General Requirements for Developing a Business Valuation*, II(C)(1)(a), (b).

7. Ibid., BVS-VII

### **American Institute of CPAs**

This measurement engagement was conducted in accordance with the Statement on Standards for Valuation Services (SSVS) No. 1 of the American Institute of Certified Public Accountants (AICPA), which describes a valuation engagement as follows:

*Valuation engagement--A valuation analyst performs a valuation engagement when (1) the engagement calls for the valuation analyst to estimate the value of a subject interest and (2) the valuation analyst estimates the value (as outlined in paragraphs 23-45) and is free to apply the valuation approaches and methods he or she deems appropriate in the circumstances. The valuation analyst expresses the results of the valuation as a conclusion of value; the conclusion may be either a single amount or a range.<sup>8</sup>*

This report is intended to be a summary report, estimating<sup>9</sup> a conclusion of value. SSVS describes a summary report as follows:

*A summary report is structured to provide an abridged version of the information that would be provided in a detailed report, and therefore need not contain the same level of detail as a detailed report.<sup>10</sup>*

Differences exist in the terminology of the SBVS and the SSVS. We have generally used the terminology of the SSVS in this report.

This valuation was performed as of December 31, 2010 and this report was issued on February 28, 2011. We have neither obligation nor responsibility to update this report for events, circumstances or information that comes to our attention subsequent to the date of this report.

### **Jurisdictional Exception**

We have invoked the jurisdictional exceptions permitted by the BVS and the SSVS by complying with the fair value hierarchy as contained in ASC 820 and limiting our analysis to the publicly traded guideline company method of the market approach. This is described in more detail later in this report.

### **Valuator Independence**

Drysdale Valuation, PLLC is an independent valuation firm. No owner, officer or employee of Drysdale Valuation, PLLC has any existing or contemplated financial interest in the Company. Drysdale Valuation, PLLC is not, nor has it acted as an advocate for the Company. The fee for this analysis was not based on the opinion of value provided.

### **Valuation Process**

In performing this analysis, we have viewed the Company from the standpoint of an independent, outside investor. We have considered factors a reasonable and prudent outside investor would consider, for the purpose of estimating a fair and reasonable rate of return such an investor would expect to receive.

The value of a business enterprise, at its most basic level, is the function of the following:

- ◆ Expected cash flows to the owner;
- ◆ Expected future growth in those cash flows; and
- ◆ Perceived risks associated with the investment.

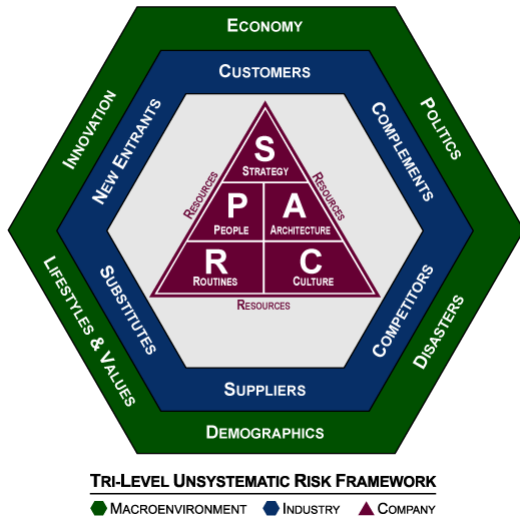
One of the tenets of valuation is that investors are risk averse. This means that investors will either avoid risk or expect to earn a higher rate of return on investments that carry higher risk. One of the objectives of this analysis is to develop a risk profile, and use it to develop an appropriate expected rate of return on investment in the Company.

8. American Institute of Certified Public Accountants, SSVS No. 1, *Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset*, ¶ 21a.

9. The American Society of Appraisers uses the term "estimate" in connection with a Limited Appraisal, which is lower in scope than an "opinion." It uses the term, "opinion," in connection with an Appraisal, its highest scope of work. On the other hand, the AICPA uses the term, "estimate" in connection with its highest scope of work. For this report, the terms opinion and estimate are considered synonymous.

10. American Institute of Certified Public Accountants, SSVS No. 1, *Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset*, ¶21a.

### Exhibit 1: Tri-Level Risk Framework



Source: Beckmill Research. Used with permission.

To develop the risk profile, we have used the tri-level risk framework developed by Warren Miller at Beckmill Research. It breaks unsystematic<sup>11</sup> risk into three broad categories: macroenvironmental risk, industry risk, and company risk (see Exhibit 1). The first of these categories, macroenvironmental risk, focuses on risks external to the Company, and over which it has no control. The second, industry risk, represents items over which the Company may have some control. The last, company risk, includes items within the control of the Company. Each of these categories is addressed in this report, and summarized in the Risk Profile Chapter.

We have considered the factors stated in IRS Revenue Ruling 59-60 in developing the risk profile. They include both internal and external influences that can impact the value of the Subject Interest. These factors are as follows:

- ◆ The nature of the business and the history of the enterprise from its inception.
- ◆ The economic outlook in general and the condition and outlook of the specific industry in particular.
- ◆ The book value of the stock and financial condition of the business.
- ◆ The earnings capacity of the company.

11. The term, unsystematic risk will be explained in greater detail later in this report.

12. Rev. Rul. 5-60, §4.01.

- ◆ The dividend-paying capacity.
- ◆ Whether or not the enterprise has goodwill or other intangible value.
- ◆ Sales of the stock and size of the block of stock to be valued.
- ◆ The market price of stocks of corporations engaged in the same or similar line of business, having their stock actively traded in a free and open market, either on an exchange or over-the-counter.<sup>12</sup>

The procedures employed in valuing the Subject Interest included such steps as we considered necessary, including but not limited to following:

- ◆ A visit to the Company's headquarters located in Cooperstown, New York on January 31, 2011;
- ◆ Discussions with management regarding the past and future operations of the business;
- ◆ An analysis of the historical and estimated future financial condition of the Company;
- ◆ An analysis of the industry in which the Company operates;
- ◆ An analysis of the macroenvironmental conditions, including economic conditions, as of the valuation date;
- ◆ A comparative analysis where possible of guideline companies; and,
- ◆ An analysis of other pertinent facts and data resulting in the conclusion of value.

### Sources of Information

We have read, studied, considered, and relied on various information sources for this valuation. These included both internal and external information sources. A detailed listing of information we relied upon is in the appendices to this report.

The approaches and methodologies used in this valuation did not comprise an examination in accordance with

generally accepted auditing standards (GAAS). The objective of a GAAS examination is to express an opinion regarding the fair presentation of historical or prospective financial statements or other financial information in accordance with generally accepted accounting principles (GAAP). Because we did not perform an examination in accordance with GAAS, we express no opinion and accept no responsibility for the accuracy and completeness of the financial information or other data provided to us by others. We do assume that the financial and other information provided to us is accurate and complete, and we have relied upon it in performing this valuation.

### ***Limiting Conditions***

We include a Statement of Assumptions and Limiting Conditions as an appendix to this report. This Statement of Assumptions and Limiting Conditions describes important conditions, restrictions, and assumptions used in this analysis. We have further referenced additional assumptions and restrictions throughout this report. Users of this report should read and study the entire report in order to understand the conclusion of value.

# Risk Profile

*Based on the risks identified, we believe an appropriate discount rate for an investment in the Company is appropriately larger than a rate of return expected for an investment in a small publicly traded stock, but less than the return expected for an investment in a late-stage venture capital investment.*

In previous sections of this report we analyzed the risks associated with investing or continuing to hold an investment in the Company. In this section, we summarize the risks previously identified, and develop an overall risk profile.

## Types of Risk

Whenever money is invested, an investor risks losing his or her money. As the risk of loss increases, an investor is willing to pay less for the investment. When the price an investor is willing to pay decreases, the potential return on the investment increases. Thus, the value of an investment relates inversely to the risks associated with it. Financial theory identifies three broad categories of risk: maturity risk, systematic risk, and unsystematic risk.

### Maturity Risk

Maturity risk is the risk that the value of an investment will change over time as a result of overall changes in interest rates. This risk increases as the expected holding period of an investment increases.

### Systematic Risk

Systematic risk is the risk inherent to an entire market or market segment. It is also called market risk or un-diversifiable risk and includes such things as recessions, wars, political instability and other factors that affect a broad range of investments. Systematic risk cannot be mitigated by diversification.

### Unsystematic Risk

Unsystematic risk is the risk inherent in and unique to a specific entity. Investors can mitigate this risk through investment diversification. There are four primary sources of unsystematic risk:

## Exhibit 2: Entity Specific Risks

Factor	Risk Impact
Size	↑
Macroenvironment	○
Industry	○
Entity Specific Risks	↑

- ↑ indicates the factor poses an increased level of risk to an investment in the entity.
- indicates the factor poses a neutral level of risk to an investment in the entity.
- ↓ indicates the factor poses a decreased level of risk to an investment in the entity.

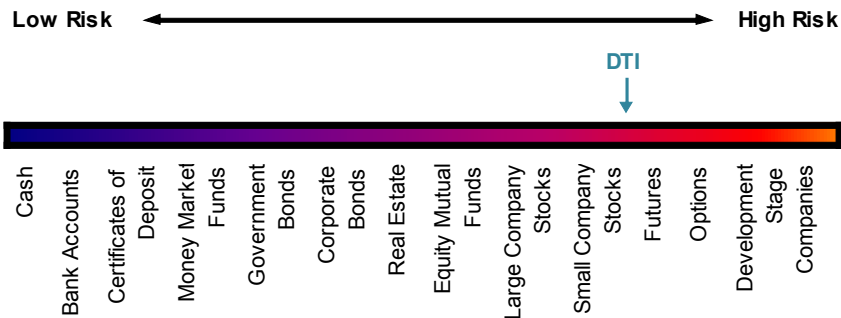
- ◆ the size of the subject entity;
- ◆ the macroenvironment;
- ◆ the industry; and,
- ◆ the company specific risks.

## Identified Risk of the Subject Entity

The maturity risk and systematic risk associated with an investment in DTI are inherent in the data used to develop an appropriate cost of capital (valuation multiple), as described later in this report. We have listed various unsystematic risk factors, what we believe their impact would be on the perceived risks of an investment in DTI, (see Exhibit 2), and summarized them as follows:

**Size.** Investments in small companies are typically considered more risky and carry a greater expected rate of return. This has been demonstrated by several studies. DTI is a small entity relative to the public guideline companies used to develop an applicable valuation

### Exhibit 3: Risk Spectrum



multiple. An investment in DTI is therefore considered more risky than alternative investments in large corporations.

**Macroenvironment.** We have not identified an increase in risk associated with macroenvironmental factors. We believe the risks associated with macroenvironmental factors are inherent in the valuation multiple used. This is because the public guideline companies, from which the valuation multiple was derived, operate in the same industry and are subject to the same macroenvironmental forces.

**Industry.** We have not identified an increase in risk associated with industry factors. We believe the risks associated with industry factors are inherent in the valuation multiple used. This is because the public guideline companies, from which the valuation multiple was derived, operate in the same industry and are subject to the same industry forces.

**Entity Specific Risks.** We have identified an increase in risk associated with entity specific factors. These include DTI having a poorer financial liquidity position, less revenue per employee and a longer accounts receivable collection period. Qualitatively, DTI, by itself, has less diversity of operations than the public guidelines. On the positive side, DTI has greater profitability. These factors appear to increase the risk of an investment in the Company.

### Risk Spectrum

As the risk of an investment increases, the potential return also increases. This expected return is intended to

compensate the investor for taking on additional risk as increased risk also brings with it a greater potential for incurring a loss. As a result, low-risk investments, like U.S. Government bonds, cash and cash equivalents, have low rates of return. High-risk investments, such as options, futures contracts, and speculative start-up enterprises, have high rates of return. In this sense, risk can be thought of as a spectrum ranging from low risk with corresponding low rates of return, to high risk with corresponding high rates of return. Based on previous assessments of risk related to DTI, we believe an investment in the Company is appropriately considered to be more risky than an investment in small publicly traded stocks (see Exhibit 3).

The inverse relationship between expected rates of return and value is connected to risk. As the risk (and expected rate of return) of an investment increases, the value of an investment decreases. Put another way, the value of a risky cash flow stream is less valuable than a less risky equivalent cash flow stream.

### Quantifying Risks

For valuation purposes, these risks need to be quantified. To do so, we looked to the rates of return expected on various types of investments ranging from low-risk, short-term government securities to venture capital financing (see Exhibit 4). In this context an investment in DTI, it being smaller than most small publicly traded business, suggests that an appropriate rate of return (discount rate) for DTI should be above rates applicable to small publicly traded stocks, but below late-stage venture capital investments.

#### Exhibit 4: Comparative Rates of Return

Rate	Asset Class
0.07% <sup>1</sup>	U.S. Treasury constant maturities - 1 month
4.13% <sup>1</sup>	U.S. Treasury constant maturities - 20 year
4.88% <sup>1</sup>	Corporate bonds - Moody's Aaa
5.98% <sup>1</sup>	Corporate bonds - Moody's Baa
3.25% <sup>1</sup>	Bank prime loan rate
14.22% <sup>2</sup>	Historical 20-year return on real estate investment trusts
10.90% <sup>3</sup>	Large publicly traded company stocks
13.71% <sup>3</sup>	Mid-cap publicly traded company stocks
18.23% <sup>3</sup>	Micro-cap publicly traded company stocks
20%-35% <sup>4</sup>	Venture capital expected returns for bridge financing
30%-50% <sup>4</sup>	Venture capital expected returns for late stage development
40%-60% <sup>4</sup>	Venture capital expected returns for early stage development
50%-70% <sup>4</sup>	Venture capital expected returns for seed-stage financing

<sup>1</sup> Federal Reserve Statistical Release, "H.15(519) Selected Interest Rates," (Board of Governors of the Federal Reserve System, January 3, 2011).

<sup>2</sup> Average annual total return on Real Estate Investment Trusts over the 20-year period ended 2010. Computed from data published by the National Association of Real Estate Investment Trusts.

<sup>3</sup> 2010 Ibbotson Stocks, Bonds, Bills and Inflation Valuation Yearbook, "Size-Decile Portfolios of the NYSE/AMEX/NASDAQ long-term Returns in Excess of CAPM, 1926 through 2009, p. 90.

<sup>4</sup> Scherlis, Daniel R. and William A. Sahlman, "A Method for Valuing High-Risk, Long Term, Investments: The Venture Capital Method," Harvard Business School Teaching Note 9-288-006, Boston: Harvard Business School Publishing, 1989.

# Measurement Approaches

*We have used the publicly traded guideline company method of the market approach. We believe this approach conforms with the fair value hierarchy outlined in ASC 820.*

## Valuation Approach Overview

The various approaches to valuing an ownership interest in a business or intangible asset are based in the economic principles of “future benefits” and “substitution.”

The principle of future benefits specifies that an investor will not pay more than today’s value of economic benefits to be received in the future. The principle of substitution specifies that an investor will not pay more for an asset than the cost of another asset that performs the same function. These principles are applied in the various approaches to value, namely the income approach, the market approach and the asset approach. Each of these approaches have corresponding methods that can be used to develop a value.

## Asset Approach

The asset approach (or cost approach) is based on the economic principle of substitution. In terms of an investment, the principle of substitution is that an investor will not pay more for an investment than the cost to purchase or create the same investment.

The underlying concept of the asset approach is simple. The value of the investment is the sum of its assets less its liabilities. When properly applied, asset approach methods can be highly complex. This approach not only considers physical assets, but also intangible assets such as trademarks, patents, customer relationships, and reputation, to name a few. This approach also considers actual liabilities as well as contingent liabilities that may exist. The asset approach recognizes that all economic value can be associated with the productive assets of the business, tangible and intangible.

## Income Approach

The income approach is based on the economic principle of future benefits. It uses the concept of the “time value of money” to determine value. The time value of money concept is that an amount of money available now is worth

more than the same amount in the future. The reason has to do with uncertainty and investment potential.

The receipt of an amount of money in the future is not completely certain. Events and circumstances may prevent the amount from being paid. Investors seek to be compensated for such risks. An amount available today can be invested and earn interest. The investor will have a greater amount of money in the future because of the interest earned. The sooner the money is available for investing, the more interest it can earn. Therefore, an amount of money is more valuable now than the same amount received in the future.

Under the income approach, value is computed as today’s value (present value) of expected future economic benefits to be received. The computation of the present value considers the risks associated with the investment. The risks are expressed in the rate of return that the investors seeks to achieve. This rate of return is often called the “cost of capital.”

The methods used in the income approach primarily include the discounted future cash flows (DCF) method and the capitalized earnings method.

## Market Approach

The market approach is based on the economic principle of substitution, but can also incorporate some elements of the principle of future benefits. It uses the concept of “efficient markets.” The efficient market hypothesis is that the market price of an investment will reflect and incorporate all relevant information related to the assets. It means that the trading price will always be equivalent to the fair market value of the investment.

This approach compares the subject entity to transactions involving reasonably similar companies whose values are known. The comparisons are used to develop a cost of capital based on the known values of the comparable companies. The cost of capital is usually expressed as a

valuation multiple. The multiple is then applied to an appropriate measure of economic benefit to arrive at a value.

The methods used in the market approach include actual transactions involving the subject investment, the private company transaction method and the publicly traded guideline company method.

### **Fair Value Hierarchy**

Our selection of an appropriate approach and underlying method of fair value measurement depends not only on the facts and circumstances of the case, but also on the fair value hierarchy outlined in ASC 820. This hierarchy gives priority to certain inputs used to develop fair value, as follows:

*... The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).<sup>13</sup>*

Level 1 inputs are defined as follows:

*Level 1 inputs are defined in the Subtopic as quoted prices (unadjusted) in active markets for*

*identical assets or liabilities that the reporting entity has the ability to access at the measurement date.<sup>14</sup>*

Level 2 inputs are defined as follows:

*Level 2 inputs are defined in this Subtopic as inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.<sup>15</sup>*

ASC 820 provides an extensive list of items that can be considered Level 2 inputs. At the top of this list is:

*Quoted prices for similar assets or liabilities in active markets.<sup>16</sup>*

Level 3 inputs are defined as follows:

*Level 3 inputs are defined in this Subtopic as unobservable inputs from the asset or liability.<sup>17</sup>*

Based on the guidance provided by the fair value hierarchy, we have applied Level 2 inputs from quoted prices for similar assets to determine the fair value of DTI's equity and enterprise value. Specifically we have used the publicly traded guideline company method of the market approach as described in the following chapter of this report.

13. Accounting Standards Codification Topic 820-10-35-37.

14. Ibid., 820-10-35-40.

15. Ibid., 820-10-35-47.

16. Ibid., 820-10-35-48a.

17. Ibid., 820-10-35-52.

# Market Approach

*We utilized valuation multiples from publicly traded guideline companies—adjusted to be more applicable to DTI—in determining the fair value of the enterprise and the equity.*

We have detailed the principal methods of the market approach in this section, including the methods considered and methods used.

## Guideline Public Company Method

The publicly traded guideline company method estimates value by comparing the subject entity to publicly traded companies that have their shares bought and sold on a stock exchange or over-the-counter. Financial information for publicly traded companies is a matter of public record, and their financial statements are available through the Securities and Exchange Commission (SEC). The trading prices for shares of publicly traded companies are available at any given time throughout a trading day. Historical daily low, high, and closing prices are published by various sources. This financial and other available information can be used to determine comparability of a publicly traded company and the subject entity. Further, such financial information, along with trading price data can be used to develop valuation multiples that can then be used to value the subject entity.

## Search for Public Company (“Guideline”) Comparables

There are fundamental differences between closely held entities and publicly traded companies. The shareholders of closely held entities often manage the companies themselves. Publicly traded companies usually hire professional management. Shareholders of closely held entities are frequently motivated to minimize taxable income. A primary goal of publicly traded companies is to maximize income. When closely held entities need additional capital investments, they have to provide it themselves, apply for loans, or get it from the profits of the Company. Publicly traded companies have access to the public equity markets.

The purpose of the publicly traded guideline company method is not to find companies that are exactly the same as the subject entity. Publicly traded guideline companies are used to develop an appropriate rate of return that an investor in the subject entity would expect to receive. In other words, they are used to develop an appropriate cost of capital. Given this fact, we searched for public companies that would have similar valuation factors. These factors include, but are not limited to the following:

### Exhibit 5: General Information on Public Guideline Companies

Name	Ticker	Employees	Price at Valuation Date				Shares Outstanding
			Low	High	Average	Close	
Alaska Communications Systems Group, Inc.	ALSK	812	\$11.10	\$11.26	\$11.18	\$11.10	44,484,000
Consolidated Communications Holdings, Inc.	CNSL	1,095	19.25	19.44	19.35	19.30	29,816,659
Shenandoah Telecommunications Co.	SHEN	451	18.59	19.02	18.81	18.73	23,738,000
SureWest Communications	SURW	893	10.55	10.71	10.63	10.70	13,908,000
Windstream Corporation	WIN	7,385	13.94	14.00	13.97	13.94	504,300,000

### Exhibit 6: Publicly Traded Guideline Profitability Comparison

	ALSK	CNSL	SHEN	SURW	WIN	DTI
Revenues	\$340,167,000	\$ 390,440,000	\$177,214,000	\$ 242,152,000	\$ 3,485,400,000	\$ 27,144,000
Cost of goods sold	131,866,000	144,825,000	65,030,000	-	322,400,000	-
Gross Profit	208,301,000	245,615,000	112,184,000	242,152,000	3,163,000,000	27,144,000
Operating Expenses	309,283,000	177,474,000	78,745,000	227,427,000	2,157,300,000	22,006,000
Operating Income	36,080,000	68,141,000	33,439,000	13,218,000	1,005,700,000	5,138,000
Depreciation	84,891,000	88,419,000	37,441,000	61,474,000	641,700,000	5,783,000
Interest Expense	46,694,000	51,872,000	3,225,000	9,105,000	494,100,000	2,318,000
Pre-tax earnings	(10,573,000)	42,836,000	35,441,000	4,138,000	507,100,000	3,349,000
Net income	(36,209,000)	32,842,000	21,619,000	1,304,000	313,800,000	2,042,890
EBIT	36,121,000	94,708,000	38,666,000	13,243,000	1,001,200,000	5,667,000
EBITDA	121,012,000	183,127,000	76,107,000	74,717,000	1,642,900,000	11,450,000

### Exhibit 7: Publicly Traded Guideline Financial Position Comparison

	ALSK	CNSL	SHEN	SURW	WIN	DTI
<b>Selected Assets:</b>						
Cash Equivalents	\$ 22,165,000	\$ 55,961,000	\$ 43,144,000	\$ 3,905,000	\$ 155,200,000	\$ 563,000
Accounts receivable	39,403,000	47,072,000	22,149,000	21,497,000	348,500,000	5,085,000
Inventory	7,713,000	7,339,000	5,355,000	-	33,600,000	-
Total current assets	85,653,000	124,804,000	84,986,000	39,010,000	706,800,000	6,214,000
Total assets	624,803,000	1,208,060,000	467,073,000	607,053,000	10,132,200,000	77,250,000
<b>Selected Liabilities:</b>						
Accounts payable	61,860,000	9,590,000	7,821,000	1,657,000	137,200,000	2,186,000
Short term notes payable	-	-	-	-	-	-
Current portion of l-t debt	12,049,000	10,176,000	12,508,000	15,636,000	130,500,000	6,440,000
Total current liabilities	83,059,000	75,691,000	42,162,000	49,140,000	864,600,000	11,699,000
Notes payable, net	541,614,000	880,000,000	185,629,000	193,409,000	6,555,800,000	36,359,000
Minority interest	-	6,600,000	-	-	-	-
Total liabilities	640,096,000	1,136,131,000	272,426,000	337,415,000	9,516,800,000	52,380,000
<b>Selected Equity Items:</b>						
Preferred equity	-	-	-	-	-	-
Common equity	(15,293,000)	65,329,000	194,647,000	269,638,000	615,400,000	24,870,000
Total equity	(15,293,000)	65,329,000	194,647,000	269,638,000	615,400,000	24,870,000
<b>Other Bal. Sheet Items:</b>						
Working capital	\$ 2,594,000	\$ 49,113,000	\$ 42,824,000	\$ (10,130,000)	\$ (157,800,000)	\$ (5,485,000)
Common shares	44,484,000	29,816,659	23,738,000	13,908,000	504,300,000	

SAMPLE REPORT: Not representative of any actual individuals or companies.

## Exhibit 8: Publicly Traded Guideline Financial Ratio Comparison

	ALSK	CNSL	SHEN	SURW	WIN	25th	Med	75th	Avg	DTI
<b>Liquidity:</b>										
Current Ratio	1.03	1.65	2.02	0.79	0.82	0.82	1.03	1.65	1.26	<b>0.53</b>
Quick Ratio	0.74	1.36	1.55	0.52	0.58	0.58	0.74	1.36	0.95	<b>0.48</b>
Sales to Working Capital	131.14	7.95	4.14	(23.90)	(22.09)	7.95	4.14	(22.09)	19.45	<b>(4.95)</b>
<b>Leverage:</b>										
Assets to Equity	(40.86)	18.49	2.40	2.25	16.46	2.25	2.40	16.46	(0.25)	<b>3.11</b>
Int. Bearing Debt to Equity	(36.20)	13.63	1.02	0.78	10.86	0.78	1.02	10.86	(1.98)	<b>1.72</b>
Total Liabilities to Equity	(41.86)	17.39	1.40	1.25	15.46	1.25	1.40	15.46	(1.27)	<b>2.11</b>
Total Liabilities to Assets	1.02	0.94	0.58	0.56	0.94	0.58	0.94	0.94	0.81	<b>0.68</b>
EBIT to Interest	0.77	1.83	11.99	1.45	2.03	1.45	1.83	2.03	3.61	<b>2.44</b>
<b>Activity:</b>										
A/R Turnover (Days)	42	44	46	32	36	36	42	44	40	<b>68</b>
Inventory Turnover (Days)	21	18	30	n/a	38	20	26	32	27	<b>n/a</b>
Payables Turnover (Days)	51	11	20	3	20	11	20	20	21	<b>36</b>
Cash Cycle (Days)	12	51	56	29	54	29	51	54	40	<b>32</b>
<b>Asset Utilization:</b>										
Revenues/Total Assets	0.54	0.32	0.38	0.40	0.34	0.34	0.38	0.40	0.40	<b>0.35</b>
Number of Employees	812	1,095	451	893	7,385					<b>135</b>
Rev. Per Employee (\$000)	\$418.9	\$356.6	\$392.9	\$271.2	\$472.0	\$356.6	\$392.9	\$418.9	\$382.3	<b>\$201.1</b>
<b>Profitability:</b>										
Pre-Tax Profit Margin	-3.1%	11.0%	20.0%	1.7%	14.5%	1.7%	11.0%	14.5%	8.8%	<b>12.3%</b>
Operating Expense Margin	90.9%	45.5%	44.4%	93.9%	61.9%	90.9%	61.9%	45.5%	67.3%	<b>81.1%</b>
EBITDA Margin	35.6%	46.9%	42.9%	30.9%	47.1%	46.9%	42.9%	35.6%	40.7%	<b>42.2%</b>
EBIT Margin	10.6%	24.3%	21.8%	5.5%	28.7%	24.3%	21.8%	10.6%	18.2%	<b>20.9%</b>
Pre-Tax Return on Assets	-1.7%	3.5%	7.6%	0.7%	5.0%	0.7%	3.5%	5.0%	3.0%	<b>4.3%</b>
Pre-Tax Return on Equity	69.1%	65.6%	18.2%	1.5%	82.4%	18.2%	65.6%	69.1%	47.4%	<b>13.5%</b>

- ◆ the same or similar line of business;
- ◆ similar product lines;
- ◆ similar procurement and distributions channels;
- ◆ similar competitive positions within the industry;
- ◆ similar expected rates of growth;
- ◆ similar historical and potential profitability;
- ◆ similar capital structures; and
- ◆ similar size, relative to sales volume and total assets.

Such factors are not universal and can vary based on products, industry and other factors.

To find appropriately comparable public guideline companies we searched various databases for entities operating in the same industry. These databases include the SEC's Electronic Data Gathering Analysis and

Retrieval (EDGAR) database and other online data providers such as Yahoo! Finance and iMetrix.

These preliminary search criteria resulted in a number of companies. We more closely analyzed these companies by obtaining the most recent Forms 10Q and 10K as filed with the SEC. From these filing, we performed a financial analysis and read excerpts of their SEC filings to determine the applicability of the companies as guidelines. This financial analysis is detailed later in this section. We narrowed the selection to several guideline companies as being most comparable for valuation purposes (see Exhibit 5).

### Selected Guideline Companies

The selected publicly traded guideline companies are each involved in providing telecommunication services, including the services provided by DTI. They operate in different regions within the United States and are affected by the same macroenvironmental and industry factors:

## Exhibit 9: DuPont Analysis

	<b>Pre-Tax Profit Margin<sup>1</sup></b>	<b>Times: Asset Turnover<sup>2</sup></b>	<b>Equals: Pre-Tax Return On Assets</b>	<b>Times: Leverage<sup>3</sup></b>	<b>Equals: Return On Equity<sup>4</sup></b>
ALSK	-3.10%	0.54	-1.67%	n/m	n/m
CNSL	11.00%	0.32	3.52%	18.49	65.08%
SHEN	20.00%	0.38	7.60%	2.40	18.24%
SURW	1.70%	0.40	0.68%	2.25	1.53%
WIN	14.50%	0.34	4.93%	16.46	81.15%
Average	8.82%	0.40	3.01%	9.90	41.50%
Median	11.00%	0.38	3.52%	9.43	41.66%
<b>DTI</b>	<b>12.30%</b>	<b>0.35</b>	<b>4.31%</b>	<b>3.11</b>	<b>13.40%</b>

<sup>1</sup> Pre-tax profit divided by net sales.

<sup>2</sup> Net sales divided by total assets.

<sup>3</sup> Total assets divided by total shareholders' equity.

<sup>4</sup> Also computed as pre-tax profit divided by total shareholders' equity.

## Exhibit 10: Size Comparison

<b>Name</b>	<b>Annual Revenues</b>	<b>Times Larger Than Subject</b>
ALSK	\$ 340,167,000	12.5
CNSL	390,440,000	14.4
SHEN	177,214,000	6.5
SURW	242,152,000	8.9
WIN	3,485,400,000	128.4
<b>DTI</b>	<b>27,144,000</b>	

### Comparisons of Guideline Companies With the Subject Entity— Overview

We compared each of the guideline companies to the subject entity on a variety of criteria for the purpose of drawing conclusions as to appropriate valuation multiples. Comparison criteria included profitability, financial position, size, growth, business opportunities and diversification. We used adjusted amounts in these comparisons. We adjusted the guideline companies for non-recurring items. Our adjustments to DTI were discussed previously. The following section highlights some of the key issues identified.

### Specific Comparisons

**Profitability** (see Exhibit 6). Each of the public guidelines is much larger than DTI in terms of revenues. The relatively large depreciation expense indicates the capital intensive nature of the industry while the large interest expense for each guideline indicates that the industry operates with relatively high levels of debt.

**Financial Position** (see Exhibit 7). Again the public guidelines are much larger than DTI, but this time as measured by total assets. A more complete comparison is made later in our analysis of the financial ratios.

**Ratio Analysis** (see Exhibit 8). DTI's financial liquidity, as measured by its current ratio and quick ratio, were inferior to the public guidelines. The financial leverage ratios show that it had more overall debt than the median of the guidelines. It did not generate as much revenue per employee as the public guidelines. On the positive side, it had a quicker cash conversion cycle and was generally more profitable.

**DuPont Analysis** (see Exhibit 9). Dupont Analysis is commonly used to analyze the various components of a company's return on equity. By looking at the components of return on equity, an investor can gain insight into which financial aspects of an entity is contributing to the return.

As previously stated, DTI was generally more profitable than the public guidelines. This, combined with an asset turnover ratio that was similar to the guidelines resulted in a pre-tax return on assets that exceeded the median of the guidelines. Because DTI's leverage ratio, as measured by assets to equity, was lower than the median of the guidelines, its pre-tax return on equity was significantly lower.

**Size** (see Exhibit 10). The size comparison of DTI to the public guidelines shows that the public guidelines are much larger than DTI based on revenues. Studies and empirical data show that larger public companies (on average) have higher price to earnings multiples than smaller companies. Since DTI is smaller than the guideline companies, an investor would generally expect a lower rate of return, other things being equal. In "Adjusting Price/Earnings Ratios For Differences In Company Size-An Update," *Business Valuation Review* (September, 1995) by Jerry O. Peters, AM, the price/earnings multiple of public companies with market values of \$25 million or less traded at an average 25.8 percent discount to those with market values of \$50.1 million to \$99.9 million. Similar findings can be found in annual data published by Ibbotson Associates.

Investors perceive the risks associated with investments in smaller companies to be greater than larger companies. This perception may be attributable to factors such as market share, name recognition, management depth, and other factors. Although the size of the entity is an important factor, certain procedures can measure and adjust for the differences in size. In the article "Adjusting Valuation Multiples for Size," published in *Valuation Strategies* (September/October 2001), the authors, Michael Mattson, Don Shannon and Don M. Drysdale, outline a procedure for adjusting for size differences. The procedure uses empirical data from stock markets to determine the effect of size on valuation multiples and then adjusts guideline company multiples for those effects. The procedure results in market derived valuation multiples that are appropriate for the subject company.

The applicability of such adjustments depends on the nature of the products offered, the operational structure, and other industry factors. In this case, we adjusted the guideline companies' valuation multiples for differences in size. This procedure involves substituting the size premium of the public guideline with the size premium of the subject.

### Exhibit 11: Estimated Growth

	Analysts' Estimates		
	One-Year		Five-Year
	Revenue	Earnings	Earnings
ALSK	1.5%	142.9%	31.9%
CNSL	-1.2%	-8.3%	1.5%
SHEN	40.2%	-18.0%	-10.3%
SURW	21.7%	-9.5%	15.0%
WIN	2.6%	180.0%	16.0%
Average	13.0%	57.4%	10.8%
Median	2.6%	-8.3%	15.0%

### Exhibit 12: Adjustments to Public Guideline Multiples

$$M_a = \frac{1}{\frac{1}{M_g} + \alpha\varepsilon(\theta + \mu) + \lambda}$$

Where:

$M_a$  = Adjusted valuation multiple

$M_g$  = Unadjusted valuation multiple of the public guideline company

$\alpha$  = The ratio of revenue to after-tax EBITDA. This variable is set to one (1) if the valuation multiple is not a revenue multiple.

$\varepsilon$  = The ratio of the public guideline company's market value of equity to market value of invested capital. This variable is set to one (1) if the valuation multiple is based on equity.

$\theta$  = The size premium of the valuation subject less the size premium of the public guideline

$\mu$  = The unsystematic risk premium of the valuation subject less the unsystematic risk premium of the public guideline

$\lambda$  = The expected long-term growth of the public

guideline less the expected long-term growth of the valuation subject

**Growth Rates** (see Exhibit 11). An entity with a higher expected rate of growth will be more valuable than those with lower expected growth, all other things being equal. Greater growth provides the potential for greater future benefits to the shareholder. Expected growth can be based on many factors including historical growth, new products, price inflation, market conditions, and others.

### Exhibit 13: Guideline Multiples

	ALSK	CNSL	SHEN	SURW	WIN	25th Pct.	Med.	75th Pct.	Avg.	Coef. Of Var.
Price to Earnings	-13.68	13.13	10.77	27.61	12.43	10.77	12.43	13.13	10.05	1.482
MVIC to EBIT	44.08	14.29	10.05	19.07	11.28	11.28	14.29	19.07	19.75	0.711
MVIC to EBITDA	9.67	7.68	6.35	4.45	7.39	6.35	7.39	7.68	7.11	0.269

*Med.=Median*

*Avg.=Average*

*Coef. of Var.= Coefficient of Variation, Standard Deviation divided by the Average.*

Based on the demographics of DTI's service area, its historical growth trends, and the fact that it is highly regulated, we believe long-term future growth will be moderate and stable.

Although the estimated future growth of the entity is an important factor, certain procedures can measure and adjust for the differences in growth. In the article, "Adjusting Pricing Multiples for Expected Growth," published in *Business Appraisal Practice* (Spring 2000), the authors, Stephen J. Bravo and Michael Mattson, outline a procedure for adjusting for growth differences between guideline companies and subject entities. The procedure uses established financial analysis to determine the effect of growth on valuation multiples and then adjusts guideline company multiples for those effects. The procedure results in market derived valuation multiples that are more applicable to the subject entity. We have adjusted the valuation multiples for differences in expected growth.

#### **Business Opportunities, Diversification & Other Factors.**

The public guideline companies have greater geographic and industry diversification. They also have access to public capital markets. These factors increase the business opportunities for the public guideline companies relative to DTI.

#### **Adjustments to Guideline Multiples**

As presented, there can be differences between the public guideline companies and the valuation subject. Mathematical techniques exist that can help to mitigate the impact of these differences. The premise of these mathematical techniques is to substitute a cost of capital variable of a public guideline company for the valuation subject's variable. In other words, in the case of expected growth, the guideline company's expected growth is

replaced with the subject company's expected growth when computing a valuation multiple. The same can be done for factors related to size and unsystematic risk.

The steps to perform these adjustments are as follows:

- ◆ Compute a valuation multiple for the guideline company.
- ◆ Convert the valuation multiple to a capitalization rate by taking the mathematical inverse.
- ◆ Convert the capitalization rate to a discount rate by adding the guideline company's expected long-term growth.
- ◆ Break the discount rate into its individual components as described by the Capital Asset Pricing Model.
- ◆ Substitute different variables as they relate to the valuation subject for the same variable that relate to the guideline companies.
- ◆ Convert the adjusted discount rate back into a capitalization rate by subtracting the expected long-term growth of the valuation subject.
- ◆ Convert the adjusted capitalization rate back into a valuation multiple by taking the mathematical inverse.

This procedure is expressed by the accompanying mathematical formula (see Exhibit 12). We applied this to the public guideline companies in order to arrive at valuation multiples that are more applicable to the valuation subject. We have presented the variable used

and the computations of the adjusted valuation multiples in Appendix B to this report.

### **Summary of Market Valuation Multiples**

Based on the previous analysis, the public guideline companies are adequately comparable as a basis for deriving a value. Using the information obtained on each public guideline company, we computed valuation multiples relevant for DTI. These multiples include price to earnings, market value of invested capital (MVIC) to earnings before interest and taxes (EBIT), MVIC to earnings before interest, taxes, depreciation and amortization (EBITDA), as well as others (see Exhibit 13). As part of this analysis, we adjusted the guideline multiples for extraordinary and non-recurring items, as could be determined from the available financial information. We decided not to make an adjustment for company specific risk items because each of the public guidelines are involved in the exact same business as DTI.

### **Multiples Chosen & Resulting Conclusions**

We concentrated on the guideline companies' MVIC-to-EBITDA multiple, which is determined by dividing the total market value of invested capital by EBITDA. We determined that the 25th percentile multiple was most applicable because the guidelines have greater operational and geographical diversity, as well as greater access to

### **Exhibit 14: Publicly Traded Guideline Method**

Pre-Tax Earnings <sup>1</sup>	\$ 3,349,000
Interest Expense <sup>1</sup>	2,318,000
Depreciation and Amortization <sup>1</sup>	<u>5,783,000</u>
Annual EBITDA	\$ 11,450,000
Multiply by the MVIC to EBITDA Multiple <sup>2</sup>	<u>6.35</u>
<b>Enterprise Value</b>	<b><u><u>\$ 72,707,500</u></u></b>
<b>Rounded</b>	<b>\$ 72,708,000</b>
Less Interest Bearing and Other Debts <sup>3</sup>	<u>(47,121,000)</u>
<b>Rounded</b>	<b><u><u>\$ 25,587,000</u></u></b>

<sup>1</sup> From Appendix B.

<sup>2</sup> From Exhibit 13.

<sup>3</sup> Sum of current maturities of long-term debt long-term debts, and other long-term liabilities, from Appendix B.

capital. Based on this multiple, we computed the fair value on both an enterprise value basis and equity basis (see Exhibit 14).

# Conclusion

## Fair Value

We have performed this measurement engagement based on the consideration of relevant factors. Our estimate (opinion) of the fair value of DoubledayTelecom, Inc. as of December 31, 2010 is **\$72,708,000** on an enterprise value basis and **\$25,587,000** on an equity basis.

## Carrying amount

We have computed the carrying amount of DoubledayTelecom, Inc. as of December 31, 2010 as **\$71,991,000** on an enterprise value basis and **\$24,870,000** on an equity basis.

## Conclusion

Based on the procedures we have performed as described in this report, the fair value of DoubledayTelecom, Inc., on

both an enterprise value basis and equity value basis, exceeds the carrying amounts at December 31, 2010 (see Exhibit 15).

This measurement engagement was performed solely for used as a basis for pricing the Subject Interest for financial reporting purposes related to the annual audit of the Company's financial statements. The resulting estimate of value should not be used for any other purpose or by any other party. The previous letter and this report are to be considered a single document, distributed only in their entirety, and intended and restricted only for use by the management of DoubledayTelecom, Inc. This report is not to be copied or made available to any persons without the express written consent of Drysdale Valuation, PLLC.

## Exhibit 15: Conclusion

	<u>Carrying Amount<sup>1</sup></u>	<u>Fair Value<sup>2</sup></u>
Current Assets	\$ 6,214,000	
Less Current Liabilities	(11,699,000)	
Add back Current Maturities of Long-Term Debt	<u>6,440,000</u>	
Working Capital	955,000	
Other Assets	37,860,000	
Fixed Assets	123,894,000	
Less Accumulated Depreciation	<u>(90,718,000)</u>	
<b>Enterprise Value</b>	<b>\$ 71,991,000</b>	<b>\$ 72,708,000</b>
Less Current Maturities of Long-Term Debt	(6,440,000)	(6,440,000)
Less Long-Term Liabilities	(36,359,000)	(36,359,000)
Less Other Liabilities	<u>(4,322,000)</u>	<u>(4,322,000)</u>
<b>Equity Values</b>	<b>\$ 24,870,000</b>	<b>\$ 25,587,000</b>

<sup>1</sup> From Appendix B.

<sup>2</sup> Fair values for the enterprise value and the equity value from Exhibit 14.

# Appendix A: Representations/Certification



I certify that, to the best of our knowledge and belief:

- ◆ The statements of fact contained in this report are true and correct.
- ◆ The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and is our personal, impartial, and unbiased professional analyses, and conclusions.
- ◆ I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest with respect to the parties involved.
- ◆ I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- ◆ My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- ◆ My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- ◆ My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the American Institute of Certified Public Accountants Statement on Standards for Valuation Services, and the Uniform Standards of Professional Appraisal Practice standards for conducting and reporting on business valuations.
- ◆ No one provided significant professional assistance to the persons signing this report.
- ◆ The economic, macroenvironmental and industry data used in this report have been obtained from various printed or electronic reference sources that the valuation analyst believes to be reliable. The valuation analyst has not performed any corroborating procedures to substantiate that date.
- ◆ The parties for which the information and use of the valuation report is restricted are identified; the valuation report is not intended to be and should not be used by anyone other than such parties.
- ◆ I have no obligation to update the report or the opinion of value for information that comes to our attention after the date of the report.
- ◆ I have previously performed valuation services for the Subject Interest.



Don M. Drysdale, CPA/ABV, ASA  
February 28, 2011



## Appendix B: Financial Information

**Doubleday Telecom, Inc.**  
Historical Balance Sheets

As of December 31:	2006		2007	
<b>Assets:</b>				
Current Assets				
Cash & Cash Equivalents	\$ 1,771,000	2.84%	\$ 3,467,000	5.38%
Subscriber Receivables	1,648,000	2.64%	1,953,000	3.03%
Access Receivables	353,000	0.57%	728,000	1.13%
Other Accounts Receivable	707,000	1.13%	464,000	0.72%
Deferred Income Tax Asset	26,000	0.04%	-	0.00%
Material & Supplies	621,000	1.00%	471,000	0.73%
Other Current Assets	36,000	0.06%	35,000	0.05%
<b>Total Current Assets</b>	<b>5,162,000</b>	<b>8.28%</b>	<b>7,118,000</b>	<b>11.05%</b>
Noncurrent Assets				
Investment In Affiliated Companies	8,459,000	13.57%	10,322,000	16.02%
Investment In Nonaffiliated Companies	2,180,000	3.50%	2,402,000	3.73%
Advances To Affiliate	259,000	0.42%	309,000	0.48%
Goodwill	15,782,000	25.32%	15,782,000	24.49%
Deferred Income Tax Asset	1,082,000	1.74%	-	0.00%
Deferred Charges	91,000	0.15%	81,000	0.13%
Other Noncurrent Assets	365,000	0.59%	374,000	0.58%
Notes Receivable	100,000	0.16%	100,000	0.16%
<b>Total Other Assets</b>	<b>28,318,000</b>	<b>45.43%</b>	<b>29,370,000</b>	<b>45.58%</b>
Fixed Assets				
Regulated Plant In Service	98,118,000	157.41%	102,483,000	159.03%
Regulated Plant (Construction)	946,000	1.52%	975,000	1.51%
Nonregulated Plant In Service	-	0.00%	-	0.00%
Plant Held For Future Use	484,000	0.78%	484,000	0.75%
<b>Total Fixed Assets</b>	<b>99,548,000</b>	<b>159.71%</b>	<b>103,942,000</b>	<b>161.30%</b>
Less: Accumulated D & A	70,696,000	113.42%	75,989,000	117.92%
<b>Total Assets</b>	<b>\$ 62,332,000</b>	<b>100.00%</b>	<b>\$ 64,441,000</b>	<b>100.00%</b>

SAMPLE REPORT: Not representative of any actual individuals or companies.

2008		2009		2010	
\$ 1,545,000	2.33%	\$ 1,053,000	1.55%	\$ 563,000	0.73%
1,722,000	2.60%	1,896,000	2.78%	3,718,000	4.81%
1,119,000	1.69%	397,000	0.58%	953,000	1.23%
902,000	1.36%	384,000	0.56%	414,000	0.54%
-	0.00%	-	0.00%	-	0.00%
650,000	0.98%	724,000	1.06%	346,000	0.45%
28,000	0.04%	37,000	0.05%	220,000	0.28%
<u>5,966,000</u>	<u>8.99%</u>	<u>4,491,000</u>	<u>6.59%</u>	<u>6,214,000</u>	<u>8.04%</u>
11,853,000	17.87%	11,143,000	16.35%	11,143,000	14.42%
2,555,000	3.85%	2,540,000	3.73%	2,689,000	3.48%
1,344,000	2.03%	5,175,000	7.59%	9,387,000	12.15%
13,782,000	20.78%	13,782,000	20.23%	14,034,000	18.17%
-	0.00%	-	0.00%	-	0.00%
72,000	0.11%	62,000	0.09%	98,000	0.13%
423,000	0.64%	468,000	0.69%	509,000	0.66%
100,000	0.15%	-	0.00%	-	0.00%
<u>30,129,000</u>	<u>45.42%</u>	<u>33,170,000</u>	<u>48.68%</u>	<u>37,860,000</u>	<u>49.01%</u>
108,777,000	163.99%	115,329,000	169.25%	123,539,000	159.92%
1,444,000	2.18%	731,000	1.07%	355,000	0.46%
399,000	0.60%	465,000	0.68%	-	0.00%
484,000	0.73%	403,000	0.59%	-	0.00%
<u>111,104,000</u>	<u>167.50%</u>	<u>116,928,000</u>	<u>171.59%</u>	<u>123,894,000</u>	<u>160.38%</u>
<u>80,869,000</u>	<u>121.92%</u>	<u>86,446,000</u>	<u>126.86%</u>	<u>90,718,000</u>	<u>117.43%</u>
<u><b>\$ 66,330,000</b></u>	<u><b>100.00%</b></u>	<u><b>\$ 68,143,000</b></u>	<u><b>100.00%</b></u>	<u><b>\$ 77,250,000</b></u>	<u><b>100.00%</b></u>

**Doubleday Telecom, Inc.**  
Historical Balance Sheets (continued)

As of December 31:	2006		2007	
<b>Liabilities and Equity:</b>				
Liabilities				
Current Liabilities				
Accounts Payable	\$ 897,000	1.44%	\$ 1,364,000	2.12%
Checks In Excess of Bank Balance	-	0.00%	-	0.00%
Advance Billing & Deposits	787,000	1.26%	851,000	1.32%
Settlements Payable	100,000	0.16%	-	0.00%
Current Maturities LT Debt	3,357,000	5.39%	3,656,000	5.67%
Line of Credit	-	0.00%	-	0.00%
Other Accrued Liabilities	1,283,000	2.06%	1,747,000	2.71%
Income Taxes Payable	37,000	0.06%	532,000	0.83%
Accrued Interest Payable	295,000	0.47%	218,000	0.34%
<b>Total Current Liabilities</b>	<b>6,756,000</b>	<b>10.84%</b>	<b>8,368,000</b>	<b>12.99%</b>
Long-Term Liabilities				
Long-Term Debt	39,218,000	62.92%	35,540,000	55.15%
<b>Total LT Liabilities</b>	<b>39,218,000</b>	<b>62.92%</b>	<b>35,540,000</b>	<b>55.15%</b>
Other Liabilities & Deferred Credits				
Deferred Income Taxes	-	0.00%	70,000	0.11%
Advances From Affiliates	-	0.00%	381,000	0.59%
Long-Term Liabilities	-	0.00%	-	0.00%
Deferred Revenue	-	0.00%	-	0.00%
Other Deferred Credits	3,354,000	5.38%	3,512,000	5.45%
<b>Total Other Liabilities</b>	<b>3,354,000</b>	<b>5.38%</b>	<b>3,963,000</b>	<b>6.15%</b>
<b>Total Liabilities</b>	<b>49,328,000</b>	<b>79.14%</b>	<b>47,871,000</b>	<b>74.29%</b>
Member's Equity				
Common Stock/Membership	177,000	0.28%	185,000	0.29%
Accumulated Other Income	-	0.00%	118,000	0.18%
Retained Margins	12,827,000	20.58%	16,267,000	25.24%
<b>Total Equity</b>	<b>13,004,000</b>	<b>20.86%</b>	<b>16,570,000</b>	<b>25.71%</b>
<b>Total Liabilities and Equity:</b>	<b>\$ 62,332,000</b>	<b>100.00%</b>	<b>\$ 64,441,000</b>	<b>100.00%</b>
Working Capital	\$ (1,594,000)	-2.56%	\$ (1,250,000)	-1.94%

Source: audited financial statements as of December 31, 2006 through 2009.  
Internally prepared financial statements as of December 31, 2010.

2008		2009		2010	
\$ 1,720,000	2.59%	\$ 1,953,000	2.87%	\$ 2,186,000	2.83%
808,000	1.22%	-	0.00%	-	0.00%
-	0.00%	749,000	1.10%	962,000	1.25%
-	0.00%	-	0.00%	-	0.00%
3,848,000	5.80%	4,506,000	6.61%	6,440,000	8.34%
2,500,000	3.77%	6,525,000	9.58%	-	0.00%
1,655,000	2.50%	1,588,000	2.33%	1,902,000	2.46%
191,000	0.29%	-	0.00%	-	0.00%
337,000	0.51%	197,000	0.29%	209,000	0.27%
<u>11,059,000</u>	<u>16.67%</u>	<u>15,518,000</u>	<u>22.77%</u>	<u>11,699,000</u>	<u>15.14%</u>
<u>31,729,000</u>	<u>47.84%</u>	<u>27,856,000</u>	<u>40.88%</u>	<u>36,359,000</u>	<u>47.07%</u>
<u>31,729,000</u>	<u>47.84%</u>	<u>27,856,000</u>	<u>40.88%</u>	<u>36,359,000</u>	<u>47.07%</u>
24,000	0.04%	129,000	0.19%	63,000	0.08%
406,000	0.61%	293,000	0.43%	298,000	0.39%
-	0.00%	-	0.00%	3,961,000	5.13%
-	0.00%	-	0.00%	-	0.00%
3,684,000	5.55%	2,949,000	4.33%	-	0.00%
<u>4,114,000</u>	<u>6.20%</u>	<u>3,371,000</u>	<u>4.95%</u>	<u>4,322,000</u>	<u>5.59%</u>
<u>46,902,000</u>	<u>70.71%</u>	<u>46,745,000</u>	<u>68.60%</u>	<u>52,380,000</u>	<u>67.81%</u>
278,000	0.42%	376,000	0.55%	1,000	0.00%
40,000	0.06%	22,000	0.03%	106,000	0.14%
<u>19,110,000</u>	<u>28.81%</u>	<u>21,000,000</u>	<u>30.82%</u>	<u>24,763,000</u>	<u>32.06%</u>
<u>19,428,000</u>	<u>29.29%</u>	<u>21,398,000</u>	<u>31.40%</u>	<u>24,870,000</u>	<u>32.19%</u>
<b><u>\$ 66,330,000</u></b>	<b><u>100.00%</u></b>	<b><u>\$ 68,143,000</u></b>	<b><u>100.00%</u></b>	<b><u>\$ 77,250,000</u></b>	<b><u>100.00%</u></b>
<b>\$ (5,093,000)</b>	<b>-7.68%</b>	<b>\$ (11,027,000)</b>	<b>-16.18%</b>	<b>\$ (5,485,000)</b>	<b>-7.10%</b>

**Doubleday Telecom, Inc.**  
Historical Income Statements

<u>For the Years Ended December 31:</u>	<u>2006</u>		<u>2007</u>	
Operating Revenues				
Local Network Revenues	\$ 6,830,000	34.10%	\$ 6,975,000	33.11%
Interstate Access Services	7,980,000	39.85%	9,210,000	43.72%
Intrastate Access Services	3,878,000	19.36%	3,579,000	16.99%
Carrier Billing & Collection	335,000	1.67%	421,000	2.00%
Miscellaneous	280,000	1.40%	339,000	1.61%
Nonregulated Services	648,000	3.24%	518,000	2.46%
Uncollectable Services	76,000	0.38%	23,000	0.11%
<b>Total Revenues</b>	<b>20,027,000</b>	<b>100.00%</b>	<b>21,065,000</b>	<b>100.00%</b>
Operating Expenses				
Plant Specific Operations	3,958,000	19.76%	4,956,000	23.53%
Plant Nonspecific Operations	1,471,000	7.35%	1,303,000	6.19%
Depreciation & Amortization	5,392,000	26.92%	5,386,000	25.57%
Customer Operations	1,491,000	7.44%	1,183,000	5.62%
Labor	-	0.00%	-	0.00%
Corporate Operations	2,654,000	13.25%	3,014,000	14.31%
Other Operating Taxes	323,000	1.61%	310,000	1.47%
Nonregulated	255,000	1.27%	190,000	0.90%
<b>Total Operating Expenses</b>	<b>15,544,000</b>	<b>77.62%</b>	<b>16,342,000</b>	<b>77.58%</b>
<b>Income from Operations</b>	<b>4,483,000</b>	<b>22.38%</b>	<b>4,723,000</b>	<b>22.42%</b>
Nonoperating Income (Expense)				
Interest & Dividend Income	704,000	3.52%	607,000	2.88%
Allowance For Construction	16,000	0.08%	25,000	0.12%
Income From Affiliated Companies	1,119,000	5.59%	1,863,000	8.84%
Deferred Charges Amortization	(10,000)	-0.05%	(10,000)	-0.05%
Other	(2,000)	-0.01%	(1,000)	0.00%
Goodwill Impairment	-	0.00%	-	0.00%
Interest Expense	(3,787,000)	-18.91%	(3,015,000)	-14.31%
<b>Total Nonoperating Income (Expense)</b>	<b>(1,960,000)</b>	<b>-9.79%</b>	<b>(531,000)</b>	<b>-2.52%</b>
Margins Before Income Taxes	2,523,000	12.60%	4,192,000	19.90%
Income Taxes	226,000	1.13%	630,000	2.99%
<b>Net Income/(Loss)</b>	<b>\$ 2,297,000</b>	<b>11.47%</b>	<b>\$ 3,562,000</b>	<b>16.91%</b>
<b>EBITDA</b>	<b>\$11,702,000</b>	<b>58.43%</b>	<b>\$12,593,000</b>	<b>59.78%</b>
<b>5-Year Average EBITDA</b>				

*Source: Audited financial statements for the years ended December 31, 2006 through 2009.  
Internally developed financial statements for the year ended December 31, 2010,*

2008		2009		2010	
\$ 6,941,000	27.59%	\$ 6,736,000	26.25%	\$ 6,477,000	23.86%
9,221,000	36.65%	10,212,000	39.80%	11,257,000	41.47%
3,610,000	14.35%	3,143,000	12.25%	3,088,000	11.38%
-	0.00%	-	0.00%	-	0.00%
784,000	3.12%	757,000	2.95%	622,000	2.29%
4,426,000	17.59%	4,831,000	18.83%	5,740,000	21.15%
178,000	0.71%	(19,000)	-0.07%	(40,000)	-0.15%
<u>25,160,000</u>	<u>100.00%</u>	<u>25,660,000</u>	<u>100.00%</u>	<u>27,144,000</u>	<u>100.00%</u>
5,365,000	21.32%	5,133,000	20.00%	2,161,000	7.96%
1,535,000	6.10%	1,619,000	6.31%	1,296,000	4.77%
5,445,000	21.64%	6,091,000	23.74%	5,783,000	21.30%
1,469,000	5.84%	1,863,000	7.26%	722,000	2.66%
-		-	0.00%	7,984,000	29.41%
2,935,000	11.67%	3,106,000	12.10%	1,325,000	4.88%
351,000	1.40%	336,000	1.31%	382,000	1.41%
2,851,000	11.33%	3,097,000	12.07%	2,353,000	8.67%
<u>19,951,000</u>	<u>79.30%</u>	<u>21,245,000</u>	<u>82.79%</u>	<u>22,006,000</u>	<u>81.07%</u>
<u>5,209,000</u>	<u>20.70%</u>	<u>4,415,000</u>	<u>17.21%</u>	<u>5,138,000</u>	<u>18.93%</u>
545,000	2.17%	509,000	1.98%	520,000	1.92%
61,000	0.24%	79,000	0.31%	10,000	0.04%
1,531,000	6.09%	(711,000)	-2.77%	-	0.00%
(10,000)	-0.04%	(10,000)	-0.04%	-	0.00%
(5,000)	-0.02%	2,000	0.01%	(1,000)	0.00%
(2,000,000)	-7.95%	-	0.00%	-	0.00%
<u>(2,317,000)</u>	<u>-9.21%</u>	<u>(2,205,000)</u>	<u>-8.59%</u>	<u>(2,318,000)</u>	<u>-8.54%</u>
<u>(2,195,000)</u>	<u>-8.72%</u>	<u>(2,336,000)</u>	<u>-9.10%</u>	<u>(1,789,000)</u>	<u>-6.59%</u>
3,014,000	11.98%	2,079,000	8.10%	3,349,000	12.34%
(87,000)	-0.35%	(69,000)	-0.27%	-	0.00%
<u><b>\$ 3,101,000</b></u>	<u><b>12.33%</b></u>	<u><b>\$ 2,148,000</b></u>	<u><b>8.37%</b></u>	<u><b>\$ 3,349,000</b></u>	<u><b>12.34%</b></u>
<b>\$10,776,000</b>	<b>42.83%</b>	<b>\$10,375,000</b>	<b>40.43%</b>	<b>\$11,450,000</b>	<b>42.18%</b>
				<b>\$ 11,379,200</b>	

**Doubleday Telecom, Inc.**  
Historical Financial Ratios

As of December 31,:	2006	2007	2008	2009	2010
<b>Liquidity Ratios:</b>					
Current Ratio	0.76	0.85	0.54	0.29	0.53
Quick Ratio	0.66	0.79	0.48	0.24	0.48
Sales to Working Capital	(12.56)	(16.85)	(4.94)	(2.33)	(4.95)
<b>Debt Ratios:</b>					
Debt to Equity	3.79	2.89	2.41	2.18	2.11
EBIT to Interest (interest coverage)	1.18	1.57	2.25	2.00	2.22
Assets to Equity	4.79	3.89	3.41	3.18	3.11
Interest Bearing Debt to Equity	3.04	2.16	1.65	1.31	1.47
Total Liabilities to Assets	0.79	0.74	0.71	0.69	0.68
<b>Activity Ratios:</b>					
Receivables Turnover	7.40	6.70	6.72	9.59	5.34
Days Sales Outstanding (days receivable)	49	54	54	38	68
Payables Turnover	22.33	15.44	14.63	13.14	12.42
Days Payable Outstanding	16	24	25	28	29
Cash Conversion Cycle	33	30	29	10	39
<b>Asset Utilization:</b>					
Revenue to Total Assets	0.32	0.33	0.38	0.38	0.35
<b>Profitability:</b>					
Pre-Tax Profit Margin (%of sales)	12.60%	19.90%	11.98%	8.10%	12.34%
Operating Expense Margin	77.62%	77.58%	79.30%	82.79%	81.07%
EBITDA Margin	58.43%	59.78%	42.83%	40.43%	42.18%
EBIT Margin	22.38%	22.42%	20.70%	17.21%	18.93%
Pre-Tax Return on Total Assets	4.05%	6.51%	4.54%	3.05%	4.34%
Pre-Tax Return on Equity	19.40%	25.30%	15.51%	9.72%	13.47%

SAMPLE REPORT: Not representative of any actual individuals or companies.

## Appendix C: Adjusted Guideline Multiples

**Doubleday Telecom, Inc.**  
Adjustments to Public Guideline Company Valuation Multiples

ALSK

**Computation of Adjusted Valuation Multiples:**

Unadjusted Price to Earnings Multiple <sup>1</sup>	(13.74)
<b>Adjusted Price to Earnings Multiple<sup>2</sup></b>	<b>(13.68)</b>
Unadjusted MVIC to EBIT Multiple	29.10
<b>Adjusted MVIC to EBIT Multiple<sup>2</sup></b>	<b>44.08</b>
Unadjusted MVIC to EBITDA Multiple	8.69
<b>Adjusted MVIC to EBITDA Multiple<sup>2</sup></b>	<b>9.67</b>

**Variables Used in the Computations:**

Size Adjusted Equity Risk Premium	0.1024
Size Adjustment <sup>5</sup>	0.0216
Expected Long-Term Growth	0.0081
Growth Adjustment <sup>6</sup>	(0.0219)
Equity to Invested Capital	0.4732
Risk Free Rate	4.70%
Size Adjusted Equity Risk Premium	10.24%
Implied Unsystematic Risk Premium <sup>7</sup>	-21.41%
Implied Discount Rate <sup>8</sup>	<u>-6.47%</u>

<sup>1</sup> Estimated market value of equity divided by total adjusted annual earnings.

<sup>2</sup> The adjusted multiple is based on the formula presented in the Market Approach chapter using the variables presented herewith.

<sup>3</sup> Estimated market value of invested capital divided by adjusted annual EBIT.

<sup>4</sup> Estimated market value of invested capital divided by adjusted annual EBITDA.

<sup>5</sup> Computed as the subject's premium less the public guideline's premium.

<sup>6</sup> Computed as the public guideline's blended growth less the subject's blended growth.

<sup>7</sup> Computed as the implied discount rate less the sum of the risk-free rate and the size adjusted equity risk premium.

<sup>8</sup> Computed as the inverse of the unadjusted price to earnings multiple plus the blended growth rate.

CNSL	SHEN	SURW	WIN
17.56	20.65	113.38	22.45
<b>13.13</b>	<b>10.77</b>	<b>27.61</b>	<b>12.43</b>
15.49	16.67	26.95	13.71
<b>14.29</b>	<b>10.05</b>	<b>19.07</b>	<b>11.28</b>
8.01	8.47	4.78	8.36
<b>7.68</b>	<b>6.35</b>	<b>4.45</b>	<b>7.39</b>
0.1013	0.1080	0.1034	0.0826
0.0227	0.0160	0.0206	0.0414
0.0265	0.0584	0.0368	0.0245
(0.0035)	0.0284	0.0068	(0.0055)
0.3932	0.6926	0.4143	0.5131
4.70%	4.70%	4.70%	4.70%
10.13%	10.80%	10.34%	8.26%
-6.49%	-4.82%	-10.48%	-6.06%
<b>8.34%</b>	<b>10.68%</b>	<b>4.56%</b>	<b>6.90%</b>

**Doubleday Telecom, Inc.**  
Adjustments to Public Guideline Company Valuation Multiples (cont.)

	<b>ALSK</b>
<b><u>Basic Financial Information of the Public Guidelines:</u></b>	
Stock Price <sup>1</sup>	\$ 11.18
Number of Shares Outstanding <sup>2</sup>	44,484,000
Estimated Market Value of Total Equity <sup>4</sup>	497,331,120
Interest Bearing Debt <sup>2</sup>	553,663,000
Market Value of Invested Capital (MVIC)	\$ 1,050,994,120
Equity to Invested Capital	0.4732
Total Earnings	\$ (36,209,000)
Earnings Before Interest and Taxes (EBIT)	36,121,000
Earnings Before Interest, Taxes, Depr. and Amort. (EBITDA)	121,012,000

<sup>1</sup> Average closing share price for the month ended at the Valuation Date.  
Source: Yahoo! Finance.

<sup>2</sup> From the applicable forms 10-Q or 10-K of the guideline company.

<sup>3</sup> Computed as the value of a call option using the binomial method.

<sup>4</sup> The market value of the shares outstanding plus the estimated market value of the stock options outstanding.

CNSL	SHEN	SURW	WIN
\$ 19.35	\$ 18.81	\$ 10.63	\$ 13.97
29,816,659	23,738,000	13,908,000	504,300,000
576,803,268	446,393,090	147,842,040	7,045,071,000
890,176,000	198,137,000	209,045,000	6,686,300,000
<u>\$ 1,466,979,268</u>	<u>\$ 644,530,090</u>	<u>\$ 356,887,040</u>	<u>\$ 13,731,371,000</u>
0.3932	0.6926	0.4143	0.5131
\$ 32,842,000	\$ 21,619,000	\$ 1,304,000	\$ 313,800,000
94,708,000	38,666,000	13,243,000	1,001,200,000
183,127,000	76,107,000	74,717,000	1,642,900,000



CNSL	SHEN	SURW	WIN	DTI
\$ 1,208,060,000	\$ 467,073,000	\$ 607,053,000	\$ 10,132,200,000	\$ 77,250,000
0.15804	0.15804	0.15804	0.15804	0.15804
(0.02230)	(0.02230)	(0.02230)	(0.02230)	(0.02230)
3.08209	2.66938	2.78323	4.00570	1.88790
<b>0.0893</b>	<b>0.0985</b>	<b>0.0960</b>	<b>0.0687</b>	<b>0.1159</b>
\$ 390,440,000	\$ 177,214,000	\$ 242,152,000	\$ 3,485,400,000	\$ 27,144,000
0.15218	0.15218	0.15218	0.15218	0.15218
(0.01965)	(0.01965)	(0.01965)	(0.01965)	(0.01965)
2.59155	2.24850	2.38409	3.54225	1.43367
<b>0.1013</b>	<b>0.1080</b>	<b>0.1053</b>	<b>0.0826</b>	<b>0.1240</b>
1,095	451	893	7,385	135
0.16048	0.16048	0.16048	0.16048	0.16048
(0.01933)	(0.01933)	(0.01933)	(0.01933)	(0.01933)
3.03941	2.65418	2.95085	3.86835	(3.86967)
<b>0.1017</b>	<b>0.1092</b>	<b>0.1034</b>	<b>0.0857</b>	<b>0.2353</b>
<b>0.0974</b>	<b>0.1052</b>	<b>0.1016</b>	<b>0.0790</b>	<b>0.1584</b>
<b>0.1013</b>	<b>0.1080</b>	<b>0.1034</b>	<b>0.0826</b>	<b>0.1240</b>
0.0150	0.1500	0.1600	-	0.0300
0.0300	0.0300	0.0300	0.0300	0.0300
<b>0.0265</b>	<b>0.0584</b>	<b>0.0368</b>	<b>0.0245</b>	<b>0.0300</b>



## Appendix D: Sources of Information



In performing this analysis, we were provided with and/or relied upon various sources of information, including but not limited to:

- ◆ Doubleday Telecom, Inc. consolidated financial statements as of and for the years ended December 31, 2006 through 2009, audited by Jackson & Rose, LLP, certified public accountants;
- ◆ Doubleday Telecom, Inc. internally prepared financial statements as of and for the year ended December 31, 2010;
- ◆ General information about the Company as presented on the web site, [www.Doubleday.net](http://www.Doubleday.net);
- ◆ Minutes of the Meetings of the Board of Directors during 2009 and 2010;
- ◆ Surveys of industry peer financial results contained in the 2010 Telergee Alliance Benchmarking Study, prepared by Moss Adams, LLP;
- ◆ Analysis of information on possible publicly traded and privately held comparable companies and industry information including the following:
  - Search of the Electronic Data Gathering and Retrieval (EDGAR) database of public company filings with the Securities and Exchange Commission;
  - Analysis of possible public company and industry information via computer database;
  - Specific company annual reports, 10-K's, 10-Q's of publicly held companies;
  - Database searches and review of articles, forecasts and abstracts via the Internet;
- ◆ Information regarding macroenvironmental factors including the economic outlook for the region, as well as the overall U.S. economy, technical innovations, government regulations and other factors;
- ◆ Information regarding the present conditions and outlook for the industry in which the Company operates;
- ◆ Resources regarding business valuation issues, including the following:
  - *Business Valuation Review*, a publication of the Business Valuation Committee of the American Society of Appraisers;
  - ASA Business Valuation Standards of the American Society of Appraisers, and the Uniform Standards of Professional Appraisal Practice, published by the Appraisal Foundation;
  - *Financial Valuation: Applications and Models*, Second Edition, 2006, Hitchner;
  - *Duff & Phelps, LLC Risk Premium Report 2010*, a publication of Duff & Phelps, LLC, distributed by Ibbotson Associates, updated annually;
  - *Stocks, Bonds, Bill & Inflation, 2010 Yearbook*, a publication of Ibbotson Associates, Chicago – updated annually; and,
- ◆ Other various relevant information.



# Appendix E: Statement of Assumptions and Limiting Conditions



**We have relied upon information:**

We have based our report on historical and prospective financial information, historical and current entity information, and other information provided by owners, management, and third parties. We have not audited or reviewed this information and the resulting report should not be construed, or referred to as an audit, examination or review. Had we audited or reviewed the underlying data and information, matters may have come to our attention that would have resulted in our using amounts that differ from those provided. Accordingly, we take no responsibility for the underlying data presented or relied upon in this report. We have assumed that all of the representations and information supplied by the Company, its management and agents are true, accurate, and complete.

We have relied on public and other information sources we believe to be reliable. However, we make no representation as to the accuracy, completeness or correctness of such information and have performed no procedures to corroborate the information.

We have relied upon the representations of the owners, management, and third parties concerning the value and useful condition of all equipment, real estate, investments used in the business, and any other assets or liabilities except as specifically stated to the contrary in this report. We have not attempted to confirm whether or not all assets of the business are free and clear of liens and encumbrances, or that the Company has good title to all assets. Drysdale Valuation, PLLC assumes no responsibility for matters of a legal or tax-oriented nature affecting any of the property valued or any opinion of value.

We based this measurement in part on forecasts of revenues, earnings, and other matters as estimated by the management of the DoubledayTelecom, Inc. Some assumptions inevitably will not materialize, and numerous unanticipated events and circumstances may occur. Therefore, the actual performance in the areas forecasted will vary from the forecasts and the variations may be material. Drysdale Valuation, PLLC expresses no form of assurance whatsoever on the likelihood of achieving the forecasts or on the reasonableness of the assumptions, representations and conclusions.

Any such forecasts are presented for fair value measurement purposes only, and are not intended to be used separately or for any other purpose, including: to obtain credit, make investment decisions, make purchase decisions, or solicit investors. Any such potential parties must independently examine the outlook for the Company and make their own separate determinations. The parties should employ qualified advisors to assist them in doing so.

**The report will not be used for:**

We have performed this fair value measurement only for the Company and the purpose stated herein. The report and any information contained within are not to be used for any other purpose by any other party. Such other use will render the report invalid and is not authorized. This report or its findings are not to be included in, or referred to, in any offering memorandum (public or private) or prospectus of any kind.

The report, its information and findings are confidential and are not to be published, copied, reproduced, disclosed, or disseminated in any way by any means, in whole or in part, without the express prior written permission of a duly authorized officer of Drysdale Valuation, PLLC. This report is copyrighted and remains the property of Drysdale Valuation, PLLC. Neither all nor any part of the contents of this report shall be conveyed to the public through advertising, public relations, news, sales or other media without the prior written consent and approval of Drysdale Valuation, PLLC.

**Assumptions (not all inclusive):**

In determining the opinion of value included in this report, we have assumed that the existing management will maintain the character and integrity of the Company through any reorganization or reduction of any existing owner's/manager's participation in the activities of the Company.

We have assumed that there are no factors such as restrictive agreements of any kind, other than those noted herein, which will affect or impair value in any way or the ability to affect an expedient sale of the ownership interest being valued.

We have assumed for fair value measurement purposes that the Company is in good standing and is not in violation of any laws or regulatory statute of any kind; this has not been independently verified. We have also assumed that there are no contingent or other liabilities of any kind, including pending or threatened lawsuits, environmental or hazardous waste or other similar matters except as noted herein.

The dollar amount of any value reported is based on the purchasing power of the U.S. dollar as of the measurement date. The appraiser assumes no responsibility for economic or physical factors occurring subsequent to the date that may affect the opinions reported.

Drysdale Valuation, PLLC is not an environmental consultant, engineer or auditor, and takes no responsibility for any actual or potential liability from environmental contamination or injury from such contaminants or hazardous substances. Drysdale Valuation, PLLC has not independently determined whether the subject business enterprise is subject to any present or future liability relating to environmental matters (including but not limited to CERCLA/Superfund liability, contamination of soil, water or air, or release of any substance that could damage the environment or individuals) nor the scope of any such liabilities. We take no such liabilities into account, except as they have been reported to us by the subject company or by an environmental consultant working for the subject company, and then only to the extent that the liability was report to us in an actual or estimated dollar amount. Such matters, if any, are noted in the report. To the extent such information has been reported to us, Drysdale Valuation, PLLC has relied on it without verification and offers no warranty or representation as to its accuracy or completeness.

The estimate of fair value assumes that the Company is a “going concern,” based on an all cash purchase, or equivalent terms thereof. The Company would have a materially different value in liquidation. No estimate of the value that could be achieved in liquidation is included in this report.

**If the business is sold or transferred:**

Drysdale Valuation, PLLC, and Don M. Drysdale, CPA/ABV, ASA do not purport to be guarantors of value. Fair value measurements involving closely held companies is an imprecise science, with value being a question of fact, and reasonable people differing in their opinions of value. However, Drysdale Valuation, PLLC and the individual analyst(s) have used conceptually sound and commonly accepted methods and procedures of valuation in determining the opinion of value included in this report.

Nothing in this report is intended to recommend, imply or provide any guarantees, representations, or opinions of any kind whatsoever regarding the financial prudence, collateral, investment potential or debt service ability of the Company or any investment in its stock or assets by any party, including investors of any kind, financial institutions and all other individuals or entities. Such parties should undertake a full due diligence review of the Company and make their own independent determinations of its future prospects, financial and otherwise, and the financial prudence, tax, legal, and all other ramifications of any contemplated transaction and should retain independent and qualified advisors.

Nothing in this report should be construed as providing a “due diligence” study of the Company, as such a study has not been undertaken. Such a study could uncover factors not considered herein which could result in a materially different estimate of value. No “fairness opinion” of any kind is expressed herein regarding an ownership interest in the subject entity or for any pending or contemplated transaction.

Nothing in this report constitutes a recommendation regarding the purchase or sale of any securities or assets. Drysdale Valuation, PLLC expresses no opinion, guarantees or form of assurance of any kind, expressed or implied, on the potential investment performance resulting from a purchase of an interest in the Company or its assets.

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**SAMPLE REPORT: Not representative of any actual individuals or companies.**

This report is neither an offer to sell, nor a solicitation to buy securities, and/or equity in, or assets of, the subject entity.

**Other:**

We have no present or contemplated financial interest in the Company. Our fee for this analysis is based upon our customary billing rates plus out-of-pocket expenses, and is in no way contingent upon the results of our findings. We have no responsibility or obligation to update this report for events or circumstances occurring subsequent to the date of this report, although we would be happy to do so should prior arrangements be made, including providing expert testimony or to be in attendance in court or at any government hearing with reference to the matters contained herein. The opinion expressed herein is valid only for the stated effective date, December 31, 2010, and only for the stated purpose. The actual value realized at a date subsequent to the measurement date may vary from the value set forth and such variations may be material.

No change of any item in the report shall be made by anyone other than Drysdale Valuation, PLLC, and we shall have no responsibility for any such unauthorized change.

The measurement date is stated in the report without any guarantees as to the fair value at the measurement date or any future date, or any contrary opinions as to the value as of the same date.

Possession of the report or work papers or other written documentation regarding the analysis does not carry with it the right of publication of all or part of it, nor may it be used or relied upon without previous written consent for any purpose other than that set forth above. No third parties are intended to be benefitted. Drysdale Valuation, PLLC assumes no responsibility for any liability for damages of any kind resulting from reliance on this report by the Company or any other party. Schedules, information and other work papers developed during the assignment by Drysdale Valuation, PLLC or supplied by the client are the sole property of Drysdale Valuation, PLLC and are not subject to examination or production to the client at any time during or after the engagement.

