CARDIFF LEXINGTON
CORPORATION
A PUBLIC HOLDING COMPANY

Exit Strategy Planning

Most successful traditional exit strategies benefit from years of preparation and planning. The best approach has been to forecast a targeted exit date and gradually put key elements in place to maximize the value of the company. Advice to ownership is to concentrate on policies, systems, procedures, and controls and to take actions to increase transparency, efficiency, revenue and profitability, or to decrease risk or costs. Key elements to consider include:

- To build out the management team, perhaps adding a CFO or COO position. The owners should not be the sole driver of the business. A solid management team adds value in several ways: a) better decision making since each member of the management team builds on specialized knowledge in their area of expertise, b) separation of powers — if there is one weak area, you can address it. c) redundancy — if one C level employee leaves on short notice, another should have enough knowledge to act as an interim replacement.

- Many small companies do not have an active Board of Directors or their board consist of family members. In this case you might want to form an advisory board. This is different from a Board of Directors, since the advisory board members have no formal fiduciary responsibilities and therefore assume no legal liabilities. They are advisors, not directors. Bring in smart people that you trust, who understand your business, and who will ask tough questions and help you find the answers. There are many variations, but all effective advisory boards have the following in common: independent advisors who think for themselves, understand the business, work well with each other, and who are willing and able to spend at least a few hours a month on the business.

- Set up and document business processes and systems and update the company records. This could include an employee policy and procedures manual, a CRM system, a documented marketing and sales process, current accounting interface, etc. Such systems reinforce and support the management team. They also provide transparency, and give further evidence that the whole business is not just an owner operated entity. This starts with actually having meetings and recording minutes from shareholder and board of director's meetings.

- Clean up the company's financial records. Many companies over-estimate or under- estimate the value of their physical assets Conduct an inventory of all physical assets. Update this inventory at least once a year. This should include better documentation of expenses, invoices, payroll deductions, benefits, and cash management. A professional accounting review or audit is recommended to establish the veracity of your numbers.

- Review all insurance policies and make sure the company is adequately insured for all major risks. The easiest way to do this is to bring in two insurance agents from competing companies. Most insurance agents will develop a comprehensive proposal at no charge.

- Review all service and vendor contracts to make sure the company is in compliance with all applicable city, state and federal laws, and minimize chances of frivolous lawsuits or other legal actions.

- Once you have completed self-analysis consider bringing in an outside firm to conduct an assessment. A business (or operations) assessment covers marketing, sales, customers, partners, internal operations, management structure, compensation, and more. The assessment is usually quick (just a few weeks) and identifies and prioritizes outstanding issues in every area of your business. Ideally, if you plan to sell the company within 5 years, you should do an operations assessment now, a with follow-up review every 2 years thereafter. The reviews will focus on the areas that need most attention (for instance, marketing, sales, or expansion). This investment should range from $3,000 to $12,000 depending on the size of the company and you should reap a measurable benefit.

- Use the assessment. Once an outside firm identifies strength, weaknesses, opportunities, and threats to your business, you will need an internal resource to coordinate improvements within your company. Create teams and appoint a team leader of each to address any problems uncovered by the assessment. Make sure each team understands that they are responsible for solving these problems, and set up a reasonable reporting framework (update you once each quarter, for instance). Hold the team accountable for their results.

- Develop internally and test a disaster recovery plan. This is especially important for service businesses or those with major computer infrastructures and time-sensitive, mission critical applications. A good plan is ongoing and requires preparation and testing over a series of months before it is considered ready to implement, if needed.

- Once proactive actions have been implemented its always money well spent to bring in a competent firm to conduct an independent business valuation. This serves several purposes: a) it give you a benchmark providing an unbiased third party estimate of your company's value, if you expect to sell the company for $5 million, but the valuation comes in at only $2.5 million you need to have realistic expectations. b) it typically identifies at least a few areas of concern: perhaps the issue is too many dollars in inventory, or accounts receivable aging or the amount is perceived too high.

Finally, although it ***usually*** takes years of preparation to sell a company at maximum value Cardiff Lexington has created the opportunity for a different path for ownership to realize higher than typical returns. We are a unique Public Company providing an "Equity Exit Strategy" for Business Owners. Acquisitions become standalone Subsidiaries gaining advantage of the Power of a Public Company **without losing their independent management control.** Cardiff Lexington provides a unique diversified platform of subsidiary profit centers for protection of those subsidiaries and greater protection to third party investors providing equity. The Cardiff Lexington investment platform provides our acquisitions the ability to maintain the majority of their ownership position and to both extract equity and/or raise money for growth and expansion. For our investors it provides the assurance their investment risk is mitigated by Cardiff Lexington's other holdings.

As a Holding Company, Cardiff Lexington's acquisition strategy is to target companies that are not currently on the market for sale where the owner wishes to get some or their equity out of the business over time while continuing to run and control and often expand their business. Acquisitions become wholly owned subsidiaries with their own unique preferred share class. We are targeting closely held smaller middle market domestic companies. Targets typically have been in business for 5 + years, are profitable, with moderate to low debt, have great management and a desire for liquidity. The Business owner must agree to a concurrent five-year management agreement to continue to operate the subsidiary business.

Many entrepreneurs have missed opportunities because they were convinced they could do better later, only to watch their window of opportunity close over time. If a great offer comes along before you have everything in place, you might contemplate acting on it — or at least give the proposition the serious consideration it deserves as outside the box thinking can often result in extraordinary tangible result.