

CONFIDENTIAL

**REPUBLIC PARKING SYSTEM, INC.
AND AFFILIATES**

COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2012

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Report of Independent Certified Public Accountants
on the Financial Statements

NEAL, SCOUTEN & McCONNELL, P.C.
Certified Public Accountants

Republic Parking System, Inc.
Chattanooga, Tennessee

We have audited the accompanying combined balance sheets of Republic Parking System, Inc. and Affiliates as of December 31, 2012 and 2011, and the related combined statements of income, changes in owners' equity, and cash flows for the years then ended and the related notes to combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Republic Parking System, Inc. and Affiliates as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Neal, Scooter & McConnell, P.C.

Chattanooga, Tennessee
May 3, 2013

REPUBLIC PARKING SYSTEM, INC. AND AFFILIATES
COMBINED BALANCE SHEETS
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT ASSETS		
Cash (Note 6)	\$ 10,675,699	\$ 10,723,749
Accounts receivable	6,386,069	6,813,153
Receivables from related parties (Note 3)	374,000	460,112
Prepaid expenses	979,916	768,520
	<u>18,415,684</u>	<u>18,765,534</u>
PROPERTY AND EQUIPMENT, at cost		
Leasehold improvements	5,626,696	6,307,056
Equipment	4,831,701	4,101,918
Automobiles and trucks	1,338,351	1,320,601
Furniture and fixtures	130,279	122,409
	<u>11,927,027</u>	<u>11,851,984</u>
Less accumulated depreciation	(8,564,592)	(8,368,624)
	<u>3,362,435</u>	<u>3,483,360</u>
OTHER ASSETS		
Non-current receivables	2,184,037	798,420
Receivables from related parties (Note 3)	9,785,422	7,056,783
Deposits and other assets	599,034	567,643
	<u>12,568,493</u>	<u>8,422,846</u>
Total other assets	<u>\$ 34,346,612</u>	<u>\$ 30,671,740</u>

The Notes to Combined Financial Statements are an integral part of these statements.

REPUBLIC PARKING SYSTEM, INC. AND AFFILIATES
COMBINED STATEMENTS OF INCOME
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
REVENUES		
Gross parking service revenues	\$ 332,449,557	\$ 313,790,141
Less landlord's share of parking service revenues from management accounts	264,878,465	246,744,036
Net parking service revenues	67,571,092	67,046,105
Management contract revenues	14,156,018	12,591,309
Interest income	237,486	265,795
Other	2,927,732	2,169,823
Net revenues	<u>84,892,328</u>	<u>82,073,032</u>
COSTS AND EXPENSES		
Lease expenses (Note 2)	51,996,603	49,018,090
Salaries and wages	15,540,350	16,452,194
Depreciation	1,372,987	1,270,363
Other operating expenses	8,436,027	8,107,407
General and administrative expenses	2,748,992	2,014,792
Total costs and expenses	<u>80,094,959</u>	<u>76,862,846</u>
NET INCOME	<u>\$ 4,797,369</u>	<u>\$ 5,210,186</u>

The Notes to Combined Financial Statements are an integral part of these statements.

**REPUBLIC PARKING SYSTEM, INC. AND AFFILIATES
COMBINED STATEMENTS OF CHANGES IN OWNERS' EQUITY
Years Ended December 31, 2012 and 2011**

OWNERS' EQUITY, December 31, 2010	\$ 12,179,901
Net income	5,210,186
Distributions to owners	<u>(4,485,580)</u>
OWNERS' EQUITY, December 31, 2011	12,904,507
Capital contribution	14,717
Net income	4,797,369
Distributions to owners	<u>(2,857,884)</u>
OWNERS' EQUITY, December 31, 2012	<u><u>\$ 14,858,709</u></u>

The Notes to Combined Financial Statements are an integral part of these statements.

REPUBLIC PARKING SYSTEM, INC. AND AFFILIATES
COMBINED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 4,797,369	\$ 5,210,186
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,372,987	1,270,363
Changes in operating assets and liabilities:		
Receivables	(958,533)	(524,461)
Prepaid expenses and other assets	(242,787)	21,104
Current liabilities	1,720,670	406,682
	6,689,706	6,383,874
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,267,210)	(2,499,123)
Proceeds from sale of property and equipment	15,148	-
Net change in receivables from related parties	(2,642,527)	(1,100,173)
	(3,894,589)	(3,599,296)
CASH FLOWS USED IN FINANCING ACTIVITIES		
Capital contributions	14,717	-
Distributions to owners	(2,857,884)	(4,485,580)
	(2,843,167)	(4,485,580)
Net change in cash	(48,050)	(1,701,002)
Cash at beginning of year	10,723,749	12,424,751
Cash at end of year	\$ 10,675,699	\$ 10,723,749

The Notes to Combined Financial Statements are an integral part of these statements.

**REPUBLIC PARKING SYSTEM, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2012 and 2011**

Note 1. Summary of Significant Accounting Policies

Nature of operations:

The accompanying combined financial statements of Republic Parking System, Inc. and Affiliates (RPS or the Company) include accounts of certain S corporations and partnerships operating under the name Republic Parking System. These entities are included in the combined financial statements due to James C. Berry's majority ownership in each S corporation and partnership. The Company manages and operates company-owned and leased parking facilities and manages and operates parking facilities owned or leased by other parties (the Landlords). At December 31, 2012, the parking operations of RPS included 74 airport locations, 33 hospitals and medical centers, and 576 urban locations throughout the United States, employing approximately 2,600 people.

Basis of accounting:

The accompanying financial statements are presented on the accrual basis of accounting.

Cash and cash equivalents:

For purposes of the statement of cash flows, the Company considers all highly-liquid debt instruments purchased with a maturity of 3 months or less to be cash equivalents.

Revenue recognition:

Parking service revenues include the parking revenues from leased and owned locations. Management contract revenues represent revenues (both fixed fees and additional payments based upon parking revenues) from facilities managed for other parties, and miscellaneous management fees for accounting, insurance, and other ancillary services such as transportation management services. Parking service and management contract revenues are recognized when earned.

Sale of contracts:

Many of the Company's contracts maintain an option allowing a sale of the contract. Typically, these options are exercised in markets that are deemed unprofitable or if contracts provide a landlord buy-back option of the Company's investments, assets, and future compensation.

Accounts receivable:

Accounts receivable consists primarily of amounts owed to the Company under terms of their management contracts. Such amounts include management fees earned but not received, reimbursements for operating expenses in excess of rents collected, and reimbursements for property improvements and equipment purchases. Reimbursements for

**REPUBLIC PARKING SYSTEM, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2012 and 2011**

Note 1. Summary of Significant Accounting Policies (continued)

Accounts receivable: (continued)

improvements and equipment are normally received ratably over the life of the lease. Therefore, a portion of these receivables is due after one year and is reported as non-current receivables in the accompanying combined balance sheets. Management believes all amounts recorded in receivables at December 31, 2012, are fully collectible.

Property and equipment:

Property and equipment are carried at cost. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives used in computing depreciation expense are as follows:

Leasehold improvements	Life of lease up to 15 years
Equipment	1-5 years
Automobiles and trucks	3-8 years
Furniture and fixtures	1-5 years

Expenditures for repairs and maintenance not considered to substantially lengthen the property lives are expensed as incurred.

The Company periodically evaluates the carrying value of long-lived assets to be held and used when events or changes in circumstances warrant such a review. The carrying value of long-lived assets is considered impaired when the projected undiscounted future cash flows of such assets are less than their carrying value. Management believes that no impairments exist as of December 31, 2012, and accordingly, no loss has been recognized.

Insurance reserves:

Insurance reserves represent amounts that have been provided for estimated losses resulting from the uninsured portion of pending insurance claims, plus an estimate for incurred but not reported insurance claims.

The Company applies the provisions set forth by the Financial Accounting Standards Board for Accounting for Contingencies, in determining the timing and amount of expense recognition associated with claims and litigation related to risk where the Company has elected to be self insured. The expense recognition is based upon management's determination of an unfavorable outcome of a claim being deemed as probable and reasonably estimable, as defined by FASB *Accounting Standards Codification* 450, Contingencies (formerly Statement of Financial Accounting Standards No. 5). The determination requires the use of judgment in both the estimation of probability and

**REPUBLIC PARKING SYSTEM, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2012 and 2011**

Note 1. Summary of Significant Accounting Policies (continued)

Insurance reserves: (continued)

the amount to be recognized as an expense. Management utilizes historical experience with similar claims, input from legal counsel, and reports from its insurance administrator to determine the likelihood and extent of an unfavorable outcome in general litigation and estimated liabilities to be recorded on all claims. Events may indicate differences from these judgments and estimates and result in the recognition of additional expenses in the future.

Income taxes:

The Company has elected to be taxed under provisions of Subchapter S of the Internal Revenue Code. Under those provisions, the Company does not pay federal corporate income taxes on its taxable income. Instead, the owners are liable for individual federal income taxes on their respective individual income tax returns.

The Financial Accounting Standards Board (FASB) has issued Interpretation (FIN 48), "Accounting for Uncertainty in Income Taxes", which requires entities to disclose known or anticipated positions of income tax uncertainty. The Company is not aware of any material uncertain income tax positions as of May 2013, however, the tax years of 2009 forward could be subject to examination by the IRS or other applicable tax jurisdictions.

Advertising:

The Company expenses advertising costs as they are incurred.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2. Lease Obligations

Lease expense related to operating leases is recognized on a straight-line basis over the initial term of the related leases. Certain operating leases require the Company to pay additional rent if parking lot revenues exceed the guaranteed revenue minimums per the contract. The Company recognizes this additional rent expense when such specified amounts are attained.

REPUBLIC PARKING SYSTEM, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2012 and 2011

Note 2. Lease Obligations (continued)

The Company leases certain parking facilities under long-term, noncancelable operating lease agreements with the owners of the properties. Lease agreements provide for minimum payments, contingent payments based upon percentage of revenues or a combination of both. Additionally, certain locations require the Company to pay real estate taxes and other occupancy expenses. These leases expire at various dates through 2037 and certain leases provide for options to renew for subsequent lease periods.

Aggregate future minimum lease payment obligations under operating leases currently in effect, are as follows:

2013	\$ 13,717,950
2014	12,925,622
2015	11,295,339
2016	6,663,326
2017	1,491,193
Thereafter	7,996,277

Under the terms of certain of these lease agreements, the Company is required to have certain specified bonding. During 2012 and 2011, the Company incurred operating expenses related to these bonds of \$149,304 and \$157,250, respectively.

In connection with obtaining certain contracts to lease and manage parking facilities, the Company periodically agrees to make improvements to the properties during the contract period. As improvements are made, those amounts are included in leasehold improvements and amortized over the remaining lease term. As of December 31, 2012, the Company had approximately \$122,551 remaining to be spent under these various commitments.

Note 3. Related Party Transactions

The Company leases executive and administrative offices and storage space in a building which is owned by the Company's principal owner. The Company paid rent expense related to these leases of approximately \$402,377 and \$394,804 for 2012 and 2011, respectively. These leases expire in June 2015 and provide for options to renew for subsequent lease periods.

Aggregate future minimum lease payment obligations under operating leases currently in effect are as follows:

2013	\$ 370,032
2014	370,032
2015	185,016

**REPUBLIC PARKING SYSTEM, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2012 and 2011**

Note 3. Related Party Transactions (continued)

The Company leases facilities owned by the Company's principal owner and manages and operates these facilities. Lease expense related to these facilities was \$249,309 and \$235,873 in 2012 and 2011, respectively, which resulted in net income (loss) of \$50,033 and \$(20,166) in 2012 and 2011, respectively. The Company also manages facilities that are owned and operated by the Company's principal owner. Management fees earned from these facilities were \$79,154 and \$78,836 in 2012 and 2011, respectively.

The Company's principal owner controls Sixth Street Limited Partnership, a partnership that owns certain parking facilities managed by the Company. Outstanding advances to this partnership were \$2,250,000 and \$2,550,000 as of December 31, 2012 and 2011, respectively.

The principal owner of the Company has a 99 percent interest in RPS International, LLC, a partnership involved in managing parking facilities in certain foreign countries and on street parking. Outstanding advances to this partnership were \$4,646,063 and \$4,141,183 as of December 31, 2012 and 2011, respectively. The financial position and results of operations of RPS International, LLC, have been excluded from the accompanying combined financial statements.

The principal owner of the Company has a 100 percent interest in Jim Berry Company, LLC. Outstanding advances to this partnership were \$344,334 and \$182,687 as of December 31, 2012 and 2011, respectively.

The Company had outstanding advances to three shareholders in the amount of \$1,680,000 and \$454,000 as of December 31, 2012 and 2011, respectively.

The principal owner of the Company has a 50 percent interest in Berry and Hunt, LLC. Outstanding advances to this partnership were \$189,025 at December 31, 2012 and 2011.

The principal owner of the Company has a 100 percent interest in Berry Enterprises, LLC. Outstanding advances to this partnership were \$1,050,000 at December 31, 2012.

The related party advances are due upon demand. Amounts have been classified in the accompanying financial statements based on management's estimate of expected collection.

Note 4. Employee Benefit Plan

The Company maintains a 401(k) plan (the Plan) covering substantially all employees meeting minimum age and service requirements. The Plan allows for participants to contribute a portion of their compensation subject to certain limitations. The Company may also match qualified participant contributions, as defined by the Plan. There were no contributions made by the Company to the Plan during 2012 or 2011.

**REPUBLIC PARKING SYSTEM, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2012 and 2011**

Note 5. Risk Management

The Company utilizes a combination of indemnity and self-insurance coverages, up to certain maximum losses for liability and workers' compensation claims. These policies have a deductible of up to \$250,000 per occurrence for all general liability and worker's compensation claims. These deductibles must be met before insurance companies are required to reimburse the Company for costs related to covered claims. The Company also provides health insurance for many of its employees and purchases a stop-loss policy with a deductible of \$75,000 per claim. As a result, the Company is, in effect, self-insured for all claims up to deductible levels. Management believes insurance coverage and insurance reserves are reasonable and adequate for estimated losses incurred as of December 31, 2012. The accompanying combined balance sheets reflect estimated losses resulting from the uninsured portion of pending insurance claims plus an estimate for incurred and not reported claims for liability, workers' compensation, and health insurance.

The Company utilizes a third-party administrator to review and process claims and payments. At December 31, 2012, the Company maintains two letters of credit totaling \$3,646,000 for the benefit of its third party administrator as security for future payment of such claims. As of December 31, 2012, no amount has been drawn on the letters of credit.

Note 6. Concentration of Credit Risk

The Company maintains cash accounts at various financial institutions. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. The bank accounts, at times, may exceed federally insured limits. The Company has not experienced any losses on such accounts.

Note 7. Commitments and Contingencies

The Company is subject to various commitments, legal proceedings, and claims arising in the ordinary course of business. The Company accrues amounts to provide for settlement of these matters at such time that proceedings indicate that an unfavorable outcome is likely or when management deems that a settlement is in the Company's best interest. The outcome of such litigation cannot be predicted, but, in the opinion of management, based in part upon the opinion of counsel, the amount of ultimate liability, if any, will not materially affect the Company's combined financial position or the results of operation.

**REPUBLIC PARKING SYSTEM, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2012 and 2011**

Note 8. Evaluation of Subsequent Events

The Company has evaluated subsequent events through May 3, 2013, the date which the financial statements were available to be issued.