Amador Appraisals and Acquisitions, Inc.
Business Brokerage and Appraisals

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Prepared By

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ABC Machine

10300 Argonaut Dr
Jackson, California

Business Valuation

December 20, 2010

Confidential

Amador Appraisals and Acquisitions, Inc.
Business Brokerage and Appraisals

December 20, 2010

Mr. John Smith
ABC Machine
10300 Argonaut Dr
Jackson, California

Dear Mr. Smith:

The appraisal assignment called for determining the Fair Market Value of your company, ABC Machine, a California S-Corporation as of October 31, 2010. The valuation is for a 100% controlling interest in the Company as if sold on an Asset Sale Basis.

The Market Approach was employed in the valuation in which four different methods were used to estimate the Subject's value. Each of the methods used developed different values for the Subject. This is a normal occurrence since each procedure focuses on different aspects of the Company's operations. Those methods that focus on the Company's Cash Flow are considered the strongest indicators of the Subject's value and, as such, are given the greatest weight in arriving at the final Conclusion of Value.

The methodologies produce a value know as an Asset Sale Value. An Asset Sale, which is the most common format for a small business transaction, includes only the company's Inventory, Fixtures and Equipment, and all its Intangibles. The Seller would retain all Cash and Accounts Receivable and pay off all Liabilities.

In my opinion, using the accepted methodologies of valuation, and subject to the limiting conditions set forth in this report, the Fair Market Value of ABC Machine on an *ASSET SALE BASIS* as of October 31, 2010 is:

$650,000

(Six Hundred Fifty Thousand Dollars)

The above value includes the value of the Company's Inventory. Inventory as of October 31, 2010 was estimated at $25,000. The Fair Market Value is, therefore, restated at $625,000 plus inventory of $25,000.

Appraiser's Certificate

1) *The statements of fact contained in this report are true and correct to the best of my knowledge and belief, subject to the assumptions and conditions stated.*
2) *The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, unbiased and professional analyses, opinions, and conclusions.*
3) *I have no present or prospective interest in the property that is the subject of this report, nor is my compensation dependent upon the value of this report or contingent upon producing a value that is favorable to the client.*
4) *I have no personal bias with respect to the parties involved nor have I made a full disclosure of any such bias.*
5) *This appraisal is a limited scope appraisal. The client,* John Smith *, submitted the financial data used in this report. The Appraiser has not verified any of this information.*
6) *No person except the undersigned participated materially in the preparation of this report.*

Sincerely,

C. Fred Hall III, MBA, AIBA

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EXHIBITS

1.0 INTRODUCTION

1.1 REPORT DATE: DECEMBER 20, 2010

1.2 DATE OF VALUATION: OCTOBER 31, 2010

1.3 SUBJECT OF APPRAISAL

The subject of this business appraisal is ABC Machine, located at 10300 Argonaut Dr, Jackson, California. The Company is a California S-Corporation which is solely owned by John Smith A site inspection was not performed. The Owner, Mr. Smith, was interviewed by the Appraiser on December 17, 2010. The Owner's Discretionary Cash Flow Analysis was based on statements made in that interview.

1.4 PURPOSE AND USE

The purpose of the appraisal is to determine the Fair Market Value of ABC Machine ("ABC") on a Controlling, Non-Marketable basis. The Marketability of a company is defined as the ability to convert the investment in the entity into cash immediately at a known or reasonably expected price. Since interests in small, closely-held companies generally cannot be converted into cash quickly, such *interests* are referred to as non-marketable. This non-marketable *interest*, however, will be valued in a manner which will reflect its unattractive investment characteristics. In other words, the Subject interest is Non-Marketable and, therefore, must be valued on a *Non-Marketable basis*.

The methodology that will be employed in the Market Approach uses databases of sold transactions of small, closely-held companies in which a 100% Controlling interest was sold. In addition, unlike public companies whose shares can be traded within seconds on a national stock exchange, these transactions might take place over many months. The selling price of these companies was not known at the outset, and, the marketing costs of the transactions were substantial compared to a typical stock broker fee. In other words, the transactions in the databases were non-marketable which fits the characteristics of the Subject Interest.

The appraisal is intended for the sole use of Mr. Smith to assist in preparing an exit strategy. Any other use invalidates the conclusions of this appraisal.

1.5 STANDARD OF VALUE

Fair Market Value

The definition of Fair Market Value is the value at which property is exchanged, given a willing Seller and a willing Buyer, the former under no compulsion to sell and the latter under no compulsion to buy, with both parties having knowledge of all the relevant facts (Revenue Ruling 59-60). It is assumed under the standard for Fair Market Value that the Buyer and Seller are both hypothetical parties, the transaction is for all cash or cash equivalent, and, the sale is consummated within a reasonable amount of time.

1.6 PREMISE OF VALUE

Going Concern

The underlying premise assumed here is that the business will continue to operate in the future as it has in the past which, therefore, gives rise to an intangible value for its name, reputation, location, or unique manner of doing business. The earning power of the enterprise, and its ability to continue generating cash flow in the future are indicators of Fair Market Value.

1.7 ASSUMPTIONS AND LIMITING CONDITIONS

When valuing a business the Appraiser must make certain assumptions. These assumptions and various limiting conditions will have a significant impact on the conclusion of value of the company being appraised. The following are assumptions and limiting conditions affecting this valuation.

1.7.1 In order to provide a cost effective appraisal report, at the client's request, we have eliminated portions of the report that the client would be familiar with: for example, a detailed analysis of the economy and the industry in which the Company operates and its effects on the Subject Company as well as an analysis of the Company's financial statements.

The scope of work reduction described above does not lessen the status of the appraisal report.

1.7.2 The Appraiser does not purport to be a guarantor of value. The valuation of closely held companies is an imprecise science and reasonable people can differ in their opinion of value. However, the formulas and valuation methodologies used in this report were developed by and are accepted by the business brokerage and business valuation communities. The application of these methods in the analysis reported herein along with years of experience in evaluating such businesses in the Appraiser's opinion provides a reasonable basis for determining business value.

1.7.3 The valuation process is not specifically a fact-finding mission. The Appraiser's opinion is supported by research and analysis, but the valuation conclusion ultimately reflects his informed and unbiased judgment.

1.7.4 Interviews with principals of the Subject will be conducted by the Appraiser using the Appraiser's questionnaires. The Appraiser has relied on the representations of management without independent investigation. The information was obtained in good faith, but no opinion or warranty is implied or expressed by the Appraiser.

1.7.5 This report cannot be relied upon to disclose any fraud, misrepresentation, or deviations from Generally Accepted Accounting Principles.

1.7.6 This report is to be used for the express purpose stated above. Any other use is prohibited and invalidates the conclusions of this appraisal.

1.7.7 The appraiser assumes no responsibility for any legal or tax matters that are relative to the findings of this report

2.0 VALUATION OF THE SUBJECT BUSINESS

The methodologies considered for use in the valuation of the Subject are as follows:

INCOME APPROACH IS REJECTED. The Income Approach analyzes a company's income stream from an investor's point of view. Implicit in the Income Approach is that a buyer will look at a company's Net Cash Flow after deducting all expenses and capital requirements, apply a desired rate of return, and, thereby calculate an appropriate level of investment. The two most important elements in the Income Approach, then, are the Subject Company's Net Cash Flow and the investor's desired rate of return.

Most small companies with revenues less than $1 to $5 million typically only earn enough money to compensate the owner for his labor. As a result, the remaining portion of Total Net Cash Flow that represents the return on one's investment is minimal or even a negative (the owner makes a substandard living wage). Thus, this methodology would produce an unrealistically low or a negative value.

Also, since there is no market data available for the rates of return that investors earn from investments in small, privately-held companies, the Income Approach uses rates earned by investors from publicly traded companies listed on national stock exchanges. The methodology takes the rate of return an investor would expect to receive from a $100 billion company and attempts to reconcile it to an appropriate rate he might expect from investing in a small privately-held company doing, say only, $1 million in revenues.

The largest companies on the stock market have earned an average of 9.8% per year over the last 75 years which translates to a Price/Earnings Multiple of 10.2 (the P/E Multiple = 1 ÷ rate of return: 1 ÷ 9.8% = 10.2). The smallest 5% of companies on the stock market have historically earned 19.4% return per year for a Price/Earnings Multiple of 5.2 (1÷ 19.4% = 5.2). Thus, the smaller the size of the company, the greater the return on investment demanded by the investor, as is evidenced by the declining Price/Earnings Multiples.

When employing the Income Approach, Appraisers often erroneously take the rate of return from that smallest 5% of publicly traded companies and apply it to even smaller privately held companies. The inference here is that investors of small privately-held businesses would be satisfied with the same rate of return that they could receive from investing in small publicly traded companies.

However, when we examine the transactions involving small, privately-held companies, we see that as companies continue to get smaller and smaller, their Earnings Multiples will continue to decline.[1] Clearly, investors of small privately held businesses are demanding even greater rates of return than the stock market offers as is reflected in the lower Cash Flow Multipliers they are willing to accept.

EXHIBIT I MULTIPLIERS BY SIZE OF COMPANY

Ultra-Small Company Risk Premium
Pratts Stats Database

Total Transactions	Total Sales		Price-Earnings Multiplier*
	Sales Range	Median Sales	Median
183	Over $25 Million	62,444,000	6.69
130	$10 to 25 Million	15,703,000	6.92
114	$5 to 10 Million	7,079,000	5.86
785	$2 to 5 Million	2,074,500	5.45
491	$1 to 2 Million	1,349,000	5.39
746	$.5 to 1 Million	674,000	4.39
1833	$0 to .5 Million	250,000	3.28

*** Cash Flow = Earnings Before Taxes (EBT) less Estimated Taxes**
Cash Flow Multipliers = Selling Price / Earnings (see footnote below)

Note: The data from Pratts Stats is insufficient to precisely calculate "Net Free Cash Flow to Equity." Therefore, the Net Earnings calculation here is not directly comparable to that used in the Income Approach. Regardless, we can observe the *relative movement* of the earnings multiples here to give us insight into estimating the Ultra-Small Company Risk Premium.

Pratt's Stats Database contained a total of 11,501 transactions. The following Transactions were eliminated from the above analysis to avoid potential ratio distortions:

1) **Corporate Stock Sales.**
2) **Asset Sales where liabilities were assumed.**
3) **Companies with negative cash flow.**
4) **Companies with P-E Multipliers > 10.0.**

www.bvmarketdata.com, *Pratt's Stats database,* as of 4/3/2008.

From Exhibit I we can see that Earnings Multipliers gradually decline from privately-held companies in the $25 million to $100 million sales range (roughly the same size as the smallest publicly traded companies) to companies with revenues between $2 million to $5 million. Thus, the rates of return garnered for these investments become increasingly higher than the stock market would provide. Depending on the type of company, the Multipliers

[1] (Note: the Cash Flow or Earnings Multiples of privately held companies are calculated slightly differently than the P/E Multiples of publically traded companies. So, they are not directly comparable. However, we can still observe their movement and draw meaningful conclusions.)

begin to fall rapidly in the mid $1million to $5 million range and crash under $1 million. In other words, the smaller the company, the lower its Cash Flow Multiplier and, therefore, the higher the resulting rate of return.

Following the linear relationship between the company's size and its rate of return means that when we get down to the smallest privately-held companies, the P/E ratio is so low that it suggests that an appropriate rate of return that an investor would demand from such an investment is in the range of 35-50% per year. Even though this rate of return is beyond comprehension, we still must apply it to a small company's Net Free Cash Flow after all expenses. As we saw from above, that often is approximately $0 for most small companies (owner's salary eats up all the excess cash flow); that means that the value of a small company, using the Income Approach, would often be $0 ($0 ÷ 50% = $0). Nothing makes sense.

Thus, the Income Approach, when applied to small businesses can produce wildly exaggerated results. The Income Approach is constructed using the premise that all buyers are investors. There is no consideration for the fact that there are other reasons why people buy small businesses (i.e. a paycheck).

EXCESS EARNINGS METHOD IS REJECTED. This approach requires a high-integrity balance sheet in order to calculate the return on investment attributed to all the company's assets. The Fixtures Ledger used to prepare the Company's P&Ls and Tax Returns is compiled primarily for tax purposes and, therefore, does not include all of the Company's assets. As a matter of practice, most companies do not capitalize any asset purchases less than $2,500. Those assets are being used by the company but are not reflected on the Balance Sheet. As such, this approach would be impractical to apply. In addition, this method is typically not used when there are other, more reliable approaches that can be used.

ASSET APPROACH IS REJECTED. The Asset Approach is most frequently used for companies that are asset-intensive or are holding companies. It is also used for new companies whose operating assets have been recently acquired and, therefore, bear little or no depreciation. Since ABC is a seasoned company with a moderate level of assets, some are new and some are quite old, thus the Asset Approach will not be used.

MARKET APPROACH IS SELECTED. The Market Approach employs the Principal of Substitution. Simply stated, a buyer will not pay more for a business if an equally desirable substitute is available at a lesser price. Thus, in the Market Approach we search for what is considered equally desirable companies and use their selling prices to estimate the value of the Subject Company.

3.0 MARKET APPROACH

The valuation process should be a "forward looking" process. That is, we are trying to look into the future potential of a company to determine its value today. The Market Approach, however, looks at actual transactions that are often years old, and, the financial data associated with the transaction obviously *predates* the sale. On the surface, then, the Market

Approach would appear to be looking in the rear-view mirror. The Market Approach, however, is a buyer-driven analysis. We are literally stepping back in time to the precise moment when a buyer and seller agreed to the terms of a sale. The buyer clearly made his decision to buy based on his assessment of the recent financial statements of the business, but, just as importantly, the price he offered was based on his expectations of the future potential of the business. For example, a "dot.com" company in 2002 probably produced strong financials for 2001. However, the buyer's expectations for the long-term future of this type of business would be very negative. The price he was willing to pay in 2002 would certainly reflect that expectation. Therefore, by comparing the selling price of the business to its historical data, the resulting financial ratios describing that event clearly reflect the *future* long-term expectations of the buyer based on his knowledge of the *current* financial condition of the company. Thus, in theory, by applying those same financial ratios to our Subject Company's recent financial data, we would be calculating a price that a buyer would pay *today* that is based on the *current* financial condition of the company and a buyer's *future* expectations.

The Market Approach includes a collection of methods which use actual transactional data from the marketplace. There are various methods commonly used under this approach.

3.0.1 THE GUIDELINE PUBLIC COMPANY METHOD

shares are Freely-Traded. The method involves observing the stock prices and various ratios such as the Price/Earnings Ratio or Price/Book Value ratio of smaller publicly-held companies in the same industry as the subject to determine appropriate pricing of the subject.

To apply this method properly, the selected guideline companies should be in the same industry and of similar size and relevancy to the subject. Relevancy is an important consideration; otherwise we might consider comparing the local hardware store to Home Depot. Raymond Miles, past director of the Institute of Business Appraisers, suggests that public companies are just not relevant at all when compared to privately-held companies due to the significant differences in the size of the investors' investment, the liquidity and overall risk of the investment, and the involvement of the investor in managing the company. "*Indeed it is possible to make detailed comparisons of each potential guideline company's financial characteristics with the business being appraised. However, public companies in general fall short in meeting the relevance requirement for guidelines to value small closely held businesses."*[2]

As we have seen throughout this report the size of a guideline company is an important factor in valuation. The appropriate parameters for the selection process in the Guideline Public Company Method have been advanced by Mr. Paul Hyde.[3]

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[2] Raymond C. Miles, "*Technical Studies of the IBA Transactional Database,"* (Institute of Business Appraisers, Inc. 2003), part XXXIII, p 1.

[3] Paul R. Hyde, *"When Should the Public Company Guideline Method be Used?,"* Business Appraisal Practice (Institute of Business Appraisers, Inc., Spring 2004), pp 2-5

Subject Company Revenue	Hyde's Recommendation
Under $5 million	GPC method not applicable
$5 to $20 million	Comparables limited to 5 times revenue
$20 to $50 million	Comparables limited to 10 times revenue
Over $50 million	Comparables limited to 25 times revenue

A search of SIC 3599 (Machine Shops), the Subject's primary classification, using Business Valuation Market Data's Public Stats™ database[4] found three companies the smallest of which had $547 million in revenues. Thus, there were no acceptable comparables.

Therefore, the use of the Guideline Public Company Method is rejected.

3.0.2 THE MERGERS AND ACQUISITIONS TRANSACTIONS METHOD

The Mergers and Acquisitions Transactions Method involves the acquisition of businesses by other companies that are often public companies. The desired analysis of this database is to observe the prices of small privately-held companies that are acquired by large public companies. Buyers in this arena are often what we refer to as "strategic, or investment buyers." The synergies that exist between the acquiring and target companies are such that the acquiring company has far more to gain than just a return on investment. Strategic acquiring companies are often trying to dominate specific markets by buying up competitors, or trying to gain access to a specific market that fits with the markets they already control. These strategic transactions are often at a significant premium compared to those transactions where no specific synergy exists. Since the standard of Fair Market Value is to determine the transaction price between *any hypothetical buyers and any hypothetical sellers*, we must necessarily rule out those transactions where one specific player had a special agenda to fill; otherwise, we would have to do a different valuation for every different acquiring company.
A search using Business Valuations Market Data Mergerstats Database[5] found 79 companies. Most had revenues greater than $50 million. Only one was the size of the Subject. Thus, the comparables are not good comparisons to the Subject. Therefore, the Mergers and Acquisitions Transaction Method is rejected.

3.0.3 THE DIRECT MARKET DATA METHOD

The Direct Market Data Method uses databases of smaller, closely-held companies in which the controlling interest was sold. These transactions can typically be sorted by Standard Industry Classification (SIC), thus creating a statistically measurable "re-creation of the market." The companies in this database, for the most part, were traded as Asset Sales or sales that could easily be adjusted to reflect an Asset Sale. The characteristics of this method closely parallel that of the Subject Company.

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[4] Public Stats- SIC 3599, searched on http://www.bvmarketdata.com, December 20, 2010
[5] Mergerstats- SIC 3599 , searched on http://www.bvmarketdata.com, December 20, 2010

Therefore, the Direct Market Data Method will be the selected method used in the Market Approach. The various sources of data contain transactions ranging from a few thousand dollars to over one billion dollars. The transactions are from businesses located all around the country which were consummated as recently as a few months ago to as long as twenty years ago. In addition, when searching a specific SIC group for transactions involving companies similar to the subject, we often find that these companies do not appear to be similar at all.
The selection of appropriate comparables (also referred to as "guideline, or peer group companies") from these databases will be made after careful consideration of the following:

3.1 OWNER'S DISCRETIONARY CASH FLOW

The discussion on the Market Approach will begin with the analysis of the Subject Company's Cash Flow, and will be followed by a detailed description of the selection process used to obtain available data on comparables, or guideline companies

3.1.1 SELECTING THE BASE YEAR OF OPERATIONS

The Income Approach analyzes, in depth, the subject's recent financial condition, makes detailed financial ratio comparisons to the guideline companies, and then, applies various assumptions and forecasts for the industry and economy to arrive at a projection of future earnings for the company. That earnings projection, then, forms the basis for the estimate of the subject's value. The Market Approach, however, basically compares the guideline company financial ratios that were available at the time of its sale to the subject's current financial ratios. However, if we focus just on the subject's current financial statements, we are implying that it is a reasonable representation or proxy for the subject's long-term financial potential. This may not always be the case. The subject company may have just enjoyed a record breaking year or suffered unusual non-recurring losses. Thus, it might be inappropriate, then, to compare the subject's current year with the *average* operating results of our selected sample of guideline companies.

To circumvent this possible distortion, it is not uncommon to see Market Value Multiples applied to a subject's current year's earnings, or, an average, even a weighted average of the last several years' earnings. Raymond Miles, author of *Technical Studies of the IBA Transaction Database,* even suggests that the multiples should be applied to *projected* cash flow.[6] Gary Trugman provides us with various factors for determining the basis of Subject Company earnings to be used in the Market Approach[7].

1. *If the company has cyclical earnings, the appraiser may want to use an arithmetic average of earnings.*

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[6] Raymond C. Miles, *Technical Studies of the IBA Transaction Database*. (Plantation, Florida: The Institute of Business Appraisers, Inc., 2002), from "How to Use the IBA Market Database", p. 4

[7] Gary R. Trugman, *Using the Market Approach to Value Small and Medium-Sized Businesses* (Orlando Florida: a paper presented at the Institute of Business Appraisers' 1996 National Conference), p. 14

2. *If the company is experiencing modest growth, the appraiser should consider a weighted average earnings, the latest 12 months earnings, or proforma earnings.*
3. *Since the result of the valuation methodology is a "prophecy of the future," caution must be exercised when using a weighted average, particularly when the company is growing. The results of the weighted average will rarely, if ever, reflect "probable future earnings."*
4. *If the company's earnings are static, it does not matter what earnings base is used as long as it is representative of the assignment at hand.*
5. *If the company's earnings are declining, the appraiser may want to consider a weighted average earnings, the latest 12 months earnings, or proforma earnings.*

The use of arithmetic averaging should only be used when overwhelming circumstances call for its use, such as in the case of item #1 above. The fact that a company's revenues have been in decline for one or two years is, by itself, not a reason to use an average. It has been the Appraiser's experience as a business broker that buyers will vehemently object to valuations based on higher revenues from previous years. They will clearly see it as an attempt to artificially increase the price of the business. Buyers absolutely refuse to pay for value that may have been present two or three years ago.

The valuation is as of October 31, 2010.

The Company has seen very significant fluctuation in revenues over the last four years, dropping from $2 million to less than $1 million and back up to just under $2 million. Projections for 2011 call for 20% to 25% in revenue. Thus, the Trailing Twelve Month Statement for October 31, 2010**October 31, 2010 appears to be a reasonable proxy for the basis of future revenue growth of the Company.**

Spreadsheets for all reporting periods as well as a write up on the Company's operations can be found on Page 48.

3.1.2 RECASTING OWNER'S DISCRETIONARY EARNINGS

Once the base year (or years) of earnings has been selected, the next step is to "recast" the financial statement. The "recasting" of a company's earnings serves two purposes. First we need to strip away the differences in accounting methods used by different entity types. For example, Sole Proprietorships (SP) report earnings on the Schedule C of the owner's personal tax return. There is no Owner's Salary Expense in an SP; the "Bottom Line" represents his total income. However, Corporations and Partnerships provide for an Owner's Salary expense. Thus, the Bottom Line for these entities is ***net*** of the Owner's Salary. Health Benefits are a deduction in Corporations but not in an SP (they appear on the owner's 1040). Donations are a deduction in C-Corporations but not in S-Corporations (they appear on the owner's K-1). Accelerated depreciation (IRC Section 179) and gains or losses from the sale of assets do not appear on an S-Corporation tax return (they are on the owner's K-1), but, do on a C-Corporation and an SP. State income taxes do not appear on an SP but do on

Corporations. SPs by definition have one owner, whereas Corporations and partnerships may have multiple owners, all with salaries that are expensed, thereby reducing the Bottom Line.

The databases we use for comparables are a collection of all forms of entities. Thus, to make the Bottom Lines of all these different entities directly comparable to each other, the databases have removed all those accounting differences from the income statements. Thus, each entity's reported "profit" will be NET of taxes, depreciation, health benefits, donations, etc., but most importantly, net of just *ONE owner's salary*. With the appropriate adjustments, then, we can now directly compare the "net profit" of Corporations to Sole Proprietorships etc.

The second purpose for recasting a company's earnings is to attempt to present a "normalized" view of the subject company's operations. The recast financials should serve as a proxy for the current level of operations from which we may reasonably expect future revenues to evolve. Thus, we select an earnings period that best represents the current level of operations (which may not be the current year's P&Ls) and then, we remove any non-operating income or expenses and any non-recurring income or expenses. The result will be an income stream for the subject company that we can expect *under normal circumstances*. The Normalized P&L of the Subject has now been properly "sanitized" and is ready to be compared to the database guideline companies.

The earnings reported in the Direct Market Databases have also been recast to reflect all the above adjustments. The resulting "net profit" is referred to as Owner's Discretionary Cash Flow or, **Seller's Discretionary Earnings (SDE**).

However, the normalized view of the appraisal subject may still not be directly comparable to the guideline companies. Ratio analysis of the subject's financial data may show that it has various superior or inferior characteristics to the guideline companies. Under these circumstances, an adjustment to the Market Value Multiples (that is an increase or decrease) would also be warranted. For example, it may be demonstrated that the appraisal subject is significantly more profitable than the guideline companies (Mr. Pratt uses Discretionary Earnings (SDE) ÷ Gross Revenues as an appropriate measure of a company's profitability). In such cases, an adjustment to the Market Value Multiples should be made before it is applied to the subject's normalized earnings.[8]

In order to make the Subject Company's P&Ls directly comparable to the guideline companies, the recasting process makes the basic assumption that all companies have but one full-time managing owner. If a company has multiple owners (including working spouses of owners), the salary of the one owner who would most likely be replaced by a hypothetical buyer is added back to Cash Flow.

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[8] Shannon Pratt, *The Market Approach to Valuing Businesses*. (New York: John Wiley & Sons, Inc, 2000), p. 42

EXHIBIT II SELLER'S DISCRETIONARY EARNINGS

Current Year INCOME	Oct 31, 2010 12 Mos.	Add Backs
Sales - Printing	1,855,975	-
Less Discounts Taken	(12,755)	-
TOTAL INCOME	1,843,220	-
		-
COST OF GOODS SOLD		
Beginning Inventory	-	-
Raw Materials	316,061	-
Outside Services	80,261	-
Packing and Shipping Materials	9,281	-
Freight and Shipping	10,911	-
Direct Labor	676,101	-
Ending Inventory	-	-
TOTAL COST OF GOODS SOLD	1,092,615	-
GROSS PROFIT	750,605	
	40.7%	
OTHER INCOME		
Scrap Sales	30,439	-
Loss on Equipment Sale	(4,278)	(4,278)
Misc Income	113	-
TOTAL OTHER INCOME	26,274	4,278
EXPENSES		
Officer's Salary	37,443	37,443
Wage Expense, Casual Labor	140,852	10,000
Bonuses Paid	390	-
Taxes on Payroll	62,414	4,270
Depreciation and Amortization	106,324	106,324
Auto Expense	651	-
Bad Debts	50	-
Bank & Finance Charges	59,275	57,000
Computer & IT Expenses	640	-
Meals, Travel and Entertainmen	1,640	-
Freight Out	8,903	-
Insurance	1,332	-
Insurance - Group Medical	26,266	5,000
Workman's Comp Insurance	14,679	-
Interest Expense	15,827	15,827
Misc., Laundry, Dues	2,759	-
Professional Fee's & Subs	19,960	12,000
Office Supplies	5,113	-
Supplies	26,721	-
Machine Tooling	158,973	-
Rent	91,740	-
Repairs and Maintenance	27,058	-
Small Tools	1,875	-
Taxes and Licenses	17,341	-
Promotion	-	-
Utilities, Telephone, Waste Di	41,305	-
TOTAL EXPENSES / Total Add-Backs	869,531	247,864
TOTAL NET INCOME (Per Tax Returns) =	(92,652)	
Total Add Backs =		252,142
SELLER'S DISCRETIONARY EARNINGS (SDE) =		159,490
SDE%=		8.7%

It is also assumed that the hypothetical buyer would have to replace all the other owners with hired employees. As a result, if the *replacement cost* for those hired employees is ***less*** than the compensation paid to those other owners, the difference is also ***added back*** to Cash Flow (SDE). Conversely, if the replacement cost for those hired employees is ***more*** than the compensation paid to those other owners, the difference is ***deducted*** from SDE.

In developing SDE, Interest, Depreciation and Income Taxes are also *added back* to cash flow. In addition, the normalizing process requires that any non-recurring or non-operating expenses be *added back* to cash flow, and any non-recurring, or non-operating income be *deducted* from cash flow. The resulting Owner's Discretionary Cash Flow *after* Add-Backs is the total Cash Flow a hypothetical owner has at his disposal for his salary and perquisites, his loan payments, and his capital expenditures.

3.1.3 ADJUSTMENTS TO THE INCOME STATEMENT

The spreadsheet in Exhibit II shows the P&Ls for twelve months ending October 31, 2010 for ABC Machine. (See Exhibit XX, Page 48 for more detail.) Just to the right of the P&L data are the "Add-Backs" that represent the normalizing adjustments necessary to reconcile earnings to "Owner's Discretionary Earnings."

The information on the Company's Revenues and Add-backs were supplied by the Owner of the business. The Appraiser has not verified any of this data.

3.1.4 SELLERS DISCRETIONARY EARNINGS (SDE%)

The Subject Company's Discretionary Cash Flow Profit Margin (SDE%) for the normalized year is 8.7%. This margin of profitability earned is at the lower range earned by the guideline companies (13.7%, see Exhibit XIV**). As we shall see in the discussion below on Market Value Multipliers, a company's Cash Flow Profit Margin (SDE%) is a major driver in determining its Fair Market Value.**

3.2 Selection of Appropriate Guideline Companies

Once the recasting of the Subject's P&Ls is complete, we can now define our Subject in terms of its Discretionary Earnings, Gross Revenues, Inventory, and Fixtures and Equipment. These four variables can now be directly compared to a sample of selected comparables.

3.2.1 Databases Selected

The most commonly used databases in the Direct Market Data Method are Pratt's Stats, BIZCOMPS, BizBuySell, and the Institute of Business Appraisers (IBA) databases. For the most part, the data from these sources is obtained from business brokers who represented the buyer or the seller in the transaction. Very few of the transactions listed on the IBA database report the amounts of inventory or fixtures and equipment included in the sale. As such, this database will only be used if there are insufficient transactions in the other databases. BIZCOMPS reports the selling prices of a business *excluding* inventory. This database, however, *does* report the level of inventory separately, and therefore, we simply add inventory to the BIZCOMPS' reported selling price in order to be comparable to the other two databases. BIZCOMPS reports 17 data points for each transaction and claims to "police" the quality of input to its database.

BIZCOMPS and IBA state that they calculate Seller's Discretionary Earnings slightly differently. (For example, IBA does not mention adding back depreciation into Discretionary Earnings.) However, this Appraiser has completed over 250 market approach analyses and has made a point of carefully reading the complete transaction reports for over 5,000 comparables from these databases. In instances where both databases reported the same transaction, the Appraiser has found that in a high percentage of the cases the selling price, gross revenues and discretionary earnings were identical. One can attribute this to the fact that the same broker will report a transaction to both databases, and will offer only one calculation for Seller's Discretionary Earnings (SDE). Brokers will typically follow the convention recommended by the IBBA (International Business Brokers Association) for calculating SDE, a convention that BIZCOMPS expressly follows and one that IBA appears to accept by default. Therefore, both databases will be considered similar enough in their respective construction to be grouped together. Shannon Pratt draws the same conclusion in *The Market Approach to Valuing Businesses.*[9]

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[9] Shannon Pratt, *The Market Approach to Valuing Businesses*, (John Wiley and Sons, Inc., 2001), p. 173

Pratt's Stats has over 65 data points for each transaction including a summary of the P&L and balance sheet, a description of the terms of the deal, the type of consideration tendered, and whether it is a stock sale or an asset sale. Because of the extensive information available, reconciling Seller's Discretionary Cash flow or reconciling the actual selling price of the transaction is more reliable. Pratt's Stats calculates SDE similarly to BIZCOMPS and IBA; however, it is not uncommon to find discrepancies among all three. Careful analysis of all three databases will help avoid selecting incorrect transactional data. The greater detail offered by the Pratt's Stats database can help reduce errors in selecting the transactional data. Therefore, if there are any discrepancies arising among duplicate transactions reported by the three databases, the Pratt's Stats data will generally be used in the analysis.

3.2.2 TIMING OF THE SALE

The transactions used for business valuations are often several years old. Most of us exposed to real estate appraisals on private residences have been told that proximity to the subject house and timing of the comparable's sale are critical to the valuation. Business valuations, however, are not derived by looking at the actual selling price of the comparables. Instead, the Subject Company's financial ratios are compared with the ratios of the comparable businesses. Such financial ratios have a tendency to be fairly consistent over time. For example, the Price-Earnings ratios (P/E) used to compare publicly traded companies, on the average, do not change a great deal. Over the last fifty years the average P/E ratio for the Dow Jones Index, for example, has generally fluctuated fairly closely between 18 and 21. The Index Price may drop 30 to 40% as it did in 2002, but the cause was primarily due to a drop in company earnings. As earnings declined, prices followed suit; and, as earnings subsequently rebounded, so did prices. The Price/Earnings ratio, however, remained fairly stable throughout.

Secondly, small-business investors base their investment decisions primarily on a long-term view of the market. Unlike purchasing stock, where the holding period may be hours, weeks or months, buyers of small businesses are in it for "the long haul." Therefore, when comparing businesses that sold several years ago, the effects of recessions or bull markets on the cash flow multiples of the business are somewhat minimalized. Again, by using financial-ratio comparisons, the relationship between selling price and gross sales or selling price and cash flow tends to be fairly stable over time. The time element that is so critical in real estate appraisals is not nearly as significant a factor in business appraisals.

The following research was discussed in the book by Gary Trugman, Understanding Business Valuation:[10]

> *Raymond C. Miles, C.B.A., A.S.A., executive director of the Institute of Business Appraisers, published a paper entitled, "In Defense of Stale Comparables," in which Miles examined the almost 10,000 entries in the database, and*

[10] Gary Trugman, Understanding Business Valuations: A Practical Guide to Valuing Small to Medium Sized Businesses, (New York: American Institute of Certified Public Accountants, 1988), p. 150

> *demonstrated that most industries are unaffected by the date of the transaction when smaller businesses are involved. Miles performed a study that examined the multiples across various industries and time periods to see if, in fact, the multiples changed. The conclusion reached was that the multiples do not appear time-sensitive, since inflation affects not only the sales prices, but also the gross and net earnings of the business. Therefore, this information can be used to provide actual market data.*

More recently, similar results were cited by Jack Sanders, the creator of BIZCOMPS database.

> *Recently, the author [Jack Sanders] compared current study data with the data over ten years old. First the Gross Sales to Sales Price ratio was compared. In the current National Database that ratio was available in 6.748 out of 6,851 transactions. The arithmetic mean of this ratio was .46, while the median was .38. A similar analysis of 879 transactions out of 954 transactions older than ten years was made. The arithmetic mean was .44 and the median was .37. The same analysis was made of the Seller's Discretionary Earnings (SDE) to Sale Price ratio. The arithmetic mean for the current study was 1.95 while the median was 1.8. In the over 10 year-old data, the arithmetic mean was 2.0 and the median was 1.8.*[11]

The search criteria used by the Appraiser when selecting guideline companies from the various databases, therefore, will not exclude transactions based on the timing of the sale.

3.2.3 LOCATION

The location of a business can certainly have a significant impact on its value. For example, we often hear comments from business owners such as, "my restaurant has the best location in town and, therefore, deserves a much higher valuation." That observation would be true if that business were more profitable than its competitor. When applying the *same* Cash Flow Multiple to the two different locations, the restaurant with the higher profits (and superior location) would earn a higher calculated value than the other. The superior location undoubtedly contributed to the company's higher profitability, and hence, its higher value. If the company at the supposed superior location generated the same level of profits as its competitor, one would have to seriously question the contention that the location is superior.

[11] Jack Sanders, *BIZCOMPS User Guide,* Las Vegas, NV, 2004, p. 7

Selecting guideline companies from different states for comparison with the subject frequently raises challenges. The Appraiser researched the BIZCOMPS database to determine if there were compelling differences in the Market Value Multiples earned by companies from different states. The exhibit below shows the Cash Flow Margins and Revenue and Cash Flow Multiples of companies sold in the major states throughout the country.

EXHIBIT III MARKET VALUE MULTIPLES BY DIFFERENT STATES

State	Median Revenue	Median Cash Flow Margin	Median Cash Flow Multiple	Median Rev Multiple	Population Growth	Income Growth	# of Sales
OH	703,000	13.6%	2.22	0.31	1.0%	17.3%	58
PA	497,000	18.8%	2.31	0.42	1.2%	25.3%	44
MA	650,000	17.4%	2.33	0.37	1.5%	28.1%	139
WA	465,000	14.1%	2.49	0.36	1.7%	25.0%	58
IA	538,000	17.2%	2.25	0.33	2.0%	23.1%	43
NC	695,000	15.8%	2.46	0.36	3.3%	20.2%	81
UT	354,000	21.0%	2.17	0.49	4.0%	23.5%	95
MN	500,000	12.6%	3.57	0.49	5.7%	22.7%	124
CA	600,000	18.2%	2.33	0.40	7.9%	28.8%	911
ID	577,000	16.0%	2.57	0.39	9.8%	26.0%	150
CO	703,000	18.0%	2.42	0.43	13.0%	19.9%	472
FL	586,000	21.7%	2.01	0.42	14.2%	17.2%	2617
TX	580,000	19.9%	2.08	0.40	14.6%	22.9%	335
GA	742,000	18.8%	2.34	0.43	16.7%	19.1%	424
AZ	535,000	22.2%	2.34	0.50	23.5%	26.1%	436
	Median	18.0%	2.33	0.40			2,237
	Average	17.7%	2.39	0.41	* 7.0% * 24.2%		
	Standard Deviation	2.9%	0.358	0.056	(* Total US Growth Rates)		
	Coefficient of Variation	0.163	0.150	0.138			

Comparables were selected from BIZCOMPS Database of 10,065 transactions.
Transactions of $250,000 and higher were selected
Only States with more than 40 transactions were included in the analysis.
Population growth is the annual growth rate of the state from 2000 to 2007.

Tests were performed on the database to determine if various economic factors influenced the level of Market Value Multiples earned by companies throughout the country. A regression analysis was performed comparing the population growth rate of a given state with the Gross Revenue Multiples earned by companies within that state. The hypothesis here is that high-growth areas must assuredly attract business buyers who are willing to pay a premium for access to that market. The regression produced an R-Square of 0.30. The value, although not compelling, suggests that there is a modest tendency for high-growth areas to produce higher Gross Revenues Multiples than low-growth areas. (An R-Square of 1.0 means a perfect correlation between variables, whereas 0.0 means no correlation at all.)

The table above has been sorted in ascending order of Population Growth. The state with the lowest growth rate is on top of the list and the state with the highest growth rate is at the bottom. From a visual inspection, one can easily see that the states with lowest growth rates earned the lowest Revenue Multipliers and the states with the highest growth rates earned the highest Revenue Multipliers

A second test was run comparing the growth rate of household income within a state with the Gross Revenue Multiples earned by companies sold in that state. The percentage change in median household income from 2000 to 2007 for each state was regressed against the median Gross Revenue Multiples earned by companies sold in that state. The hypothesis here is that communities enjoying surging income levels will attract buyers of businesses who perceive investment opportunities. The regression only produced an R-Square of 0.0006; i.e., there was virtually no correlation between rising incomes and the Gross Revenue Multiples earned in a given region. Therefore, that hypothesis is rejected.

However, a *multiple* regression analysis was performed combining the population growth rate *and* the income growth rate of a region and comparing them with the Gross Revenue Multiples. The combination produced an R-Square of 0.35. The value suggests that communities enjoying higher population growth *and* a higher growth in household income may produce transactions with higher Market Value Multiples.

Given that population and revenue growth may have a positive effect on the Gross Revenue Multiples at the state level, we can draw the conclusion that high-growth communities within the state should also enjoy higher multiples than low-growth communities. Therefore, this report will research the growth rates of the community or market area that the Subject serves and compare it to the growth rate of the entire state or country.

The search criteria used for selecting comparables from the various databases, therefore, will include all transactions regardless of their location. However, an adjustment to the Gross Revenue Multiple will be made if the community that the Subject serves has a population growth rate and income growth that is significantly above or below the median for the whole state.

3.2.4 SIMILARITY OF COMPARABLES: THE PRINCIPLE OF SUBSTITUTION

As set forth in the Revenue Ruling 59-60, the value of an item can be determined by the cost of acquiring an equally desirable substitute. The Market Approach embodies this principle through the process of finding other similar businesses that have sold. The operative word "similar" often creates debate. A business owner is quick to point out the many unique characteristics of his company that make it distinctive in the marketplace and, therefore, should add to its value. The owner's *customers* will make those same distinctions, which is why they patronize the owner's business. A *buyer*, however, typically does *NOT* make those distinctions. First and foremost, a buyer of a small business is "buying a job," a job that must support the lifestyle to which he is accustomed. We have actually seen a buyer submit an offer on a grocery store, but then subsequently buy an X-ray equipment servicing business instead. The reason he did not buy the grocery store was not because it didn't have eight foot

high gondolas, or wasn't backed by the right franchisor, but rather, the X-ray equipment company simply just made more money. Clearly, a buyer's search criteria are just not detail oriented.

The Market Approach, therefore, is a buyer-driven analysis. Thus, in searching for comparable sales, it is *not* essential that the comparable be an *exact* match to the Subject Company. The ease with which Buyers choose between different types of businesses means that fairly broad classifications of businesses tend to exhibit similar value characteristics. The Buyer will simply not pay more for a business when there is an equally desirable substitute offered at a lower price.

3.2.5 SIZE OF THE COMPANY

The size of a company, in terms of its Gross Revenues, has a direct bearing on its value.

The Pratt's Stats Database of over 11,500 transactions was sorted by size of company. The results below show that, with few exceptions, smaller companies earn lower Cash Flow Multiples and Gross Income Multiples than larger ones. For example, all companies in the table below generated a Median Cash Flow Multiplier of 2.50, whereas, those companies

EXHIBIT IV CASH FLOW MULTIPLIERS BY SIZE OF COMPANY

Total Transactions	Total Sales		Cash Flow Multiplier			Sales Multiplier			Cash Flow Margin (SDE%)		
	Sales Range	Median Sales	*Lower Quartile	Median	**Upper Quartile	*Lower Quartile	Median	**Upper Quartile	*Lower Quartile	Median	**Upper Quartile
3,595	$0-$500,000	241,197	1.38	2.11	3.33	0.34	0.50	0.74	15.4%	24.7%	38.5%
1,387	$500,000-$1,000,000	693,701	1.63	2.51	3.61	0.29	0.44	0.65	11.4%	18.4%	27.5%
897	$1,000,001-$2,000,000	1,375,624	1.86	2.77	4.07	0.26	0.44	0.67	9.3%	15.6%	25.6%
545	$2,000,001-$5,000,000	3,097,922	1.84	2.96	4.55	0.22	0.45	0.69	7.8%	14.7%	26.9%
143	$5,000,001-$8,000,000	6,305,046	2.70	3.95	5.94	0.26	0.53	0.99	7.3%	13.3%	23.8%
242	$8,000,001-$25,000,000	13,856,490	3.33	4.87	6.92	0.37	0.66	1.17	8.5%	14.6%	24.2%
284	$25,000,001+	65,588,925	4.06	6.28	8.11	0.34	0.64	1.13	6.5%	11.4%	18.5%
Overall Totals											
7,144	All Transactions	772,200	1.58	2.50	3.99	0.31	0.48	0.73	11.9%	20.2%	32.7%
	Coefficient of Variation of Whole Database =			67.7%			87.4%			68.9%	

* 25% of all Transaction will fall BELOW the Lower Quartile values.
50% of all transactions will fall BETWEEN the Upper and Lower Quartile values.
** 25% of all transactions will fall ABOVE the Upper Quartile values.

Pratts Stats Database contained a total of 13,991 transactions on 8-10-09
The following transactions were eliminated from the above analysis to avoid potential ratio distortions:
1) Corporate Stock Sales
2) Assets Sales where liabilities were as
3) Companies with negative cash flow
4) Companies with Cash Flow Multipliers over 10.0

with revenues under $500,000 earned only 2.11. Thus, the smallest companies earned multiples of 2.11÷2.50 or 84.4% of what the average sized companies earned when sold. Similarly, companies with revenues between $1,000,000 and $2,000,000 exhibited a median Cash Flow Multiple of 2.77 which was 10.8% higher than the average sized company.
The Subject Company generated Gross Revenues in the current year of $1,843,220. Accordingly, the "size criteria" used to select guideline companies were those businesses whose revenues fell roughly in the $900,000 to $2.5 million range. Often it is difficult to find enough comparables within a given revenue range similar to the Subject. Therefore, in order to get a sample of reasonable size, it may be necessary to select somewhat larger or smaller guideline companies. In this case, it is important that the average revenue size of the whole sample be fairly close to the Subject's revenue history.

3.2.6 Other Filtering Criteria

The last filter criteria applied to the remaining database was to eliminate any transaction with negative or near zero earnings. Companies with earnings that are negative or near zero will produce Cash Flow Multiples that are negative or extraordinarily high, causing averages and Standard Deviations to be skewed inappropriately. By way of example: Selling price = $400,000, Revenues = $1,000,000, and Cash Flow = $25,000. The resulting Cash Flow Multiple = 16 ($400,000 ÷ $25,000). One would normally draw the conclusion from a Cash Flow multiple of 16, that the company sold for an extraordinarily high price. In this case, it was just the result of a very small denominator – Cash Flow.

Of the 6,279 transactions matching the initial search criteria in the Pratt's Stats database, 843 were found to have Cash Flow multiples that were greater than 10.0 or less than zero. The median Cash Flow Profit Margin (SDE%) (Cash Flow ÷ Total Revenue) for this group was only 4.4%, whereas, the median for the entire Pratt's Stats database was 19.3%. Thus, companies with Cash Flow multiples greater than ten are more than likely unprofitable companies. Since Cash Flow is the denominator in the Cash Flow Multiples equation, the high multiples earned for this group are clearly a function of a very low earnings level rather than a high price level. In addition, this group also yielded a very high Coefficient of Variation of 127.2%. The 843 transactions in this group are, therefore, loaded with outliers with distorted multiples.

Thus, companies with Cash Flow Multiples that are negative or greater than ten will be rejected from the analysis.

3.2.7 Selection of Appropriate Comparable Data

The above six sections have set up the filtering process that will be applied when selecting comparable transactional data. These selected guideline companies are considered to possess a higher degree of similarity to the Subject's characteristics and, therefore, are directly comparable.

The Subject Company is classified under SIC Codes #3599, Machine Shops. Companies listed under these classifications may not be identical to the subject; however, they may possess many similar characteristics. From a buyer's perspective, then, most of the companies within this group would be equally desirable choices.

The search criteria used for selecting comparables from the four databases, therefore, began by searching SIC Codes #3599. A total of 38 comparables were found in the Pratt's Stats database, and, 16 were found in the BIZCOMPS database. The selection was further filtered to include just those companies whose revenues were between $900,000 to $2.5 million, with the transactions occurring after 2000 and whose description of operations was similar to the Subject (i.e. Machine Shops). A total of eleven comparables were found in the Pratt's Stats database, and, twelve were found in the BIZCOMPS database.

Specific details on all of these companies can be found in the appendix beginning on Page 53.

3.2.8 Identifying Outliers in the Selected Sample of Comparables

3.2.8.1 Coefficient of Variation

After taking into consideration the filters described in the above six paragraphs we may find that the sample of comparables that we have selected may be as few as ten to twenty-five transactions. The risk in using a smaller sample of comparables is that one or more "outlying" comparables can significantly distort the ratio analysis of the entire sample. By "outlying" we mean that the Market Value Multipliers produced by the single guideline company are so far above or below the other observations that it caused the group's overall averages to be skewed. Thus, it is accepted practice when trying to measure where the market is to use the *Median* of a sample rather than its *Average*. The *Average* of a sample will be affected more by a single outlier than the *Median*. Regardless, both measures are at risk of sampling error due to small sample size. For that reason, standard deviation and coefficient of variation tests will be run on the sample which will then be compared to the entire Pratt's Stats database of 11,500 companies.

Standard Deviation is a statistical tool that measures the spread between the Market Value Multipliers of each individual comparable and the corresponding average for the entire sample of comparables. In other words, the Standard Deviation measures the degree of variability or dispersion within a sample. However, when comparing our small selection of comparables to the entire Pratt's Stats database, the Standard Deviations of the two samples, by itself, does not tell us which sample is more accurate. For that determination we use the Coefficient of Variation (CV). CV equals the Standard Deviation of the sample divided by its Average. The degree of dispersion within the sample is measured as a percentage of that sample's average. Thus, if a sample's average Cash Flow Multiplier were 5.0 and the Standard Deviation is 1.5, statistically the majority of all comparables would have a Multiplier that fell between 3.5 and 6.5 (5.0 + or – 1.5). The CV would indicate that the majority of comparables would lie within 30% of the average (1.5 ÷ 5.0). Thus, the coefficient gives us a tool to compare different samples in terms of their respective variability. If one sample has a much lower CV than the second, we can assume that the second sample has one or two outlying observations that may be distorting its overall average and, thereby, giving us a false read of the market.

Exhibit V Example Coefficient of Variation

	Cash Flow Multipliers	
	Sample #1	Sample #2
Transaction #1	4.6	7.7
#2	4.0	2.0
#3	4.4	3.0
#4	4.7	9.0
#5	5.7	1.0
#6	4.0	5.0
Median	4.5	4.0
Average	4.6	4.6
Stand Deviation	0.63	3.2
Coef of Variation	14%	69%

The best way of defining CV is through an example. Sample #1 in Exhibit V contains the Cash Flow Multipliers of six sales

transactions. The sample's median is 4.5 and the average is 4.6. Sample #2 also contains the Cash Flow Multipliers of six transactions. This sample has an average of 4.6, the same that was found in Sample #1. However, the median was a moderately lower 4.0. In choosing which sample is a more accurate measure of the market, we could simply look at the six observations in Sample #1, and intuitively we know that 4.5 is a good guess of where that market is. When looking at Sample #2, we have no clue as to what a good guess would be. Sample #2's observations are all over the map and any guess may be way off the mark. The CVs for these two samples statistically tell us what we already gleaned from visual inspection. The CV for Sample #1 was only 14%, whereas #2 was 63%. Given the choice between the two samples, Sample #1 produces, by far, a better indication of where the market is as evidenced by its much lower CV value.

As noted by Shannon Pratt in his Market Approach to Valuing Businesses, "All else being equal, multiples [derived from a sample database] exhibiting low Coefficients of Variation tend to more accurately reflect market consensus with respect to value."[12] Mr. Pratt also notes, "When Market Value Multiples among companies are tightly clustered, this suggests that these are the multiples that the market pays most attention to in pricing companies … in that industry."[13]

The appraiser might have occasion to adjust a Market Value Multiple up or down given the presence of other extenuating circumstances. Since the median value for a particular multiple describes where the general market is, there may be circumstances where the appraisal subject does not "fit the mold." According to Pratt, "*Keep in mind that the two factors that influence the selection of multiples of operating variables the most are the growth prospects of the Subject Company relative to the guideline companies and the risk of the Subject Company relative to the guideline companies."*[14]

Thus, if the growth rate of the subject or its profitability is greater than or less than the guideline companies as a whole, there would be justification to move the observed multiple upward or downward by a percentage, or, even go to the upper or lower quartile of the sample's range.

Three different Market Value Multipliers will be used in this report. Standard Deviations and Coefficients of Variation will be calculated for each sample which will then be compared to the entire Pratt's Stats database of 11,501 transactions. If either sample produces significantly higher coefficients, we will reduce its weighting, or eliminate it altogether when reconciling all the calculated values to obtain a single value conclusion.

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[12] Shannon Pratt, *The Market Approach to Valuing Businesses*, (John Wiley and Sons, Inc., 2001), p. 212
[13] Ibid., p. 133
[14] Ibid., p. 134

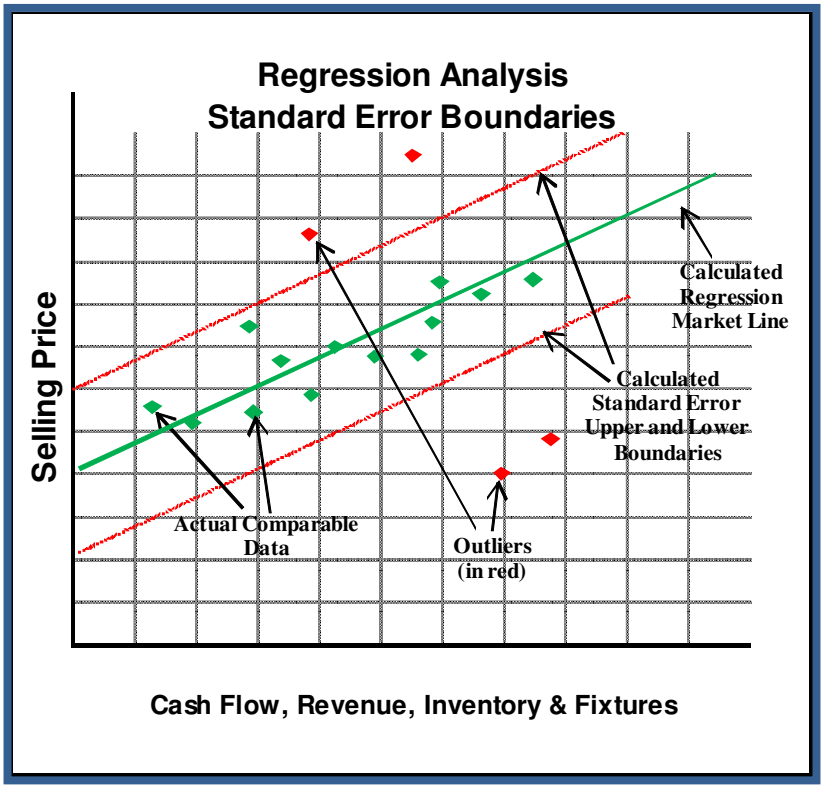
3.2.8.2 Regression Analysis

We have now completed round one of the process of selecting a suitable sample of comparables. The second step is to try to identify if there are ***individual observations*** within that sample that might be so far out of alignment with the rest of the sample that it is distorting our view of where the market is.

Regression Analysis is a statistical tool that we will use that compares various key characteristics of each guideline company (Gross Revenues, Cash Flow, Inventory, Fixtures, and Cash Flow Profit Margin (SDE%)) with its selling price. If each of these key characteristics are plotted on a graph, the regression calculation produces a line that will be the "best fit" between those points versus the selling prices. The regression line, therefore, is the measurement representing the closest relationship between these key variables and the selling prices of all the observed companies in the sample.

Those guideline companies whose actual selling price is radically different from the price calculated by the regression line (i.e. they are significantly out of alignment with the rest of the market) can now be easily identified. The Regression Analysis not only plots a line that best represents where the market is, but also calculates what is referred to as Standard Error lines. The Standard Error is a statistical measurement similar to Standard Deviation in that it calculates the upper and lower boundaries between which most of the comparables should theoretically fall. Those comparables that fall outside these boundaries are companies whose selling prices were so far above or below the rest of the market that the transactional data must be considered flawed. These "Outliers," as they are referred to, will be removed from our sample of comparables.

Exhibit VI Outliers Identified by Standard Error



The example in Exhibit VI graphed the points of 17 comparables on a chart (13 green and 4 red). The regression analysis calculated a line (in green) that is the closest fit to all those points. The regression also calculated a Standard Error which indicates theoretical boundaries (in red) in which approximately 16% of all companies should fall above the upper boundary line and 16% should fall below the lower boundary line. The four observations in

red fell outside these boundaries and, therefore, are not considered representative of the market. The observations that fall outside the Standard Error boundaries will be considered "Outliers."

After the Outliers have been removed from our initial sample of comparables, we end up with a sample that is even smaller. As noted above, smaller samples carry a greater risk that one or two observations may still skew the results and present a false read of the market. Therefore, we will apply the CV test described in Paragraph 5.2.8.1 above to the second, smaller sample. If the new smaller sample produces CV ratios that are lower than those observed in the original sample, we will conclude that the smaller sample is a more accurate read of the market.

3.3 Procedures Used in the Direct Market Data Method

Once a sample of comparables that statistically represents the market has been selected, we can now apply various procedures to it that will ultimately determine the value of our Subject.

The following are the four procedures that will be used in the Market Approach:

3.3.1 Gross Revenue Multiplier – (Selling Price ÷ Gross Revenues)

This method is a simple ratio of a company's Selling Price divided by its total Gross Revenues. Companies within a specific industry classification have a tendency to exhibit similar relationships between their revenues and selling price. Selling Price and Gross Revenues of a company are readily obtainable, making this method easy to apply. However, it does not consider the company's profitability or asset valuation in the equation. Therefore, this method, if used by itself, may produce a misread of a company's potential value.

3.3.2 Cash Flow Multiplier – (Selling Price ÷ Cash Flow)

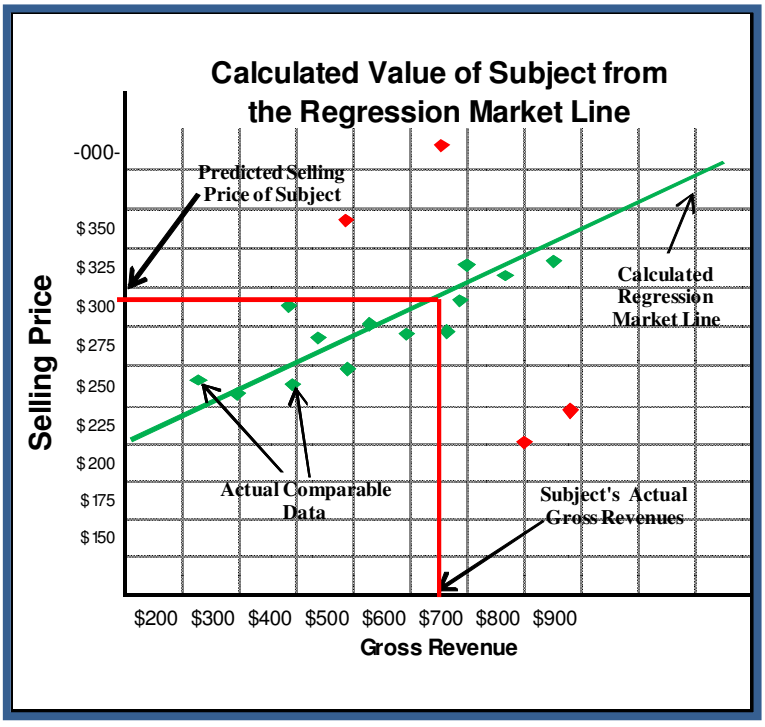
This method is the ratio of a company's Selling Price divided by its Discretionary Cash Flow. It should be noted that the database sources used in the Direct Market Data Method calculate earnings differently than the way we calculated Net Cash Flow in the Income Approach. Earnings or "Owner's Discretionary Earnings" are calculated by removing all Owner's salaries and perquisites (such as health benefits, personal autos, etc.) from expenses. Interest, depreciation, income taxes, any one-time expense or income, and any non-operating expense or income are also removed from the income statement. The resulting Owner's Discretionary Earnings (also referred to as Owner's Discretionary Cash Flow) is that cash flow which the Owner has at his disposal for his salary and perquisites, his loan payments, and his Capital Expenditures.
However, the same problem with the Gross Revenue Multiplier exists with the Cash Flow Multiplier. That is, the ratio only focuses on one aspect of the company's operations, its Cash Flow. Therefore, if used by itself, this ratio may produce a misread of the company's value. For that reason the Market Approach typically includes both ratios to estimate the value of a business.

3.3.3 Enterprise Value + Inventory – (Selling Price – Inventory ÷ Cash Flow)

Under certain circumstances, however, using the above two methodologies can still produce inaccurate results when valuing businesses that derive the bulk of their revenues from the sale of inventory. For example: it was determined that the average hardware store sells for .45 times its Gross Revenue and 3.30 times its Discretionary Cash Flow. In our search, we find two guideline companies, each doing $900,000 in Gross Revenues and $125,000 in Cash Flow; yet, one sold for $400,000 and the second for $600,000. The anomaly can probably be explained by the fact that the first store had $200,000 in Inventory while the second had $400,000.

The "Enterprise Value + Inventory" methodology deducts the volatile Inventory component from the selling price of the business. The difference is then divided by the company's Discretionary Cash Flow. The resulting ratio can be used to determine what is referred to as the "Enterprise Value" of the business; that is, the value of a business *excluding* its Inventory. By using this methodology in the two above examples, we find that Enterprise Value for both businesses was 1.60 [Store #1 = ($400,000 - 200,000) ÷ $125,000; Store #2 = ($600,000 - 400,000) ÷ $125,000]. We can then use this ratio to estimate the value of a third hardware store which generated, say, $1,450,000 in Gross Revenues, $200,000 in Cash Flow, and had $375,000 in Inventory. Store #3's Enterprise Value is $320,000 ($200,000 x 1.60); its total value ***including*** inventory is, therefore, $320,000 + $375,000, or $695,000. The Cash Flow Multiplier by itself would have predicted only $660,000 (3.30 x $200,000) and the Gross Revenue Multiplier would have predicted $652,500 (.45 x $1,450,000). When reconciling these three Market Value Multipliers to estimate the value of this third hardware store, we might consider giving additional weighting to the Enterprise Valuation because this store primarily generates its revenue from the sale of Inventory.

Exhibit VII Example Regression Analysis



3.3.4 Four Regression Calculations to Be Used

We have discussed above how Regression Analysis helped us identify Outliers within our initial sample of comparables. The resulting smaller sample has now been "sanitized" and, therefore, should give us a more accurate read of the market. As was also noted, the Regression Analysis calculates a formula from which a line can be graphed that best represents that specific market. By plotting our

Subject's actual variables on the chart, the Market Line will then enable us to determine the probable value of the Subject Company.

Our Market Approach will employ four different Regression calculations. The first is referred to as a "Multiple Variable Regression Analysis. This statistical tool simultaneously compares four key variables of each comparable (Gross Revenues, Cash Flow, Inventory, and Fixtures) with its respective selling price. The regression produces a formula, then, in which we can input our subject's four actual variables and calculate its probable selling price.

For demonstration purposes a simplified Regression Analysis is graphed in Exhibit VII. The values for the Selling Price and the Gross Revenues of 17 comparables were plotted on the chart and a regression line was then calculated. The subject company's Gross Revenues of $700,000 is then located on the horizontal X-Axis. By moving vertically from that point to the Regression Line we can then identify the probable selling price of $300,000 from the vertical Y-Axis on the left side of the chart.

The remaining three Regression calculations to be used in this report will compare the Cash Flow Profit Margins (SDE%) of the comparables against their respective Cash Flow Multipliers, Revenue Multipliers, and Enterprise Multipliers. These three tests are discussed in greater detail below.

Each of the four regression tests that will be undertaken will produce an R Squared factor which measures how close all the comparables fit to their respective Market Lines. An R Squared of 0.0 means that the calculated Market Line had no predictive value whatsoever. An R Squared of 1.0 means that the Market Line exactly predicted the selling price for each of the comparables. Thus, R Squared gives us a means to compare how good each regression was at predicting the Subject's value in much the same manner as the CV ratio did in the sampling tests done earlier in the report. Thus, in the final reconciliation at the end of this report, the predicted selling prices calculated by each of the four regression tests will be weighted using their respective R Squared factors as guidelines.

3.3.5 Cash Flow Profit Margin (SDE%) – (Discretionary Earnings ÷ Revenues)

IRS Ruling 59-60 instructs business appraisers to give considerable weighting to a company's profitability when determining its value. As such, we observe the Subject's Cash Flow growth over the previous several years and identify all the drivers that created that growth. We also look at the Subject's market and how it affects the Subject's Cash Flow and consider the prospects for its continued growth in the future. We then compared the Subject's Balance Sheet and P&L ratios to a database of thousands of similar companies to determine the Subject's relative strength compared to its peer group. **The questions is, then, once we have determined that our Subject is better than its peer group, what is the market willing to pay for that?**

When trying to make a direct comparison of the Subject to companies that have recently sold, the available databases of sold comparables do not provide us with much financial information. The only effective tool available is to compare each company's Cash Flow

Profit Margins (SDE%). This simple ratio, Discretionary Earnings divided by Gross Revenues, gives us the means to directly compare the relative performance of companies in terms of their profitability and how it affects the selling price of the business. **Generally speaking, when comparing companies of similar size and SIC classification, those which have higher SDE% tend to be the more dominant players within their markets. They can command higher prices for their products and services, and, they control expenses more efficiently than their competition.**

Since this one measure of a company's profitability will be used extensively in the following Market Approach, it is important to understand all the subtleties behind it.

3.3.5.1 SIZE OF A COMPANY VS. ITS CASH FLOW PROFIT MARGIN (SDE%)

EXHIBIT VIII CASH FLOW PROFIT MARGIN BY SIZE OF COMPANY

Total Transactions	Sales Range	Median Cash Flow Profit Margin
5,002	$0-$500,000	24.7%
897	$500,000-$1,000,000	18.4%
309	$1,000,001-$2,000,000	15.6%
231	$2,000,001-$5,000,000	14.7%
143	$5,000,001-$8,000,000	13.3%
242	$8,000,001-$25,000,000	14.6%
284	$25,000,001+	11.4%
Overall Totals		
7144	All Transactions	20.2%

The following transactions were eliminated from the above analysis to avoid potential distortions:

1) Corporate Stock Sales
2) Assets Sales where liabilities were assumed.
3) Companies with negative cash flow
4) Companies with Cash Flow Multipliers over 10.0

Pratts Stats Database of 13998 transactions, 8/10/09.

First, from Exhibit VIII we can see that ***THE LARGER THE COMPANY IS, THE LOWER ITS SDE%.*** This appears to be a direct contradiction to what we observed in the previous section above, i.e., the ***larger*** the company the ***highe***r its Cash Flow Multiplier. This apparent anomaly can be explained as follows:

In smaller companies under $500,000 in revenue, the owner typically "wears all the hats." He is the salesman, marketing manager, HR manager, and bookkeeper. All the profits flow to the owner to compensate him for all these jobs. As we see from Exhibit VIII, companies that size generate cash flow at an average of 24.7% of every dollar of Revenue. For a $500,000 company, then, that would translate to $123,500 in Discretionary Earnings. From Exhibit IV we saw that a $500,000 company would sell for 2.11 times its earnings, or $260,585.

For this company to grow to $2 million, however, the owner must now hire a bookkeeper, and HR manager and possibly a CFO. The company is now too big for the owner to do everything himself. A $2 million company typically earns $312,000 in Discretionary Earnings ($2 million x 15.6% (from Exhibit IV)). Thus, when a company grows from $500,000 to $2 million, the ***additional*** $1.5 million in sales added $188,500 in earnings which only yields a 12.6% SDE% ($188,500 ÷ $1,500,000).

Thus, the second company in the above example produced a *higher* level of Gross revenues yet earned a *lower* SDE%. The importance of this peculiarity is that in using

SDE% to predict the value of a business, it becomes increasingly essential to select a sample of comparables that are as close in revenue size to the Subject as possible, and that are from similar SIC classifications. Otherwise, we might look at the 24.7% SDE% of a $500,000 company and draw the false conclusion that it deserves better Market Value Multipliers than the $2 million which only produced an SDE% of 15.6%.

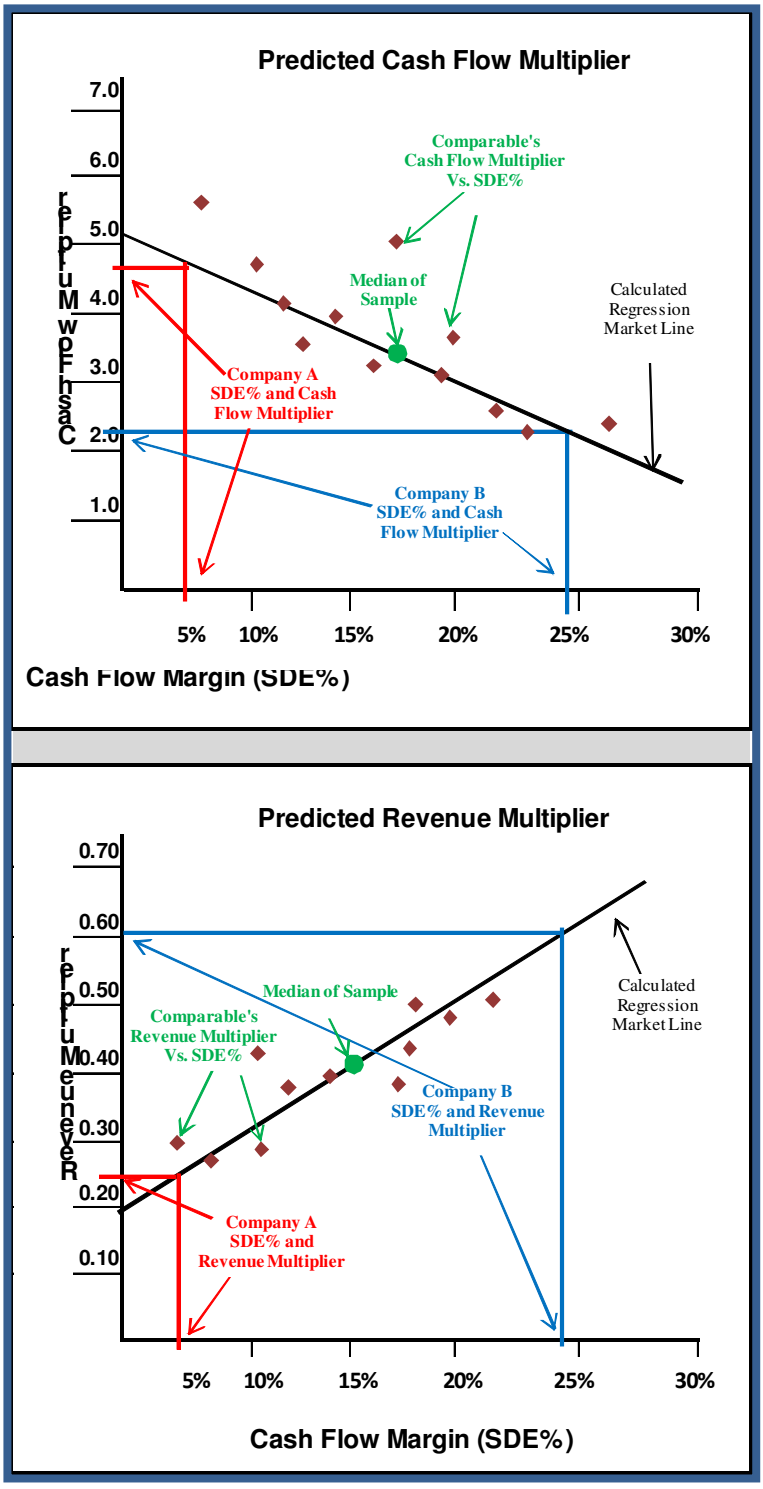
3.3.5.2 THE LEVEL OF A COMPANY'S SDE% VS. ITS CASH FLOW MULTIPLIER

A second oddity that one must be aware of when comparing the companies of similar size and SIC classification is that: ***THE LOWER THEIR CASH FLOW PROFIT MARGINS (SDE%), THE HIGHER THEIR CASH FLOW MULTIPLIERS TEND TO BE.*** This seemingly contradicts everything we know about Market Approach science! We just presumed that highly profitable companies that enjoyed higher profit margins would also earn higher Cash Flow Multiples than their underperforming counterparts. This is not the case!

From Exhibit IV we observed that larger companies generally earned higher Cash Flow Multipliers and Revenue Multipliers. However, if we look at companies **within a narrow range of Sales** we can see that there is a considerable range in their respective Multipliers. For example, companies with revenues in the $1 million to $2 million range earned a median 2.77 Cash Flow Multiplier which, on the average, was considerably higher than the 2.11 earned by $500,000 companies. Yet, when we look at the **range of multipliers** for the $1 to $2 million group we find that the lower quartile only earned a 1.86 multiplier whereas, the upper quartile earned 4.07. **This range of multipliers *WITHIN A SPECIFIC SIZE GROUPING* can largely be explained by the level of a company's SDE%.**

A statistical analysis of the Pratt's Stats database clearly shows this relationship.

EXHIBIT IX PREDICTING MULTIPLIERS USING SDE%



A regression analysis was performed on the entire Pratt's Stats database of 11,500 sold transactions comparing a company's SDE% with its corresponding Cash Flow Multiplier[15]. The R Squared of the regression was only .18. Since this factor is low (0 means no correlation and 1.0 means perfect correlation), one could not conclude that SDE% is a good indicator of a company's Cash Flow Multiplier. However, when we filter the Pratt's Stats Database further by including only companies near the same revenue level as the Subject and that are in similar SIC Classification, the resulting regression produces an R Squared significantly higher, usually from .40 to .70 or more. **In other words, when we select a small sample of companies that have a similar revenue level and SIC Classification as the Subject, the Subject's SDE% becomes a reasonably good predictor of its potential Cash Flow Multiplier.** However, from Exhibit IX we note that the regression line in the upper graph is in **a downward slope**. This means that as a company's SDE% increases, we move to the right on the horizontal X-Axis. However, the Regression Market Line shows that we will also be moving downward on the vertical Y-Axis, indicating a decreasing Cash Flow Multiplier. **Thus, for a given level of Revenue, those companies that are more profitable and therefore, have a higher SDE%, will earn a LOWER Cash Flow Multiplier.**

[15] The database was first filtered by removing all transactions where Cash Flow Multipliers were greater than 10 or less than 0, and all corporate stock transfers. There were 4811 transactions in this filtered sample.

This oddity is easily explained by the example diagrammed in the upper half of Exhibit IX. Company A (diagrammed in red lines), with revenues of $500,000 and Cash Flow of $24,000, sold for $110,000. Therefore, its SDE% is $24,000 ÷ $500,000 = 4.8%, and, its Cash Flow Multiplier is $110,000 ÷ $24,000 = 4.6. (Observe where the red lines cross the horizontal axis at 4.8% and vertical axis at 4.6.) Company B (diagrammed in blue), also with $500,000 in revenues, but with $125,000 in cash flow, sold for $300,000. As we would expect, Company B sold for more money because it had higher earnings (in absolute dollar terms). However, Company B only produced a Cash Flow Multiplier of 2.4 ($300,000 ÷ 125,000), but had a high SDE% of 25% ($125,000 ÷ $500,000). (Observe where the blue lines cross the horizontal axis at 25% and vertical axis at 2.4.) **Company A's high Cash Flow Multiplier was not a function of a high selling price, but rather the function of a very low level of Cash Flow, the denominator of the equation.**

Appraisers typically use the Median Cash Flow Multiplier for the whole sample of comparables to value a business. In the above example, the Median was 3.5. If we merely used the Median Multiplier to estimate Company A and B's probable selling prices we would have priced A at $84,000 (3.5 x $24,000) and B at $437,500 (3.5 x $125,000). We would have been way low on the first valuation and way high on the second. However, by using the regression formula and Subject's SDE% to calculate its Cash Flow Multiplier, we would have determined that the company with a low SDE% would have had a high multiplier, and the company with the high SDE% would have had a low Multiplier.

When regressing the SDE% against the **Revenue Multipliers** of a sample of comparables, the resulting R Squared factor is even more compelling than we found above when regressing SDE% against the Cash Flow Multiplier. The factor typically rises as high as .80 or more, indicating that there is a very strong correlation between a company's SDE% and its Revenue Multiplier. In addition, Revenue Multipliers follow a more logical pattern. From the graph at the bottom half of Exhibit IX we can see that **companies with a *HIGHER* SDE% also earn *HIGHER* Revenue Multipliers.**

By applying the data from the example above to the graph in the bottom half of Exhibit IX, we see that Company A only had a SDE% of 4.8% and, as a result, the Regression Equation predicted a weak Revenue Multiplier of .22. Company B, however, had a strong SDE% of 25% and, accordingly, earned an equally strong Revenue Multiplier of .60. Again, if we only decided to use the sample's Median Revenue Multiplier of 0.40, **the calculated value for both companies would have been the same** - $200,000 (.40 x $500,000). Simple logic would tell us that both companies are not worth the same; the second company earns five times as much cash flow! **The Regression properly accounts for the difference in a company's profitability when calculating the Gross Revenue Multiplier, whereas, the Median of the sample does not**.

From all the above statistical testing we can conclude that comparables within narrow revenue range and in the same SIC classification behave in similar and predictable ways, a point appraisers have always contended. By using **Regression Analysis we can tap into**

that similarity by using a company's SDE% to predict its Revenue Multiplier, Cash Flow Multiplier, and Enterprise Multiplier.

4.0 Reconciliation of Market Approach Multipliers

4.1 Building the Sample to be Used in the Analysis

The Pratt's Stats, BIZCOMPS, BizBuySell, and IBA databases were searched for transactions in Standard Industry Classification Code #3599. The Comparables Analysis Table in Exhibit X below shows the operating ratios of 23 businesses that were selected by using the filtering criteria discussed in Section 5.2 above.

All the transactions in the databases are presumed to be "Asset Sales," or, transactions that can be reconciled to Asset Sale Pricing; that is, their selling prices are comprised of Inventory, Fixtures, and Intangibles only. Those companies exhibiting very high Revenue Multiples often have either real estate, accounts receivable, or other non-operating assets included in their reported selling price, and, the transactional data neglected to disclose this fact. Many of the comparables with low Revenue Multiples may have reported their selling prices net of inventory, or, the buyer assumed some of the liabilities of the company, thereby reducing the price. Again, the transactional data may not have disclosed this fact. It only takes one or two comparables in a small sample with improper sales data to distort the Market Value Multiples.

4.2 Regression Test

The Multiple Variable Regression Test takes the four main variables describing each guideline company's operations (Inventory, Cash Flow, Fixtures and Equipment, and Total Revenues) and plots them against the company's selling price. From this test we can statistically identify those comparables that are "outliers," that is, those companies whose selling prices are well above or below what the rest of the market earned.

The 23 comparables that were selected were regressed at a 95% confidence level.

The test yielded an R Square factor of 0.76. A factor of zero (0.0) means that the sample had no predictive characteristics at all, whereas, a 1.0 indicates perfect predictability. A .50 factor suggests modest predictability. The test also produced a Standard Error of $376,846, which is a statistical measurement similar to the Standard Deviation. That is, 16% of the *predicted values* will exceed the *actual selling price* of the company by the Standard Error, and, 16% will be less.

In the sample of comparables shown below, seven such comparables were found to have calculated values that deviated from the actual selling price by more than, or less than, the Standard Error. These guideline companies are considered 'outliers' and were removed from the sample. One company sold for $210,000, whereas, the regression predicted a much higher $889,602. A second company sold for $2,000,000 with the regression predicting a much lower $1,295,625. A third sold for $1,225,000 with a prediction of $719,871. A fourth sold for $1,350,000 with a prediction of $1,779,659. The fifth company sold for

$1,750,000 with a prediction of $1,221,914.A sixth sold for $1,565,000 with a prediction of $1,178,811. The seventh company sold for $1,000,000 with a prediction of $1,435,311.

EXHIBIT X COMPARABLES ANALYSIS

Observations	Listing Price	Selling Spice	Gross Revenues	Revenue Multiplier	Cash Flow	SDE%	Cash Flow Multiplier	Inventory	Enterprise Multiplier	Fixtures
1	395,000	300,000	1,050,000	0.29	80,000	7.6%	3.75	55,000	3.06	125,000
2	940,000	422,000	950,000	0.44	85,000	8.9%	4.96	53,000	4.34	300,000
3	595,000	515,000	1,490,000	0.35	225,000	15.1%	2.29	35,000	2.13	144,000
4	2,500,000	2,500,000	2,512,000	1.00	416,000	16.6%	6.01	750,000	4.21	582,000
5	600,000	600,000	903,000	0.66	167,000	18.4%	3.60	30,000	3.42	36,000
6	885,000	768,000	1,113,000	0.69	223,000	20.0%	3.45	43,000	3.26	419,000
7		1,200,000	2,026,000	0.59	413,000	20.4%	2.90	5,000	2.89	582,000
8	1,500,000	1,050,000	1,205,000	0.87	255,000	21.2%	4.12	100,000	3.73	1,000,000
9	2,100,000	1,700,000	2,000,000	0.85	450,000	22.5%	3.78			804,000
10	1,550,000	1,390,000	1,570,000	0.89	382,000	24.3%	3.64	60,000	3.48	650,000
11	1,550,000	1,375,000	1,800,000	0.76	450,000	25.0%	3.06	290,000	2.41	200,000
12	1,000,000	971,000	1,156,000	0.84	391,000	33.8%	2.48	82,000	2.28	168,000
13	865,000	682,000	959,000	0.71	325,000	33.9%	2.10	20,000	2.04	353,000
14	1,600,000	1,650,000	1,721,000	0.96	591,000	34.3%	2.79	15,000	2.77	879,000
15		3,050,000	2,570,000	1.19	943,000	36.7%	3.24	121,000	3.11	421,000
16	1,248,000	1,182,000	1,222,000	0.97	547,000	44.7%	2.16	157,000	1.88	256,000
17										
18										
19										
20										
Avg:	1,083,000	1,079,000	1,515,000		371,000			114,000		432,000
	Selling Price / Listing Price = 85.5%			Gross Rev		CF Margin Range	Cash Flow Range		Enterprise Range	
		Lower Quartile =		0.68		18.0%	2.72*		2.34*	
		Median =		0.80		21.8%	3.34*		3.06*	
		Upper Quartile =		0.86		33.9%	3.76*		3.45*	
		Average =		0.75		24.0%	3.40*		3.00*	
		Standard Deviation =		0.25		10.3%	1.04*		0.76*	
		Coefficient of Variation =		32.6%		43.0%	30.6%		25.4%	

* Companies with Cash Flow Multiples that are negative or greater than 13 are ignored in this calculation.

Rejected Comparables - Value calculated by the Regression was well above or below actual selling price:

	Calculated Value	Actual Selling Price	Sales	Revenue Multiplier	Cash Flow	Cash Flow Margin	Cash Flow Multiple	Inventory	Cash Flow - Inv Mult.	FF&E
1	890,000	210,000	1,600,000	0.13	280,000	17.5%	0.75	5,000	0.73	60,000
2	1,296,000	2,000,000	1,787,000	1.12	441,000	24.7%	4.53		4.53	83,000
3	720,000	1,225,000	975,000	1.26	285,000	29.2%	4.30	25,000	4.21	25,000
4	1,780,000	1,350,000	1,900,000	0.71	560,000	29.5%	2.41	50,000	2.32	800,000
5	1,222,000	1,750,000	1,426,000	1.23	426,000	29.9%	4.11		4.11	450,000
6	1,179,000	1,565,000	1,021,000	1.53	459,000	44.9%	3.41	30,000	3.35	354,000
7	1,435,000	1,000,000	1,220,000	0.82	572,000	46.9%	1.75	20,000	1.71	150,000

These seven outlying comparables (marked in red) were removed from the sample and the remaining sample of sixteen comparables was regressed a second time. The results are shown in the two tables below. The refined Regression Analysis produced an R Square of 0.95 which is approximately the same as original sample of 23 indicating that it is a superior measure of the market. However, its CV ratio is much lower (better). The Regression Equation that was constructed is shown at the bottom of the table. The actual values for the Subject's four variables of Inventory, Fixtures and Equipment, Cash Flow, and Revenues were input into this equation to solve for the Subject's estimated selling price. The mid-range predicted value was $856,415; the upper range was $1,055,144; and, the lower range was $657,686.

EXHIBIT XI REGRESSION ANALYSIS

Obversations	Actual Values For Comparables: Gross Revenues	Cash Flow	Inventory	Fixtures		Actual Sold Price	Calculated Values: Predicted Price	$ Difference	% Difference
1	1,050,000	80,000	55,000	125,000	1	**300,000**	**277,899**	22,101	-7.4%
2	950,000	85,000	53,000	300,000	2	**422,000**	**302,788**	119,212	-28.2%
3	1,490,000	225,000	35,000	144,000	3	**515,000**	**737,048**	(222,048)	43.1%
4	2,512,000	416,000	750,000	582,000	4	**2,500,000**	**2,441,550**	58,450	-2.3%
5	903,373	166,654	30,122	35,973	5	**600,000**	**320,774**	279,226	-46.5%
6	1,113,019	222,694	43,000	419,000	6	**768,000**	**670,045**	97,955	-12.8%
7	2,025,990	413,407	5,428	581,673	7	**1,200,000**	**1,460,405**	(260,405)	21.7%
8	1,205,000	255,000	100,000	1,000,000	8	**1,050,000**	**1,036,706**	13,294	-1.3%
9	2,000,000	450,000		804,000	9	**1,700,000**	**1,591,833**	108,167	-6.4%
10	1,570,000	382,000	60,000	650,000	10	**1,390,000**	**1,276,905**	113,095	-8.1%
11	1,800,000	450,000	290,000	200,000	11	**1,375,000**	**1,584,241**	(209,241)	15.2%
12	1,155,507	391,025	81,720	168,320	12	**971,450**	**960,601**	10,849	-1.1%
13	959,000	325,000	20,000	353,000	13	**682,000**	**749,540**	(67,540)	9.9%
14	1,721,000	591,000	15,000	879,000	14	**1,650,000**	**1,778,051**	(128,051)	7.8%
15	2,569,550	942,542	120,757	421,236	15	**3,050,000**	**2,772,587**	277,413	-9.1%
16	1,221,874	546,629	157,000	256,000	16	**1,182,258**	**1,394,736**	(212,478)	18.0%
17					17				
18					18				
19					19				
20					20				

Applied Regression Coefficients

Actual Data ABC Machine		Regression Coefficients	Calculated Price
Total Sales	$1,843,220	x 0.4462 =	822,497
Total Cash Flow	$159,490	x 1.9067 =	304,096
Total Inventory	$25,000	x 1.0197 =	25,492
Total Fixtures	$417,301	x 0.3544 =	147,886
		Regression Intercept Value =	-443,555
Price Predicted by Regression Market Line =			**856,415**
Upper 16% (one Std Error) =		+ $198,729	1,055,144
Lower 16% (one Std Error) =		- $198,729	657,686

R Square = 0.95

Standard Error = $198,729

CV = 16.4%

An R Square value of 0.0 means the above sample had no predictive value. An R Square of 1.0 means the sample had perfect predictive values. A value over .50 means the above sample had a reasonably good predictive value.

Regression Formula:

Sales x 0.4462 + Cash Flow x 1.9067 + Inventory x 1.0197 + Fixtures x 0.3544 + ($443,555) = Calculated Price

The last point of analysis for the sample of 16 observations is the comparison of the Coefficients of Variation for each of the calculated Market Value Multiples with the CV's for the original sample of 23, as well as the entire Pratt's Stats database. Those statistics are compiled in Exhibit IX below. The three Market Value Multipliers in the second more narrowly-defined sample of 16 observations all produced lower (superior) Coefficients of Variation. The smaller sample also produced a lower (superior) CV factor. Thus, the smaller sample appears to be a better indicator of the market than the sample with 23 observations. The Market Value Multipliers calculated from this sample will, therefore, be used in the analysis, and, the results from the larger database will be rejected.

EXHIBIT XII COEFFICIENTS OF VARIATION OF SAMPLES VS. TOTAL DATABASE

(23 Observations vs. 16 Observations)

Database Exhibit IV, Exhibit X	Gross Income Multiplier	Cash Flow Multiplier	Enterprise Value Multiplier	Regression Analysis
Sample –16 observations	32.6%	30.6%	25.4%	16.4%
Sample –23 Observations	40.4%	35.1%	32.3%	30.5%
Total Database–7,144 Obs. Pratt's Stats	92.3%	40.0%	56.3%	

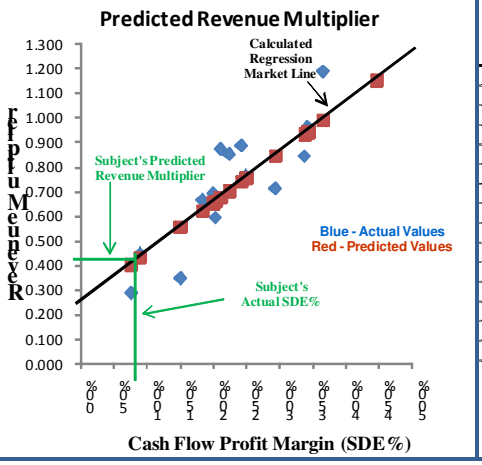
4.3 CALCULATING THE THREE MARKET MULTIPLIERS

From the above analysis, we have arrived at a range of values for our Subject by means of the Multiple Variable Regression Analysis, which is the first of the four procedures that we are using in the Market Approach. The remaining three procedures will calculate the values for the Revenue, Cash Flow, and Enterprise Multipliers. As noted earlier we will perform a regression analysis on each of the comparables' three Market Value Multipliers against its SDE% (Cash Flow Profit Margin). From each regression, then, we will obtain an equation that calculates the Market Line for the Subject's Revenue Multiplier, Cash Flow Multiplier, and Enterprise Multiplier. By "plugging" in our Subject's SDE% into the regression equations, we will solve for the Subject's three Market Value Multipliers. **The resulting values, then, are the Multipliers that the market expects *GIVEN THE LEVEL OF THE SUBJECT COMPANY'S CASH FLOW PROFIT MARGIN.***

Below are the details of that analysis:

The regression formulas and the predicted Multipliers from above are summarized as follows:

EXHIBIT XIII CALCULATION OF THE THREE MARKET VALUE MULTIPLIERS



Observation	Actual Values For Comparables		Calculated Values Using Regression Formual
	SDE%	Revenue Multiple	Predicted Multiple
1	7.6%	0.286	0.404
2	8.9%	0.444	0.431
3	15.1%	0.346	0.555
6	18.4%	0.664	0.622
7	20.0%	0.690	0.653
8	20.4%	0.592	0.661
9	21.2%	0.871	0.677
10	22.5%	0.850	0.703
11	24.3%	0.885	0.740
13	25.0%	0.764	0.754
15	29.5%	0.711	0.844
17	33.8%	0.841	0.932
19	34.3%	0.959	0.942
20	36.7%	1.187	0.989
21	44.7%	0.968	1.151

Predicted Range For Subject's Revenue Multiplier

Regression Formula for Revenue Multiplier =

Subject's SDE% x 2.013 + 0.251

Standard Error Range = +/- 0.137 (Deviation from Mid-Point by top & bottom 16% of Comparables)

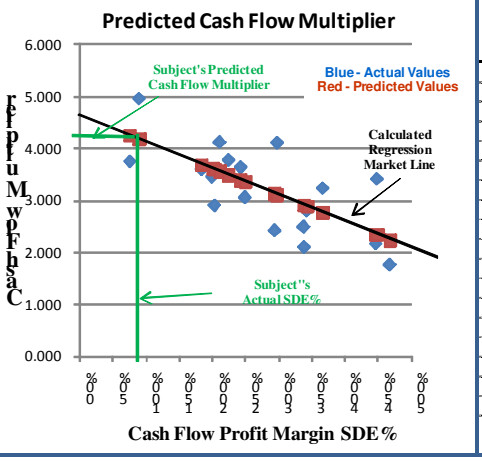
Average = 0.737 R Square = 0.71

CV = 18.6%

Calculated Revenue Multiple Using Regression Formula and Subject's Cash Flow Margin

Actual Data ABC Machine		Regression Coefficient		Calculated Multiplier
Cash Flow Margin	= 8.7%	x 2.0129	=	0.174
		Regression Intercept Value =		0.251
		Predicted Revenue Multiplier =		**0.425**

Comps with CF Multipliers greater than 10 are ignored in this calculation.



Observation	Actual Values For Comparables		Calculated Values Using Regression Formual
	SDE%	Revenue Multiple	Predicted Multiple
1	7.6%	3.750	4.245
2	8.9%	4.965	4.177
6	18.4%	3.600	3.692
7	20.0%	3.449	3.612
8	20.4%	2.903	3.592
9	21.2%	4.118	3.553
10	22.5%	3.778	3.485
11	24.3%	3.639	3.391
13	25.0%	3.056	3.357
15	29.5%	2.411	3.128
16	29.9%	4.110	3.109
17	33.8%	2.484	2.905
18	33.9%	2.098	2.903
19	34.3%	2.792	2.880
20	36.7%	3.236	2.760
21	44.7%	2.163	2.348
22	44.9%	3.413	2.339
23	46.9%	1.748	2.238

Predicted Range For Subject's Cash Flow Multiplier

Regression Formula for Revenue Multiplier =

Subject's SDE% x -5.11 + 4.634

Standard Error Range = +/- 0.609 (Deviation from Mid-Point by top & bottom 16% of Comparables)

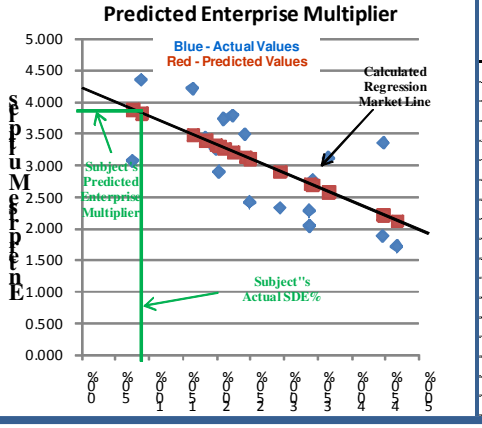
Average = 3.206 R Square = 0.49

CV = 19.0%

Calculated Revenue Multiple Using Regression Formula and Subject's Cash Flow Margin

Actual Data ABC Machine		Regression Coefficient		Calculated Multiplier
Cash Flow Margin	= 8.7%	x -5.11	=	-0.442
		Regression Intercept Value =		4.634
		Predicted Cash Flow Multiplier =		**4.192**

Comps with CF Multipliers greater than 10 are ignored in this calculation.



Observation	Actual Values For Comparables		Calculated Values Using Regression Formual
	SDE%	Revenue Multiple	Predicted Multiple
1	7.6%	3.063	3.877
2	8.9%	4.341	3.818
4	16.6%	4.207	3.477
6	18.4%	3.420	3.393
7	20.0%	3.256	3.323
8	20.4%	2.890	3.305
9	21.2%	3.725	3.271
10	22.5%	3.778	3.211
11	24.3%	3.482	3.130
13	25.0%	2.411	3.100
15	29.5%	2.321	2.900
17	33.8%	2.275	2.704
18	33.9%	2.037	2.702
19	34.3%	2.766	2.682
20	36.7%	3.108	2.577
21	44.7%	1.876	2.217
22	44.9%	3.348	2.209
23	46.9%	1.713	2.121

Predicted Range For Subject's Enterprise Multiplier

Regression Formula for Revenue Multiplier =

Subject's SDE% x -4.473 + 4.218

Standard Error Range = +/- 0.592 (Deviation from Mid-Point by top & bottom 16% of Comparables)

Average = 3.001 R Square = 0.45

CV = 19.7%

Calculated Revenue Multiple Using Regression Formula and Subject's Cash Flow Margin

Actual Data ABC Machine		Regression Coefficient		Calculated Multiplier
Cash Flow Margin	= 8.7%	x -4.473	=	-0.387
		Regression Intercept Value =		4.218
		Predicted Enterprise Multiplier =		**3.831**

Revenue Multiplier:
Subject's SDE% x 2.013 + 0.251 = **0.425**

Cash Flow Multiplier:
Subject's SDE% x -5.11 + 4.634 = **4.192**

Enterprise Multiplier:
Subject's SDE% x -4.473 + 4.218 = **3.831**

4.4 APPLYING THE MARKET VALUE MULTIPLIERS

We have now calculated the Market Value Multipliers based on the three procedures above. These values represent the Market's expectations given the level of the Subject's Cash Flow Profitability. However, the values represent the "closest fit" of the observations found in the market place at the Subject's **current level of profitability**. If we have reason to believe that the Subject's profitability will change at **a greater rate than its peer group in the future**, we should consider adjusting the calculated Multipliers up or down before we apply them to our Subject. For example, if we believe the Subject's SDE% will increase by ten percentage points in the coming years, while the rest of its peers remain the same, we have justification for increasing the calculated Multipliers for the Subject. However, if we expect the Subject to improve its profitability at a similar rate as its peers, then, as it is said, "a rising tide raises all boats." Even though the Subject's profitability is higher, it is still at the same level of profitability ***relative*** to its peers and its position on the calculated Market Line will be the same. If such is the case, no adjustment to the Multipliers is warranted.

This valuation will consider the current level of operations in determining the present value of the Subject. However, following that calculation, a second valuation will be done using a projected earnings of $2,500,000 and an Discretionary Earnings of $300,000.

The Market Value Multipliers based on the current level of operations are as follows:

EXHIBIT XIV MARKET VALUE MULTIPLES APPLIED TO SUBJECT

Range of Market Value Multiples at Different Levels of Profitability				
SDE% Range	Gross Revenue	Cash Flow	Enterprise Value	Regression
Lowest 16% of Comps have SDE% of 13.7% =	0.53	3.94	3.61	657,686
Mid Range of Comps have SDE% of 24% =	0.73	3.41	3.15	856,415
Highest 16% of Comps have SDE% of 34.3% =	0.94	2.88	3.15	1,055,144

Subject's SDE% = 8.7%	Revenue Multiplier	Cash Flow Multiplier	Enterprise Multiplier	Multi-Variable Regression	
Subject's Operation =	$1,843,220	159,490	159,490		*The selected Market Value Multiples are at the lower range of the Regression Market Line*
Multiplier at Subject's Level of Profitability =	x 0.43	x 4.19	x 3.83	560,971	
			611,006		
Inventory =			+ 25,000		
Indicated Value =	783,369	668,582	636,006	560,971	

The above multipliers were derived from databases that report Asset Sale Values for the selling price of a business. The databases also involved transactions that were for the 100% Controlling Interest of the business. In addition, since all the transactions involved privately-owned companies not traded on stock markets, they are Non-Marketable by definition. Therefore, the above indicated values are for an Asset Sale transaction on a Controlling, Non-Marketable basis. Asset Sales include all Inventory, Fixtures and Equipment, and all intangibles *ONLY (Intangibles can take the form of Goodwill, Menus, Liquor License, Covenant not to Compete, Intellectual Properties, etc.)*. The transactions exclude all liabilities (which are paid by the Seller of the business) and assets such as Cash, Accounts Receivable, and Prepaid Expenses.

5.0 RECONCILIATION OF ALL METHODOLOGIES

It is rare that the various Approaches used would produce similar values. Each method is looking at different aspects of the company so, it is reasonable to expect that they would produce different values as a result. Internal Revenue Ruling 59-60 requires that at least 50% of a value's weighting should be placed on income-based methodologies. According to the Uniform Standards of Professional Appraisal Practice (USPAP), "an appraiser must reconcile the indications of value resulting from the various approaches to arrive at the value conclusion." A simple average does not satisfy the standard, but rather, the appraiser must evaluate the relative merits of each procedure to form a conclusion. "The value conclusion is the result of the appraiser's judgment."[16]

[16] *Uniform Standards of Professional Appraisal Practice*. The Appraisal Foundation, Washington D.C., 2000, p. 65

The various indications of value developed by the different procedures are now weighted and the final Valuation Conclusion is calculated. The discussion of the basis for the weightings follows the exhibit below.

EXHIBIT XV VALUATION CONCLUSION

100% Controlling Interest in

Valuation Method	Indicated Value	Confidence Weighting	Weighted Estimate
Adjusted Book Value Method	Not Used		
Excess Earnings Method	Not Used		
Market Approach			
Guideline Public Company Method	Not Used		
Mergers and Acquisitions Method	Not Used		
Prior Transactions	None		
Direct Market Data Method			
23 Observations Sample Database	Not Used		
16 Observations Sample Database			
Gross Revenue Multiplier	$783,369	27%	$211,509
Cash Flow Multiplier	668,582	19%	127,030
Enterprise Value Multiplier	636,006	17%	108,121
Multiple Variable Regression Analysis	560,971	37%	207,559
		100%	
Income Approach			
Single Period Capitalization Method	Not Used		
Multi-Period Discount Method	Not Used		
ASSET SALE VALUE (Rounded)			**$650,000**

Six Hundred Fifty Thousand Dollars

The above value is for a Non-Marketable Interest in ABC Machine on a Controlling, Non-Marketable Basis. The assets being valued are those offered in a conventional Asset Sale which includes Inventory, Fixtures and Equipment and all Intangibles only. The Seller retains all Cash and Accounts Receivable and pays off all liabilities. Inventory will also be adjusted at the close of escrow. Inventory as of October 31, 2010 was estimated at $25,000. The Fair Market Value is, therefore, restated at $625,000 plus inventory of $25,000 to be adjusted at the close of escrow. If Inventory increases above $25,000, the selling price will increase accordingly; and likewise, if Inventory decreases, the selling price will also decrease.

6.0 SUMMARY OF ASSET SALE CONCLUSIONS

The Adjusted Book Value approach and Excess Earnings method are commonly used in divorce valuations because of their simplicity. However, to provide a high level of confidence, the Discrete Valuation of individual assets requires that the company have a high-integrity balance sheet, thus allowing individual tangible assets to be precisely valued. The process also requires all intangibles to be identified and valued separately. Since the Subject's balance sheet does not meet that high-integrity standard, the Adjusted Book Value Approach and the Excess Earnings Method were not used.

The Guideline Public Company Method uses a database of large publicly-traded companies. A search of the database found no companies similar to the Subject. A similar problem exists with the Mergers and Acquisition Method. No guideline companies similar in size to the Subject were found. Hence, these methods could not be used.

The Direct Market Data Method utilized in the report obtained actual sales transactions from two different databases. The first search of these databases found twenty-three transactions that were reasonably close to the description of the Subject, and, their average revenues were also reasonably close to the Subject. Further filtering of the sample to exclude those companies that the regression analysis identified as "outliers" yielded a database of sixteen transactions. Coefficient of Variation tests were performed on both samples and it was determined that the larger sample of twenty-three transactions produced a higher degree of variation, and, therefore, was considered inferior to the smaller sample. As such, the Market Value Multiples from the smaller sample were used.

In accordance with the guidelines set forth by Internal Revenue Ruling 59-60, the Appraiser must assign high weighting to those methodologies based on cash flow. Since all the methodologies were calculated based on the Subjects Cash Flow Profit Margin (SDE%), they all meet this test. The weightings will, therefore, be based on the Coefficient of Variations (CV) that each method exhibited. The lower the CV the more highly predictable the method is. The Multiple Variable Regression Analysis generated the highest R Squared Factor of 95% and, therefore, was given a weighting of 37%. The Revenue Multiplier generated an R Squared Factor of 71% and, therefore was given a weighting of 27%. The Cash Flow Multiplier generated an R Squared Factor of 49% and, therefore was given a weighting of 19%. The Enterprise Multiplier generated the lowest R Squared Factor of 45% and, therefore was only weighted 17%.

Prepared By
C. Fred Hall, MBA
Business Consultant

Sold Comparables

ABC Machine

December 20, 2010

The following pages are write-ups for the comparables that were listed in this report.

Transaction Details Comp # 1

Source:	Pratts Stats
Business Description	General Machine Shop - Cams, Gears, Milling
SIC	3599 Industrial machinery and equipment - Industrial and Commercial Machinery an
Location	MD
Number of Employees	15

The seller had one client for 90% of the revenues.

Transaction Data

Date of Sale	7/31/2007
Days on the Market	171
Asking Price	$395,000
Equivalent Asset Sale Price	$300,000
Percent Down Payment	75%
Terms of Deal	

Income Data

Annual Gross Sales	$1,050,000
Franchise Royalty	0
Cash Flow (SDE)	$80,000

Asset Data

Inventory	$55,000
Furniture Fixtures, and Equipment	$125,000
Value of Real Estate	$0

Operating Ratios

Cash Flow Profits Margin (SDE%)	7.6%
Rent/Annual Sales	5.0%

Valuation Multiples

Revenue Multiplier	0.29
Cash Flow Multiplier	3.75
Enterprise Multiplier	3.06

Transaction Details Comp # 2

Source:	Bizcomps
Business Description	Mfg-Machine Shop
SIC	3599 Industrial machinery and equipment - Industrial and Commercial Machinery an
Location	Worcester, M
Number of Employees	12

Transaction Data

Date of Sale	5/31/2000
Days on the Market	330
Asking Price	$1,034,000
Equivalent Asset Sale Price	$422,000
Percent Down Payment	85%
Terms of Deal	

Income Data

Annual Gross Sales	$950,000
Franchise Royalty	0
Cash Flow (SDE)	$85,000

Asset Data

Inventory	$53,000
Furniture Fixtures, and Equipment	$300,000
Value of Real Estate	0

Operating Ratios

Cash Flow Profits Margin (SDE%)	8.9%
Rent/Annual Sales	5.0%

Valuation Multiples

Revenue Multiplier	0.44
Cash Flow Multiplier	4.96
Enterprise Multiplier	4.34

Transaction Details — Comp # 3

Source:	Bizcomps
Business Description	Mfg-Machine Shop
SIC	3599 Industrial machinery and equipment - Industrial and Commercial Machinery an
Location	Florida
Number of Employees	4

Transaction Data

Date of Sale	7/3/2003
Days on the Market	228
Asking Price	$595,000
Equivalent Asset Sale Price	$515,000
Percent Down Payment	26%
Terms of Deal	

Income Data

Annual Gross Sales	$1,490,000
Franchise Royalty	0
Cash Flow (SDE)	$225,000

Asset Data

Inventory	$35,000
Furniture Fixtures, and Equipment	$144,000
Value of Real Estate	$0

Operating Ratios

Cash Flow Profits Margin (SDE%)	15.1%
Rent/Annual Sales	1.3%

Valuation Multiples

Revenue Multiplier	0.35
Cash Flow Multiplier	2.29
Enterprise Multiplier	2.13

Transaction Details — Comp # 4

Source:	Bizcomps
Business Description	Mfg-Machine Shop
SIC	3599 Industrial machinery and equipment - Industrial and Commercial Machinery an
Location	Tempe, AZ
Number of Employees	0

Transaction Data

Date of Sale	6/30/2006
Days on the Market	0
Asking Price	$2,500,000
Equivalent Asset Sale Price	$2,500,000
Percent Down Payment	83%
Terms of Deal	

Income Data

Annual Gross Sales	$2,512,000
Franchise Royalty	No
Cash Flow (SDE)	$416,000

Asset Data

Inventory	$750,000
Furniture Fixtures, and Equipment	$582,000
Value of Real Estate	0

Operating Ratios

Cash Flow Profits Margin (SDE%)	16.6%
Rent/Annual Sales	0.0%

Valuation Multiples

Revenue Multiplier	1.00
Cash Flow Multiplier	6.01
Enterprise Multiplier	4.21

Transaction Details	**Comp # 5**	
Source:	Bizcomps	
Business Description	Mfg-Machinery	
SIC	3599	Industrial machinery and equipment - Industrial and Commercial Machinery an
Location	Georgia	
Number of Employees	12	

Transaction Data	
Date of Sale	12/2/2001
Days on the Market	787
Asking Price	$275,000
Equivalent Asset Sale Price	$210,000
Percent Down Payment	50%
Terms of Deal	

Income Data		**Asset Data**	
Annual Gross Sales	$1,600,000	Inventory	$5,000
Franchise Royalty	0	Furniture Fixtures, and Equipment	$60,000
Cash Flow (SDE)	$280,000	Value of Real Estate	$0

Operating Ratios		**Valuation Multiples**	
Cash Flow Profits Margin (SDE%)	17.5%	Revenue Multiplier	0.13
Rent/Annual Sales	2.6%	Cash Flow Multiplier	0.75
		Enterprise Multiplier	0.73

Transaction Details	**Comp # 6**	
Source:	Pratts Stats	
Business Description	Precision Machine Shop	
SIC	3599	Industrial machinery and equipment - Industrial and Commercial Machinery an
Location	AZ	
Number of Employees	0	EBT includes other income of $75,512. Purchase Price Allocation: $292,000 business assets, $30,000 inventory, $40,000 accounts receivable, $25,000 familiarization and consulting, $25,000 non-compete, $8,000 vehicle, $180,000 goodwill.

Transaction Data	
Date of Sale	10/8/2004
	204
Asking Price	$600,000
Equivalent Asset Sale Price	$600,000
Percent Down Payment	26%
Terms of Deal	

Income Data		**Asset Data**	
Annual Gross Sales	$903,373	Inventory	$30,122
Franchise Royalty	0	Furniture Fixtures, and Equipment	$35,973
Cash Flow (SDE)	$166,654	Value of Real Estate	0

Operating Ratios		**Valuation Multiples**	
Cash Flow Profits Margin (SDE%)	18.4%	Revenue Multiplier	0.66
Rent/Annual Sales	4.8%	Cash Flow Multiplier	3.60
		Enterprise Multiplier	3.42

Transaction Details — Comp # 7

Source:	Pratts Stats	
Business Description	Metal Fabricator	
SIC	3599	Industrial machinery and equipment - Industrial and Commercial Machinery an
Location	TX	
Number of Employees	9	0

Transaction Data

Date of Sale	6/30/2006
Days on the Market	94
Asking Price	$885,000
Equivalent Asset Sale Price	$768,000
Percent Down Payment	100%
Terms of Deal	

Income Data

Annual Gross Sales	$1,113,019
Franchise Royalty	0
Cash Flow (SDE)	$222,694

Asset Data

Inventory	$43,000
Furniture Fixtures, and Equipment	$419,000
Value of Real Estate	$0

Operating Ratios

Cash Flow Profits Margin (SDE%)	20.0%
Rent/Annual Sales	3.2%

Valuation Multiples

Revenue Multiplier	0.69
Cash Flow Multiplier	3.45
Enterprise Multiplier	3.26

Transaction Details — Comp # 8

Source:	Pratts Stats	
Business Description	Machine Shop - Makes Parts for Aerospace and Computers	
SIC	3599	Industrial machinery and equipment - Industrial and Commercial Machinery an
Location	CA	
Number of Employees	0	Allocation of Purchase Price: F,F&E $300,000, Inventory $50,000, Non-Compete $500,000, Goodwill $350,000, Total $1,200,000.

Transaction Data

Date of Sale	1/31/2002
Days on the Market	0
Asking Price	$0
Equivalent Asset Sale Price	$1,200,000
Percent Down Payment	75%
Terms of Deal	

Income Data

Annual Gross Sales	$2,025,990
Franchise Royalty	0
Cash Flow (SDE)	$413,407

Asset Data

Inventory	$5,428
Furniture Fixtures, and Equipment	$581,673
Value of Real Estate	0

Operating Ratios

Cash Flow Profits Margin (SDE%)	20.4%
Rent/Annual Sales	6.6%

Valuation Multiples

Revenue Multiplier	0.59
Cash Flow Multiplier	2.90
Enterprise Multiplier	2.89

Transaction Details	**Comp # 9**	
Source:	Bizcomps	
Business Description	CNC Machine Shop	
SIC	3599	Industrial machinery and equipment - Industrial and Commercial Machinery an
Location	North Carolina	
Number of Employees	15	

Transaction Data	
Date of Sale	12/18/2008
Days on the Market	80
Asking Price	$1,500,000
Equivalent Asset Sale Price	$1,050,000
Percent Down Payment	48%
Terms of Deal	

Income Data		**Asset Data**	
Annual Gross Sales	$1,205,000	Inventory	$100,000
Franchise Royalty	No	Furniture Fixtures, and Equipment	$1,000,000
Cash Flow (SDE)	$255,000	Value of Real Estate	$0

Operating Ratios		**Valuation Multiples**	
Cash Flow Profits Margin (SDE%)	21.2%	Revenue Multiplier	0.87
Rent/Annual Sales	6.0%	Cash Flow Multiplier	4.12
		Enterprise Multiplier	3.73

Transaction Details	**Comp # 10**	
Source:	Pratts Stats	
Business Description	Machine Shop	
SIC	3599	Industrial machinery and equipment - Industrial and Commercial Machinery an
Location	TX	
Number of Employees	14	0

Transaction Data	
Date of Sale	3/6/2009
Days on the Market	353
Asking Price	$2,100,000
Equivalent Asset Sale Price	$1,700,000
Percent Down Payment	12%
Terms of Deal	

Income Data		**Asset Data**	
Annual Gross Sales	$2,000,000	Inventory	$0
Franchise Royalty	0	Furniture Fixtures, and Equipment	$804,000
Cash Flow (SDE)	$450,000	Value of Real Estate	0

Operating Ratios		**Valuation Multiples**	
Cash Flow Profits Margin (SDE%)	22.5%	Revenue Multiplier	0.85
Rent/Annual Sales	0.0%	Cash Flow Multiplier	3.78
		Enterprise Multiplier	3.78

Transaction Details — Comp # 11

Source:	Bizcomps
Business Description	Mfg-Machine Shop
SIC	3599 Industrial machinery and equipment - Industrial and Commercial Machinery an
Location	Minnesota
Number of Employees	14

Transaction Data

Date of Sale	10/4/2004
Days on the Market	482
Asking Price	$1,550,000
Equivalent Asset Sale Price	$1,390,000
Percent Down Payment	100%
Terms of Deal	

Income Data

Annual Gross Sales	$1,570,000
Franchise Royalty	No
Cash Flow (SDE)	$382,000

Asset Data

Inventory	$60,000
Furniture Fixtures, and Equipment	$650,000
Value of Real Estate	$0

Operating Ratios

Cash Flow Profits Margin (SDE%)	24.3%
Rent/Annual Sales	0.0%

Valuation Multiples

Revenue Multiplier	0.89
Cash Flow Multiplier	3.64
Enterprise Multiplier	3.48

Transaction Details — Comp # 12

Source:	Pratts Stats
Business Description	Metal Fabrication and Machine Shop
SIC	3599 Industrial machinery and equipment - Industrial and Commercial Machinery an
Location	GA
Number of Employees	18

The reason for selling was retirement.

Transaction Data

Date of Sale	5/2/2001
Days on the Market	204
Asking Price	$2,500,000
Equivalent Asset Sale Price	$2,000,000
Percent Down Payment	25%
Terms of Deal	

Income Data

Annual Gross Sales	$1,786,941
Franchise Royalty	0
Cash Flow (SDE)	$441,381

Asset Data

Inventory	$0
Furniture Fixtures, and Equipment	$83,028
Value of Real Estate	0

Operating Ratios

Cash Flow Profits Margin (SDE%)	24.7%
Rent/Annual Sales	0.5%

Valuation Multiples

Revenue Multiplier	1.12
Cash Flow Multiplier	4.53
Enterprise Multiplier	4.53

Transaction Details	**Comp # 13**	
Source:	Bizcomps	
Business Description	Mfg-Machinery	
SIC	3599	Industrial machinery and equipment - Industrial and Commercial Machinery an
Location	Florida	
Number of Employees	0	

Transaction Data	
Date of Sale	8/17/2001
Days on the Market	0
Asking Price	$1,550,000
Equivalent Asset Sale Price	$1,375,000
Percent Down Payment	71%
Terms of Deal	

Income Data		**Asset Data**	
Annual Gross Sales	$1,800,000	Inventory	$290,000
Franchise Royalty	0	Furniture Fixtures, and Equipment	$200,000
Cash Flow (SDE)	$450,000	Value of Real Estate	$0

Operating Ratios		**Valuation Multiples**	
Cash Flow Profits Margin (SDE%)	25.0%	Revenue Multiplier	0.76
Rent/Annual Sales	0.2%	Cash Flow Multiplier	3.06
		Enterprise Multiplier	2.41

Transaction Details	**Comp # 14**	
Source:	Bizcomps	
Business Description	Mfg-Machinery	
SIC	3599	Industrial machinery and equipment - Industrial and Commercial Machinery an
Location	Phoenix, AZ	
Number of Employees	0	

Transaction Data	
Date of Sale	6/30/2006
Days on the Market	0
Asking Price	$1,225,000
Equivalent Asset Sale Price	$1,225,000
Percent Down Payment	100%
Terms of Deal	

Income Data		**Asset Data**	
Annual Gross Sales	$975,000	Inventory	$25,000
Franchise Royalty	No	Furniture Fixtures, and Equipment	$25,000
Cash Flow (SDE)	$285,000	Value of Real Estate	0

Operating Ratios		**Valuation Multiples**	
Cash Flow Profits Margin (SDE%)	29.2%	Revenue Multiplier	1.26
Rent/Annual Sales	0.0%	Cash Flow Multiplier	4.30
		Enterprise Multiplier	4.21

Transaction Details Comp # 15

Source:	Bizcomps
Business Description	Mfg-Machine Shop
SIC	3599 Industrial machinery and equipment - Industrial and Commercial Machinery an
Location	Tucson, AZ
Number of Employees	0

Transaction Data

Date of Sale	6/30/2002
Days on the Market	0
Asking Price	$1,550,000
Equivalent Asset Sale Price	$1,350,000
Percent Down Payment	54%
Terms of Deal	

Income Data

Annual Gross Sales	$1,900,000
Franchise Royalty	No
Cash Flow (SDE)	$560,000

Asset Data

Inventory	$50,000
Furniture Fixtures, and Equipment	$800,000
Value of Real Estate	$0

Operating Ratios

Cash Flow Profits Margin (SDE%)	29.5%
Rent/Annual Sales	0.0%

Valuation Multiples

Revenue Multiplier	0.71
Cash Flow Multiplier	2.41
Enterprise Multiplier	2.32

Transaction Details Comp # 16

Source:	Pratts Stats
Business Description	Machine Shop
SIC	3599 Industrial machinery and equipment - Industrial and Commercial Machinery an
Location	FL
Number of Employees	10

Transaction was submitted by the BBF (3/2009). The reason for selling was retirement.

Transaction Data

Date of Sale	8/15/2008
Days on the Market	127
Asking Price	$1,925,000
Equivalent Asset Sale Price	$1,750,000
Percent Down Payment	100%
Terms of Deal	

Income Data

Annual Gross Sales	$1,426,093
Franchise Royalty	0
Cash Flow (SDE)	$425,752

Asset Data

Inventory	$0
Furniture Fixtures, and Equipment	$450,000
Value of Real Estate	0

Operating Ratios

Cash Flow Profits Margin (SDE%)	29.9%
Rent/Annual Sales	0.0%

Valuation Multiples

Revenue Multiplier	1.23
Cash Flow Multiplier	4.11
Enterprise Multiplier	4.11

Transaction Details	**Comp # 17**	
Source:	Pratts Stats	
Business Description	Machine Shop	
SIC	3599	Industrial machinery and equipment - Industrial and Commercial Machinery an
Location	CA	
Number of Employees	12	0

Transaction Data	
Date of Sale	9/30/2004
Days on the Market	242
Asking Price	$1,000,000
Equivalent Asset Sale Price	$971,450
Percent Down Payment	21%
Terms of Deal	

Income Data		**Asset Data**	
Annual Gross Sales	$1,155,507	Inventory	$81,720
Franchise Royalty	0	Furniture Fixtures, and Equipment	$168,320
Cash Flow (SDE)	$391,025	Value of Real Estate	$0

Operating Ratios		**Valuation Multiples**	
Cash Flow Profits Margin (SDE%)	33.8%	Revenue Multiplier	0.84
Rent/Annual Sales	4.6%	Cash Flow Multiplier	2.48
		Enterprise Multiplier	2.28

Transaction Details	**Comp # 18**	
Source:	Bizcomps	
Business Description	Machined Parts/Stampings	
SIC	3599	Industrial machinery and equipment - Industrial and Commercial Machinery an
Location	Ohio	
Number of Employees	8	

Transaction Data	
Date of Sale	11/30/2001
Days on the Market	415
Asking Price	$865,000
Equivalent Asset Sale Price	$682,000
Percent Down Payment	21%
Terms of Deal	

Income Data		**Asset Data**	
Annual Gross Sales	$959,000	Inventory	$20,000
Franchise Royalty	0	Furniture Fixtures, and Equipment	$353,000
Cash Flow (SDE)	$325,000	Value of Real Estate	0

Operating Ratios		**Valuation Multiples**	
Cash Flow Profits Margin (SDE%)	33.9%	Revenue Multiplier	0.71
Rent/Annual Sales	2.8%	Cash Flow Multiplier	2.10
		Enterprise Multiplier	2.04

Transaction Details	Comp # 19	
Source:	Bizcomps	
Business Description	Mfg-Machine Shop	
SIC	0	#N/A
Location	Florida	
Number of Employees	15	

Transaction Data	
Date of Sale	8/19/2003
Days on the Market	312
Asking Price	$1,600,000
Equivalent Asset Sale Price	$1,650,000
Percent Down Payment	10%
Terms of Deal	

Income Data		Asset Data	
Annual Gross Sales	$1,721,000	Inventory	$15,000
Franchise Royalty	0	Furniture Fixtures, and Equipment	$879,000
Cash Flow (SDE)	$591,000	Value of Real Estate	$0

Operating Ratios		Valuation Multiples	
Cash Flow Profits Margin (SDE%)	34.3%	Revenue Multiplier	0.96
Rent/Annual Sales	4.9%	Cash Flow Multiplier	2.79
		Enterprise Multiplier	2.77

Transaction Details	Comp # 20	
Source:	Pratts Stats	
Business Description	Precision Metal Fabrication and Finishing Services	
SIC	3599	Industrial machinery and equipment - Industrial and Commercial Machinery an
Location	0	
Number of Employees	12	0

Transaction Data	
Date of Sale	5/27/2007
Days on the Market	53
Asking Price	$0
Equivalent Asset Sale Price	$3,050,000
Percent Down Payment	87%
Terms of Deal	

Income Data		Asset Data	
Annual Gross Sales	$2,569,550	Inventory	$120,757
Franchise Royalty	0	Furniture Fixtures, and Equipment	$421,236
Cash Flow (SDE)	$942,542	Value of Real Estate	0

Operating Ratios		Valuation Multiples	
Cash Flow Profits Margin (SDE%)	36.7%	Revenue Multiplier	1.19
Rent/Annual Sales	2.5%	Cash Flow Multiplier	3.24
		Enterprise Multiplier	3.11

Transaction Details — Comp # 21

Source:	Pratts Stats
Business Description	Machine Shop
SIC	3599 Industrial machinery and equipment - Industrial and Commercial Machinery an
Location	TX
Number of Employees	0

The business had 4 full-time employees and 2 subcontractors. The broker who sold the business calculated discretionary earnings for 2006 as $551,868.

Transaction Data

Date of Sale	7/23/2007
Days on the Market	140
Asking Price	$1,248,000
Equivalent Asset Sale Price	$1,182,258
Percent Down Payment	17%
Terms of Deal	

Income Data

Annual Gross Sales	$1,221,874
Franchise Royalty	0
Cash Flow (SDE)	$546,629

Asset Data

Inventory	$157,000
Furniture Fixtures, and Equipment	$256,000
Value of Real Estate	$0

Operating Ratios

Cash Flow Profits Margin (SDE%)	44.7%
Rent/Annual Sales	3.1%

Valuation Multiples

Revenue Multiplier	0.97
Cash Flow Multiplier	2.16
Enterprise Multiplier	1.88

Transaction Details — Comp # 22

Source:	Pratts Stats
Business Description	Manufacturing Machine Shop Prototype, Optical, and Medical Products
SIC	3599 Industrial machinery and equipment - Industrial and Commercial Machinery an
Location	AZ
Number of Employees	14

Purchase Price Allocation: $285,000 - Equipment, $50,000 - Non-compete, $15,000 - Equipment for Clark Manufacturing, $1,050 - Goodwill.

Transaction Data

Date of Sale	7/24/2001
Days on the Market	83
Asking Price	$1,500,000
Equivalent Asset Sale Price	$1,565,000
Percent Down Payment	58%
Terms of Deal	

Income Data

Annual Gross Sales	$1,020,827
Franchise Royalty	0
Cash Flow (SDE)	$458,505

Asset Data

Inventory	$30,000
Furniture Fixtures, and Equipment	$354,333
Value of Real Estate	0

Operating Ratios

Cash Flow Profits Margin (SDE%)	44.9%
Rent/Annual Sales	3.5%

Valuation Multiples

Revenue Multiplier	1.53
Cash Flow Multiplier	3.41
Enterprise Multiplier	3.35

Transaction Details	Comp # 23	
Source:	Bizcomps	
Business Description	Mfg-Machine Shop	
SIC	3599	Industrial machinery and equipment - Industrial and Commercial Machinery an
Location	Florida	
Number of Employees	8	

Transaction Data	
Date of Sale	6/25/2002
Days on the Market	180
Asking Price	$1,000,000
Equivalent Asset Sale Price	$1,000,000
Percent Down Payment	50%
Terms of Deal	

Income Data		Asset Data	
Annual Gross Sales	$1,220,000	Inventory	$20,000
Franchise Royalty	0	Furniture Fixtures, and Equipment	$150,000
Cash Flow (SDE)	$572,000	Value of Real Estate	$0

Operating Ratios		Valuation Multiples	
Cash Flow Profits Margin (SDE%)	46.9%	Revenue Multiplier	0.82
Rent/Annual Sales	2.5%	Cash Flow Multiplier	1.75
		Enterprise Multiplier	1.71

Transaction Details	Comp # 24	
Source:	0	
Business Description		
SIC	0	#N/A
Location	0	
Number of Employees	0	

Transaction Data	
Date of Sale	1/0/1900
Days on the Market	0
Asking Price	$0
Equivalent Asset Sale Price	$0
Percent Down Payment	0%
Terms of Deal	

Income Data		Asset Data	
Annual Gross Sales	$0	Inventory	$0
Franchise Royalty	0	Furniture Fixtures, and Equipment	$0
Cash Flow (SDE)	$0	Value of Real Estate	0

Operating Ratios		Valuation Multiples	
Cash Flow Profits Margin (SDE%)	#DIV/0!	Revenue Multiplier	#DIV/0!
Rent/Annual Sales	0.0%	Cash Flow Multiplier	#DIV/0!
		Enterprise Multiplier	#DIV/0!

RESUME OF
C. FREDERICK HALL, III, MBA, AIBA

21190 PAYTON LANE
PINE GROVE, CA 95665
209-256-1371

EDUCATION: B. S in Business Administration from U. C. Berkeley
MBA degree in Business Finance and Computers from San Diego State University

Completed the following course work with the IBA and received the designation of
AIBA (Accredited by the Institute of Business Appraisers)

8001 A & B	Appraisal Skills Workshop	– 64 hours
1060	Appraisal Writing	– 16 hours
	Annual Appraisal Workshops	– 20 hours

EXPERIENCE:

1971 to 1975 – Business Analyst and Commercial Loan Officer at Union Bank in the San Francisco and Los Angeles headquarters offices. The first year involved a Management Training Program that included nine months (at 40 hours per week) of financial analysis and legal environment of business lending, followed by three months of in-the-field appraisal training.

1975 to 1978 – Purchased and operated a retail hardware company in Portola Valley, California.

1977 to 1981 – Served on the Board of Directors and functioned as CFO for Bay Cities Wholesale Hardware Company, a dealer-owned co-operative comprised of 350 stores in Northern California. Dealt with many union problems, a warehouse relocation from San Francisco to Manteca, California, and, a complete computerization of operations.

1978 to 2002 – Built from the ground up a Retail Hardware and Lumber Company in Pine Grove, California. The company went through four major expansions during this period. The store grew to $5,000,000 revenues with 30 employees. From 1992 to 2002 I completely automated the company at all levels and networked together a dozen workstations. I personally wrote scores of computer programs that involved every aspect of the operations, including inventory control, general ledger bookkeeping, accounts receivable and accounts payable control, and a complete payroll program.

2002 to 2005 – Business Broker and Business Analyst for Sunbelt Business Advisors of Sacramento and Reno. During this period successfully completed the course work for business appraisals offered by IBA (Institute of Business Appraisers) and received the designation of AIBA.

2005 to Present – Managing partner of Compass Point Capital, specializing in mergers and acquisitions of smaller mid-size companies ranging in revenues from $5mm to $25mm.

2003 to Present – Wrote business valuations for over 250 companies. During this time I regularly presented lectures on business valuation techniques to a number of organizations in Northern California. I was also recently invited to speak on the subject at the Annual Murphy Business and Financial convention in Florida and the International Business Broker Convention in Louisville, Kentucky. Attendees included business brokers, bankers, and accountants.

A number of the appraisals I wrote involved marriage dissolutions and partnership breakups which often required presenting and defending the findings to both parties. Approximately 25 appraisals were done at the request of several SBA Banks for their loan applicants. Those banks include Bank of the West, Northern Nevada Bank, Temecula Bank, Plumas Bank, Comerica, and Bridge Bank.

Recent Clients:

Comerica Bank
Robert Porter
Sacramento, CA

Temecula Valley Bank
Gerry Boras
Sacramento, CA

CIT Financial
Matthew Christie
Sacramento, CA

Bridge Bank
Hinson Thomas
Rancho Cordova, CA

Bank of the West
Scott VanderLohe
Sacramento, CA

Northern Nevada Bank
Bryan Wallace
Reno, NV

ProSource Sales and Mkt
Gail Sievers
Sparks, NV

Wright Outdoor Center
Jim Wright
Sparks, NV

ScareCrow Lath & Plaster
Steve Crow
Reno, NV

Lake Bar & Grill
Robert Treanur
Sparks, NV

Nelson Logistics
Jeffery Ting
So. San Francisco, CA

Chase Western Cabinets
Brett Zunino
Reno, NV

North Valley Athletic Club
Scott Schofield
Chico, CA

Mueller Fitness Center
Vance Mueller
El Dorado, CA

MAACO
Art Alvi
North Highlands, CA

Consign-It
Bonnie Grisel
Rancho Cordova, CA

Liquor Cabinet
Manjeet Sandhu
Corning, CA

Lighting Unlimited
Dean Osborn
El Dorado, CA

LA Pines Building Supply
Pat Lawrence
Portland, OR

Divide Supply
Janice Hoyt
Greenwood, CA

Holiday Grocery
Jim Lumley
Marysville, CA

Golden Years Retirement
Jace Schmitz, Coldwell Banker
Port Angeles, WA

GHH, Inc. Environmental Eng.
Gary Hall
Auburn, CA

Doyle's Steel
Terry Henry
Modesto, CA

DEA- Bathroom Machinery
Tom Scheller
Murphys, CA

Cal Inc. Environmental Training
Mike McCalmont
Vacaville, CA

B & J Unical Gas
John Rockwood
Grass Valley, CA

Putnam HVAC
John Putnam
Rancho Cordova, CA

Tom's Ace
Chris Doyle
San Leandro, CA

Theresa's Place Restaurant
Phil Giurlani
Jackson, CA

Pine Cone Pharmacy
Paul Wesseler
Pine Grove, CA

Sierra X-Ray Services
Pete Kohler
Reno, NV

Oak's Hardware
Dave Hill
Fair Oaks, CA

Dixon Lumber
Bryan Bock
Dixon, CA

Davenport Lumber
Doug Allen
Davenport, WA.

Tender Touches Spa
Barbara Brown
Sequim, WA

Meineke Auto Care
Dave Sparks
Gladstone, OR

Foothill Ace
John Norris
Oregon House, CA

Columbia Nursery & Florist
Janet Ofstad
Columbia, CA

Twin Cities Bike and Repair
Rick Elia
Yuba City, CA

A & J Paving
Allen & Joan Ashby
Reno, NV

Ameritech Industries
Kerry Dawes
Redding, CA

Applied Control Electronics
Terrence Burke
Placerville, CA

Mark Bailey Plumbing
Lisa Bailey
Susanville, CA

Garden Valley Feed
Manuel Vieira
Garden Valley, CA

Great Shape of America
Steve Lubarsky
Los Angeles, CA

Imperial Steel & Tube
Rick Stamper
Perris, CA

Wood Rat Productions
Dennis McKee
Murrietta, CA

Hayward Ace Hardware
Andrew Lee
Hayward, CA

Rossi Building Materials
Richard Nelepovitz
Fort Bragg, CA

Thrillworks, Extreme Engineer
Jeff Wilson
Newcastle, CA

Outhouse Collection
Jeanette Skaff
Arnold, CA

Professional References:

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Pine Grove, CA
(209) 296-2220

Dave Fulton, CPA
Sutter Creek, CA
(209) 267-0305

Craig Weber, Attorney
La Quinta, CA
(909) 657-3309

Guy Barber, Title Officer
Alliance Title Insurance
(916) 787-1717

Johanna Benker, CPA
Vacaville, CA
(707) 446-4455

Ron Mittlebrunn
Director, Amador Econ. Dev. Corp.
(209) 223-0351

Tom Propp, CPA
Sacramento, CA
(916) 929-1006

Karen Simons, Loan Officer
Bank of the West
(916) 563-2939

Tim Rogers, CEO
Sunbelt Business Advisors
(916) 932-2465

Robert Porter, SBA Bus. Dev.
Comerica Bank
(916) 774-7564

Gerry Boras, Loan Officer
Temecula Bank
(916) 643-1820

Mercedes Bennet, Title Office
Fidelity National Title
(916) 923-9134

Appraiser's Certification

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

1. The statements of fact contained in this report are true and correct to the best of my knowledge and belief, subject to the assumptions and conditions stated.
2. The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, unbiased and professional analyses, opinions, and conclusions.
3. I have no present or prospective interest in the property that is the subject of this report, nor is my compensation dependent upon the value of this report or contingent on producing a value that is favorable to the client.
4. I have no personal bias with respect to the parties involved or have made a full disclosure of any such bias.

5. No person except the undersigned participated materially in the preparation of this report.

C. Frederick Hall III, MBA, AIBA

December 20, 2010
Date

By accepting this report, the client agrees to the following terms and conditions:

1. The appraisal report will not be given to any other party without the appraiser's approval.
2. You agree to indemnify and hold the Appraiser, Compass Point Capital, Sunbelt Business Advisors, and their officers and employees harmless against and from any and all losses, claims, actions, damages, expenses or liabilities, including reasonable attorney's fees, to which we may become subject in connection with this engagement. You will not be liable for our negligence.
3. You agree that, in the event we are judicially determined to have acted negligently in the execution of this engagement, damages shall be limited to an amount not to exceed the fee received by us for this engagement.
4. Our liability for injury or loss, if any, arising from the services we provide to you shall not exceed $5,000 or our fee, whichever is greater. There shall be no punitive damages. Increased liability limits may be negotiated upon your written request, prior to commencement of our services, and your agreement to pay an additional fee.
5. Your obligation for indemnification and reimbursement shall extend to any controlling person of Sunbelt Business Advisors, or Compass Point Capital, including any director, officer, employee, subcontractor, affiliate or agent.
6. If in the future the appraiser is called upon to testify in court or at deposition regarding the written report, the appraiser will be paid $150.00 per hour to cover professional time, the gathering of materials, reviewing the case and preparing for testimony along with other expenses incurred.
7. If called upon to defend this report to any other party, the appraiser's expenses and hourly rate will be billed on a monthly basis or as incurred.
8. The client will shoulder the responsibility of legal costs incurred by the appraiser when defending this appraisal.
9. Client agrees that the Limiting Conditions, as stated in the report, will be acceptable with the level of work and detail of work to be performed as outlined above.
10. In the unlikely event of a dispute, the parties under the terms of this agreement shall be subject to arbitration. Arbitration shall be conducted in the state of residence of the appraiser.