

Business Valuation of Sample Industries, Inc.

As of June 30, 2010

Prepared for:

Timothy Jones, CEO
Sample Industries, Inc.

Prepared by:

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Chicago, IL 60600

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If this were an actual case, descriptive text would be added in various sections marked as “Comments” in this report. These areas include information about the company, stock classes and ownership, management team and staffing, products and services, market data and analysis, current operations, company expectations, and other observations that cannot be added automatically to the report.

The names and numbers used in this sample report are fictitious. Any similarity to the names or information of actual companies is strictly coincidental.

INSERT LETTER/REPORT DATE HERE

Timothy Jones, CEO
Sample Industries, Inc.
123 Main Street, Suite 2252
San Diego, CA 92126

RE: Sample Industries, Inc.

Dear Timothy Jones, CEO:

At your request, we have performed a valuation engagement, as defined in the Statement on Standards for Valuation Services (SSVS) of the American Institute of Certified Public Accountants, of 100.00% of the common stock of Sample Industries, Inc. as of June 30, 2010. This valuation was performed solely to assist in the matter of Estate Planning; the resulting estimate of value should not be used for any other purpose or by any other party for any purpose. This valuation engagement was conducted in accordance with the SSVS. The estimate of value that results from a valuation engagement is expressed as a conclusion of value.

COMMENT: If the engagement was restricted or limited in scope, describe here, such as: We were restricted or limited in the scope of our work or data available for analysis as follows: (describe restrictions or limitations).

Based on our analysis as described within this valuation report, the estimate of value of 100.00% of the common stock of Sample Industries, Inc. as of June 30, 2010 was \$16,800,000, as summarized below. This conclusion is subject to the Statement of Assumptions and Limiting Conditions presented later in this report and to our Representations also presented later in this report. We have no obligation to update this report or our conclusion of value for information that comes to our attention after the date of this report.

Respectfully,

(Signature)

(Date)

— Table of Contents —

OBJECTIVE	1
EXTERNAL SOURCES OF INFORMATION	2
INTERNAL SOURCES OF INFORMATION	2
ASSUMPTIONS AND LIMITING CONDITIONS	3
COMPANY BACKGROUND	4
Company Identification	4
Nature and History of the Company	4
Stock Classes and Ownership	4
Management Team	4
Product and Service Information	4
Market Data and Analysis/Competition	4
Governmental or Regulatory Environment	5
Key Customers and Suppliers	5
Marketing Strategy	5
Business Risks	5
Current Operations	5
Company Expectations	5
Other Observations	5
NATIONAL ECONOMIC AND INDUSTRY CONDITIONS	6
General Economic Conditions and Outlook	6
Industry Conditions and Outlook	6
HISTORICAL AND NORMALIZED FINANCIAL STATEMENTS	7
Summary Historical Income Statements	7
Income Statement Adjustments	7
Normalized Historical Income Statements	8
Summary Historical Balance Sheets	8
Balance Sheet Adjustments	9
Normalized Historical Balance Sheets	9
Summary Historical Statements of Cash Flows	10
Normalized Earnings and Net Cash Flow Summary	11
Normalized Interim Financial Statements	12
ANALYSIS OF HISTORIC FINANCIAL STATEMENTS	14
Business Common-Size Financial Statements	14
Business vs. Industry Common-Size Financial Statements	16
Business Financial Ratio Analysis	19
Business vs. Industry Financial Ratio Comparison	22
VALUATION OF SAMPLE INDUSTRIES, INC.	24
Overview of Valuation Approaches and Methods	25
Preferred Stock Valuation	26
Net Asset Value	27
Liquidation Value	27
Discount & Capitalization Rate Estimates	28

Capitalization of Earnings	29
Discounted Future Earnings	30
Projection Summary	30
Summary Income Statement Projections	31
Summary Balance Sheet Projections	31
Summary Retained Earnings Projections	32
Summary Cash Flow Projections	32
Summary Sources & Uses of Funds Projections	32
Overview of Projection Assumptions	32
Revenue & Expense Assumptions	32
Fixed Asset Depreciation Assumptions	33
Disposals of Existing Fixed Assets	33
Fixed Asset Purchases	34
Existing Notes Receivable Assumptions	34
Amortization of Intangible Assets	34
Existing Notes Payable Assumptions	34
Fixed Asset Purchase Financing Assumptions	35
Dividends Assumptions	35
Discounted Future Earnings Value Calculations	36
Comparative Company Method	36
Search for Comparatives	37
Comparable Companies from the Completed Transactions Database	37
Comparable Companies from the Pratt's Stats Database	38
Comparable Companies from the BIZCOMPS Database	38
Price to Earnings Multiple	38
Price to Revenue Multiple	38
Price to Gross Cash Flow Multiple	38
Mergerstat Price to Earnings Multiple	39
Completed Transactions Price to Earnings Multiple	39
Completed Transactions Price to Revenue Multiple	39
Completed Transactions Price to Cash Flow from Operations Multiple	39
Completed Transactions Price to Assets Multiple	40
Completed Transactions Price to Stockholders' Equity Multiple	40
Pratt's Stats Equity Price to Net Sales Multiple	40
Pratt's Stats Equity Price to Gross Cash Flow Multiple	40
Pratt's Stats Equity Price to EBT Multiple	41
Pratt's Stats Equity Price to Net Income Multiple	41
Pratt's Stats Deal Price to Net Revenue Multiple	41
Pratt's Stats Deal Price to EBITDA Multiple	41
Pratt's Stats Deal Price to EBIT Multiple	42
BIZCOMPS Sales Price to Revenue Multiple	42
BIZCOMPS Sales Price to Seller's Discretionary Cash Flow Multiple	42
Capitalization of Excess Earnings	43
Multiple of Discretionary Earnings	45
Conclusions of Value	46

Objective

Our objective was to estimate the Fair Market Value of 100.00% of Sample Industries, Inc. (the “Company”) as of June 30, 2010. We were engaged by Timothy Jones, CEO, Sample Industries, Inc. to issue a detailed report. The Company is a C-Corporation and is organized under the laws of California. It is primarily engaged in the business of Manufacturing of Sporting Goods and operates under the trade name of Sample's Sporting Equipment.

The standard of value used in our valuation of Sample Industries, Inc. is *Fair Market Value*. Fair Market Value is the price, in cash or equivalent, that a buyer could reasonably be expected to pay, and a seller could reasonably be expected to accept, if the business were exposed for sale on the open market for a reasonable period of time, with both buyer and seller being in possession of the pertinent facts and neither being under any compulsion to act.

The purpose of this valuation is Estate Planning. This report is prepared for Timothy Jones, CEO, Sample Industries, Inc. and should not be used by others. This report is dated [insert date].

COMMENT: Explain the purpose of the valuation in as much detail as necessary. Also define the person or entity that engaged you and the intended users of this valuation.

Our opinion of Fair Market Value relied on a “value in use” or going concern premise. This premise assumes that the Company is an ongoing business enterprise with management operating in a rational way with a goal of maximizing shareholder value.

Our analysis considers those facts and circumstances present at the Company at the Valuation Date. Our opinion would most likely be different if another Valuation Date was used. There were no restrictions or limitations in the scope of our work or in the data available for analysis, and no hypothetical assumptions were used.

COMMENT: If there were restrictions or limitations in the scope of your work or the data available, or hypothetical assumptions were used, modify the last sentence as necessary.

To arrive at our conclusion of Fair Market Value, we performed the following procedures:

- * Collected the Company's relevant historic financial statements.
- * Analyzed the historic financial statements by calculating financial ratios and common-size financial statements for each historic year in order to identify trends.
- * Compared the Company's financial ratios and common-size financial statements to industry guideline data to identify any significant variances.
- * Assisted management in preparing a [-or- Reviewed management's] 5 year projection of the financial statements based on management's assumptions as to the Company's future outlook.
- * Developed risk-adjusted Capitalization and Discount Rates to apply to the Company's historic and projected earnings, respectively.
- * Collected and analyzed transactional data from comparable companies within the same industry.
- * Adjusted historic earnings to eliminate the effects of excess and discretionary expenses, nonoperating revenues and expenses, and non-transferable revenue streams.
- * Applied Asset, Income, Market, and Other valuation approaches to determine an estimate of Total Entity Value. The following methods were considered under each approach:

1. Asset Approach

Net Asset Value and Liquidation Value

2. Income Approach

Capitalization of Earnings and Discounted Future Earnings.

3. Market Approach

Price to Earnings, Price to Revenue, Price to Gross Cash Flow, Price to Cash Flow from Operations, Price to Seller's Discretionary Cash Flow, Price to Dividends, Price to Book Value, Price to Total Assets and Price to Stockholders' Equity.

4. Other

Capitalization of Excess Earnings and Multiple of Discretionary Earnings

- * Selected the most reasonable Total Entity Value from the range of values established in the valuation methods and then applied any appropriate discounts to arrive at our conclusion of the estimated Fair Market Value of the interest.

COMMENT: Modify the above list to reflect the actual procedures that were performed. Examples of additional procedures include: conducting interviews with owners, management and other key personnel; performing on-site examinations of the Company's facilities; etc.

External Sources of Information

To aid us in our analysis of the Company, we consulted a number of publicly available sources of information. Numerous financial publications and databases were consulted including *Business Statistics*, Standard & Poor's *Industry Surveys*, Ibbotson Associates' *Stocks, Bonds, Bills and Inflation 200X Yearbook*, *Mergerstat Review*, *U.S. Financial Data*, Standard & Poor's *Register of Corporations, Directors, and Executives*, Disclosure, Inc. on-line database, and *Value Line Investment Survey*.

COMMENT: Add to or delete from this listing of sources of external information as necessary.

Internal Sources of Information

To aid us in our analysis of the Company, we interviewed the following personnel:

COMMENT: Add names, titles, and positions of all personnel interviewed. Following that list, if the Company's facility(ies) were visited as part of this engagement, provide details of the facility visit. Finally, provide details of the financial, tax, and other information provided by the Company, although the source of financial statements may be explained later in this report.

Assumptions and Limiting Conditions

This valuation is subject to the following assumptions and limiting conditions:

1. Information, estimates, and opinions contained in this report are obtained from sources considered to be reliable. However, we assume no liability for such sources.
2. The Company and its representatives warranted to us that the information they supplied was complete and accurate to the best of their knowledge and that the financial statement information reflects the Company's results of operations and financial condition in accordance with generally accepted accounting principles, unless otherwise noted. Information supplied by management has been accepted as correct without further verification, (and we express no opinion on that information).
3. Possession of this report, or a copy thereof, does not carry with it the right of publication of all or part of it, nor may it be used for any purpose by anyone but the client without the previous written consent of the client or us and, in any event, only with proper attribution.
4. We are not required to give testimony in court, or be in attendance during any hearings or depositions, with reference to the company being valued, unless previous arrangements have been made.
5. The various estimates of value presented in this report apply to this valuation only and may not be used out of the context presented herein. This valuation is valid only for the purpose or purposes specified herein.
6. (This valuation assumes that the Company will continue to operate as a going concern, and that the character of its present business will remain intact.)
7. The valuation contemplates facts and conditions existing as of the valuation date. Events and conditions occurring after that date have not been considered, and we have no obligation to update our report for such events and conditions.
8. We have assumed that there is full compliance with all applicable federal, state, and local regulations and laws unless otherwise specified in this report.
9. This report was prepared under the direction of John Smith, CPA. Neither the professionals who worked on this engagement nor ACME Valuation Services, LLP have any present or contemplated future interest in Sample Industries, Inc., any personal interest with respect to the parties involved, or any other interest that might prevent us from performing an unbiased valuation. Our compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report.

COMMENT: Modify the above list as necessary to reflect the actual assumptions and limiting conditions relevant to the specific valuation engagement.
--

Company Background

Company Identification

Sample Industries, Inc. is a C-Corporation organized under the laws of California and located at 123 Main Street, Suite 2252, San Diego, CA, 92126. The Company can be categorized under the Standard Industrial Classification (SIC) Code of 3949 and North American Industry Classification System (NAICS) Code of .

COMMENT: In addition to the linked information above, enter any additional identification information that you feel is appropriate for purposes of this report.

Nature and History of the Company

Established in 1989, the Company is primarily engaged in the business of Manufacturing of Sporting Goods and operates under the trade name of Sample's Sporting Equipment.

COMMENT: In addition to the linked information above, explain the history of the company since its inception and describe the nature of the company's current activities.

Stock Classes and Ownership

COMMENT: Describe all classes of stock including both common and preferred and discuss any special rights or restrictions associated with each class. Summarize the total number of shares authorized, issued and outstanding for each class. List each major shareholder, amount and class of stock they own, and their relationship to other major shareholders, if any.

Management Team

COMMENT: Provide an overview of the background and qualifications of key personnel. Also include an overview of other staff, if applicable.

Product and Service Information

COMMENT: Provide a description of the company's products and/or services.

Market Data and Analysis/Competition

COMMENT: Provide an overview of the market(s) in which the company competes, including details of key competitors.

Governmental or Regulatory Environment

COMMENT: Provide an overview of the governmental or regulatory environment in which the company operates.

Key Customers and Suppliers

COMMENT: Provide an overview of the company's key customers and suppliers, if applicable.

Marketing Strategy

COMMENT: Describe the company's current marketing plan and strategy.

Business Risks

COMMENT: Provide an overview of the key business risks faced by the company.

Current Operations

COMMENT: Describe the company's facilities, capabilities, and its methods of providing products and/or services.

Company Expectations

COMMENT: Provide a description of the Company's future expectations with respect to growth, profitability and financial position.

Other Observations

COMMENT: Describe any other observations not explained in the previous sections.

National Economic and Industry Conditions

General Economic Conditions and Outlook

COMMENT: Discuss or insert the distributed national, regional, and/or local economic conditions at the Valuation Date and their future economic outlook as applicable to the subject company. Identify all sources of information referenced in your discussion. If national, regional, and/or local conditions do not affect the subject company, explain why.

Industry Conditions and Outlook

COMMENT: Discuss the economic conditions at the Valuation Date and the future economic outlook for the industry in which the subject company operates. Identify all sources of information referenced in your discussion.

Historical and Normalized Financial Statements

Summary Historical Income Statements

	2005	2006	2007	2008	2009
Net Sales Revenue	25,302,860	26,494,580	28,043,400	29,219,270	31,541,420
Total Cost of Goods Sold	20,165,679	21,681,757	22,263,336	22,943,789	23,870,297
Gross Profit	5,137,181	4,812,823	5,780,064	6,275,481	7,671,123
Total Selling Expenses	749,750	813,180	917,500	997,500	1,316,990
Total General & Administrative Expenses	3,037,730	2,486,432	3,319,075	3,616,368	4,129,399
Income From Operations	1,349,701	1,513,211	1,543,489	1,661,613	2,224,734
Total Other Revenues and Expenses	(623,774)	(613,150)	(563,153)	(533,769)	(486,062)
Income Before Taxes	725,927	900,061	980,336	1,127,844	1,738,672
Total Income Taxes	283,111	351,024	382,331	439,859	678,082
Net Income	442,816	549,037	598,005	687,985	1,060,590

COMMENT: On the lines below, identify and describe any significant issues with respect to the historic income statements.

Income Statement Adjustments

	2005	2006	2007	2008	2009
Add/(deduct) income adjustments:					
Nonoperating income	(20,000)	(30,000)	(40,000)	(50,000)	(60,000)
Total income adjustments	(20,000)	(30,000)	(40,000)	(50,000)	(60,000)
Add/(deduct) expense adjustments:					
Officer/Owner's Compensation	(50,000)	(75,000)	(100,000)	(125,000)	(150,000)
Research and development	(5,000)	(5,000)	(10,000)	(15,000)	(20,000)
Less: Nonoperating expense	(10,000)	(20,000)	(30,000)	(40,000)	(50,000)
Total expense adjustments	(65,000)	(100,000)	(140,000)	(180,000)	(220,000)
Total income & expense adjustments before tax	45,000	70,000	100,000	130,000	160,000
Less: Tax effect *	17,550	27,300	39,001	50,701	62,401
Total Adjustments net of Tax effect	27,450	42,700	61,000	79,299	97,599

Normalized Historical Income Statements

	2005	2006	2007	2008	2009
Net Sales Revenue	25,302,860	26,494,580	28,043,400	29,219,270	31,541,420
Total Cost of Goods Sold	20,165,679	21,681,757	22,263,336	22,943,789	23,870,297
Gross Profit	5,137,181	4,812,823	5,780,064	6,275,481	7,671,123
Total Selling Expenses	749,750	813,180	917,500	997,500	1,316,990
Total General & Administrative Expenses	2,982,730	2,406,432	3,209,075	3,476,368	3,959,399
Income From Operations	1,404,701	1,593,211	1,653,489	1,801,613	2,394,734
Total Other Revenues and Expenses	(633,774)	(623,150)	(573,153)	(543,769)	(496,062)
Income Before Taxes	770,927	970,061	1,080,336	1,257,844	1,898,672
Total Income Taxes	300,661	378,324	421,332	490,560	740,483
Net Income	470,266	591,737	659,005	767,284	1,158,189

Summary Historical Balance Sheets

	2005	2006	2007	2008	2009
ASSETS					
Total Current Assets	4,956,423	5,427,189	6,388,104	7,147,785	7,509,604
Net Fixed Assets	5,142,852	4,962,042	4,634,661	5,534,900	5,363,423
Total Long-Term Investments	3,904,180	3,583,210	3,672,670	2,204,390	1,651,210
Net Intangible Assets	245,670	236,340	227,010	217,680	208,350
Total Other Noncurrent Assets	550,000	710,000	770,000	780,000	790,000
Total Assets	14,799,125	14,918,781	15,692,445	15,884,755	15,522,587
LIABILITIES & STOCKHOLDERS' EQUITY					
Total Current Liabilities	2,663,694	2,817,600	3,464,091	3,797,653	3,555,398
Total Long-Term Debt	5,990,265	5,734,045	5,317,415	4,896,531	4,257,082
Total Other Long-Term Liabilities	27,000	27,000	27,000	27,000	27,000
Total Liabilities	8,680,959	8,578,645	8,808,506	8,721,184	7,839,480
Stockholders' Equity:					
Preferred stock	800,000	800,000	850,000	850,000	850,000
Common stock	2,780,000	2,780,000	3,000,000	3,000,000	3,000,000
Retained earnings	2,538,166	2,760,136	3,033,939	3,313,571	3,833,107
Total Stockholders' Equity	6,118,166	6,340,136	6,883,939	7,163,571	7,683,107
Total Liabilities & Stockholders' Equity	14,799,125	14,918,781	15,692,445	15,884,755	15,522,587

COMMENT: On the lines below, identify and describe any significant issues with respect to the historic balance sheets.

Balance Sheet Adjustments

	2005	2006	2007	2008	2009
Nonoperating assets	60,000	70,000	80,000	90,000	100,000
Normalization adjustment	(60,000)	(70,000)	(80,000)	(90,000)	(100,000)
Adjusted balance	0	0	0	0	0
Nonoperating liabilities	27,000	27,000	27,000	27,000	27,000
Normalization adjustment	(27,000)	(27,000)	(27,000)	(27,000)	(27,000)
Adjusted balance	0	0	0	0	0
Net Adjustments:					
Asset Adjustments	(60,000)	(70,000)	(80,000)	(90,000)	(100,000)
Less: Liability Adjustments	(27,000)	(27,000)	(27,000)	(27,000)	(27,000)
Less: Common & Preferred Stock Adjustments	0	0	0	0	0
Retained Earnings Adjustment	(33,000)	(43,000)	(53,000)	(63,000)	(73,000)

Normalized Historical Balance Sheets

	2005	2006	2007	2008	2009
ASSETS					
Total Current Assets	4,956,423	5,427,189	6,388,104	7,147,785	7,509,604
Net Fixed Assets	5,142,852	4,962,042	4,634,661	5,534,900	5,363,423
Total Long-Term Investments	3,904,180	3,583,210	3,672,670	2,204,390	1,651,210
Net Intangible Assets	245,670	236,340	227,010	217,680	208,350
Total Other Noncurrent Assets	490,000	640,000	690,000	690,000	690,000
Total Assets	14,739,125	14,848,781	15,612,445	15,794,755	15,422,587
LIABILITIES & STOCKHOLDERS' EQUITY					
Total Current Liabilities	2,663,694	2,817,600	3,464,091	3,797,653	3,555,398
Total Long-Term Debt	5,990,265	5,734,045	5,317,415	4,896,531	4,257,082
Total Other Long-Term Liabilities	0	0	0	0	0
Total Liabilities	8,653,959	8,551,645	8,781,506	8,694,184	7,812,480
Stockholders' Equity:					
Preferred stock	800,000	800,000	850,000	850,000	850,000
Common stock	2,780,000	2,780,000	3,000,000	3,000,000	3,000,000
Retained earnings	2,505,166	2,717,136	2,980,939	3,250,571	3,760,107
Total Stockholders' Equity	6,085,166	6,297,136	6,830,939	7,100,571	7,610,107
Total Liabilities & Stockholders' Equity	14,739,125	14,848,781	15,612,445	15,794,755	15,422,587

Summary Historical Statements of Cash Flows

	2005	2006	2007	2008	2009
Net Cash Flow From Operations	981,516	862,646	1,430,146	1,600,486	1,600,486
Net Cash Flow From Investments	(633,999)	(1,046,000)	(740,000)	(406,999)	(406,999)
Net Cash Flow From Financing	(438,081)	189,579	(686,075)	(1,184,348)	(1,184,348)
Net Cash Flow	(90,564)	6,225	4,071	9,139	9,139
Cash at Beginning of Year	313,943	223,379	229,604	233,675	233,675
Cash at End of Year	223,379	229,604	233,675	242,814	242,814

COMMENT: On the lines below, identify and describe any significant issues with respect to the historic statements of cash flows.

Normalized Earnings and Net Cash Flow Summary

	2005	2006	2007	2008	2009
Total income & expense adjustments before tax	45,000	70,000	100,000	130,000	160,000
Less: Tax effect *	17,550	27,300	39,001	50,701	62,401
Less: Adjustment to Historic Tax	0	0	0	0	0
Plus: adjustments to net of tax items	0	0	0	0	0
Net adjustments	27,450	42,700	61,000	79,299	97,599
Plus: Historic net income	442,816	549,037	598,005	687,985	1,060,590
Normalized Net income	470,266	591,737	659,005	767,284	1,158,189
Plus: Normalized income taxes	300,661	378,324	421,332	490,560	740,483
Normalized EBT	770,927	970,061	1,080,336	1,257,844	1,898,672
Plus: Normalized interest expense	678,434	674,560	656,923	648,429	603,982
Normalized EBIT	1,449,361	1,644,621	1,737,259	1,906,273	2,502,654
Plus: Normalized depr. & amort.	973,569	1,120,139	1,266,711	1,289,091	1,110,806
Normalized EBITDA	2,422,930	2,764,760	3,003,970	3,195,364	3,613,460
Historic net change in cash		(90,564)	6,225	4,071	9,139
Plus: Net adjustments + Adj. to Depr., Amort. & Div.		42,700	61,000	79,299	97,599
Normalized Net cash flow		(47,864)	67,225	83,370	106,738
Historic income from operations		1,513,211	1,543,489	1,661,613	2,224,734
Total operating adjustments		80,000	110,000	140,000	170,000
Normalized operating income		1,593,211	1,653,489	1,801,613	2,394,734
Less: Tax based on selected tax rate		541,692	562,186	612,548	814,210
Plus: Normalized depr. & amort. from oper. (net of tax)		739,292	836,029	850,800	733,132
Less: Normalized fixed asset purchases		929,999	930,000	2,180,000	929,999
Less: Normalized changes in net working capital **		539,080	953,640	548,660	572,830
Normalized Free cash flow		321,732	43,692	(688,795)	810,827
Normalized Net income		591,737	659,005	767,284	1,158,189
Plus: Normalized depreciation & amortization		1,120,139	1,266,711	1,289,091	1,110,806
Less: Normalized fixed asset purchases		929,999	930,000	2,180,000	929,999
Less: Normalized changes in net working capital **		539,080	953,640	548,660	572,830
Plus: Changes in short-term notes payable		(13,550)	485,030	(97,680)	(107,890)
Plus: Changes in current long-term notes payable		145,206	160,411	224,292	85,785
Plus: Changes in long-term notes payable		(256,220)	(416,630)	(420,884)	(639,449)
Less: Preferred Dividends		80,000	85,000	85,000	85,000
Free Cash Flow available to Equity		38,233	185,887	(1,051,557)	19,612

Normalized Interim Financial Statements

Interim Financial Statements for 6 months dated June 2010 were available and included in this analysis. These statements along with any adjustments are summarized below:

Interim Income Statement & Adjustments

	Interim Jun 2010	Normalization Adjustments	Normalized Jun 2010
Net Sales Revenue	18,924,689	0	18,924,689
Total Cost of Goods Sold	13,731,824	0	13,731,824
Total Selling Expenses	867,197	0	867,197
Total General & Administrative Expenses	2,446,093	0	2,446,093
Income From Operations	1,879,575	0	1,879,575
Total Other Revenues and Expenses	(184,800)	0	(184,800)
Income Before Taxes	1,694,775	0	1,694,775
Total Income Taxes	275,592	0	275,592
Net Income	1,419,183	0	1,419,183

COMMENT: On the lines below, identify and describe any significant issues with respect to the interim income statements and any related normalization adjustments.

Interim Balance Sheet & Adjustments

	Interim Jun 2010	Normalization Adjustments	Normalized Jun 2010
ASSETS			
Total Current Assets	9,122,730	0	9,122,730
Net Fixed Assets	4,554,828	0	4,554,828
Total Long-Term Investments	1,640,341	0	1,640,341
Net Intangible Assets	203,666	0	203,666
Total Other Noncurrent Assets	790,000	0	790,000
Total Assets	16,311,565	0	16,311,565
LIABILITIES & STOCKHOLDERS' EQUITY			
Total Current Liabilities	3,303,998	0	3,303,998
Total Long-Term Debt	3,855,277	0	3,855,277
Total Other Long-Term Liabilities	50,000	0	50,000
Total Liabilities	7,209,275	0	7,209,275
Stockholders' Equity:			
Preferred stock	850,000	0	850,000
Common stock	3,000,000	0	3,000,000
Retained earnings	5,252,290	0	5,252,290
Total Stockholders' Equity	9,102,290	0	9,102,290
Total Liabilities & Stockholders' Equity	16,311,565	0	16,311,565

COMMENT: On the lines below, identify and describe any significant issues with respect to the interim balance sheets and any related normalization adjustments.

Analysis of Historic Financial Statements

Business Common-Size Financial Statements

This analysis includes a review of the Company's common-size income statement and balance sheet percentages on an unadjusted and a normalized basis. In order to portray the relative size of financial statement items for comparison over time, each line item in the common-size income statements is expressed as a percentage of total revenue and each line item in the common-size balance sheets is expressed as a percentage of total assets. A summary of the normalized common-size income statements and balance sheets is presented below.

Unadjusted Business Common-Size Statements

	2005	2006	2007	2008	2009
Income Data:					
Net sales	100.00%	100.00%	100.00%	100.00%	100.00%
Gross profit	20.30%	18.17%	20.61%	21.48%	24.32%
Operating expenses	14.97%	12.45%	15.11%	15.79%	17.27%
Operating profit	5.33%	5.71%	5.50%	5.69%	7.05%
All other expenses (net)	2.47%	2.31%	2.01%	1.83%	1.54%
Profit Before Tax	2.87%	3.40%	3.50%	3.86%	5.51%
Assets:					
Cash & equivalents	5.53%	5.95%	10.01%	12.74%	14.60%
Trade receivables (net)	13.54%	13.59%	12.66%	13.98%	14.72%
Inventory	13.51%	15.89%	17.11%	17.41%	18.13%
All other current assets	0.91%	0.95%	0.93%	0.87%	0.92%
Total Current Assets	33.49%	36.38%	40.71%	45.00%	48.38%
Fixed assets (net)	34.75%	33.26%	29.53%	34.84%	34.55%
Intangibles (net)	1.66%	1.58%	1.45%	1.37%	1.34%
All other noncurrent assets	30.10%	28.78%	28.31%	18.79%	15.73%
Total Noncurrent Assets	66.51%	63.62%	59.29%	55.00%	51.62%
Total Assets	100.00%	100.00%	100.00%	100.00%	100.00%
Liabilities & Net Worth:					
Notes payable short-term	1.27%	1.17%	4.20%	3.54%	2.92%
Current maturity of long-term Debt	3.58%	4.53%	5.33%	6.67%	7.38%
Trade payables	8.33%	8.32%	7.83%	8.37%	8.34%
Income taxes payable	2.19%	2.25%	2.13%	2.45%	1.73%
All other current liabilities	2.62%	2.62%	2.59%	2.88%	2.53%
Total Current Liabilities	18.00%	18.89%	22.07%	23.91%	22.90%
Long-term debt	40.48%	38.44%	33.89%	30.83%	27.43%
Deferred taxes	0.00%	0.00%	0.00%	0.00%	0.00%
All other noncurrent liabilities	0.18%	0.18%	0.17%	0.17%	0.17%
Net worth	41.34%	42.50%	43.87%	45.10%	49.50%
Total Liabilities & Net Worth	100.00%	100.00%	100.00%	100.00%	100.00%

Normalized Business Common-Size Statements

	2005	2006	2007	2008	2009
Income Data:					
Net sales	100.00%	100.00%	100.00%	100.00%	100.00%
Gross profit	20.30%	18.17%	20.61%	21.48%	24.32%
Operating expenses	14.75%	12.15%	14.71%	15.31%	16.73%
Operating profit	5.55%	6.01%	5.90%	6.17%	7.59%
All other expenses (net)	2.50%	2.35%	2.04%	1.86%	1.57%
Profit Before Tax	3.05%	3.66%	3.85%	4.30%	6.02%
Assets:					
Cash & equivalents	5.55%	5.98%	10.06%	12.81%	14.70%
Trade receivables (net)	13.60%	13.65%	12.73%	14.06%	14.82%
Inventory	13.57%	15.96%	17.20%	17.51%	18.25%
All other current assets	0.91%	0.95%	0.93%	0.88%	0.92%
Total Current Assets	33.63%	36.55%	40.92%	45.25%	48.69%
Fixed assets (net)	34.89%	33.42%	29.69%	35.04%	34.78%
Intangibles (net)	1.67%	1.59%	1.45%	1.38%	1.35%
All other noncurrent assets	29.81%	28.44%	27.94%	18.33%	15.18%
Total Noncurrent Assets	66.37%	63.45%	59.08%	54.75%	51.31%
Total Assets	100.00%	100.00%	100.00%	100.00%	100.00%
Liabilities & Net Worth:					
Notes payable short-term	1.27%	1.17%	4.22%	3.56%	2.94%
Current maturity of long-term Debt	3.60%	4.55%	5.35%	6.71%	7.43%
Trade payables	8.37%	8.36%	7.87%	8.42%	8.39%
Income taxes payable	2.20%	2.26%	2.14%	2.47%	1.74%
All other current liabilities	2.63%	2.64%	2.60%	2.89%	2.55%
Total Current Liabilities	18.07%	18.98%	22.19%	24.04%	23.05%
Long-term debt	40.64%	38.62%	34.06%	31.00%	27.60%
Deferred taxes	0.00%	0.00%	0.00%	0.00%	0.00%
All other noncurrent liabilities	0.00%	0.00%	0.00%	0.00%	0.00%
Net worth	41.29%	42.41%	43.75%	44.96%	49.34%
Total Liabilities & Net Worth	100.00%	100.00%	100.00%	100.00%	100.00%

COMMENT: On the lines below, identify and describe any significant trends or issues related to the Company's normalized common-size financial statements. Please note that this comment will not print.

Business vs. Industry Common-Size Financial Statements

Sample Industries, Inc.'s unadjusted and normalized common-size financial statements from the most recent historic year have been compared to composite, industry common-size financial statements from the Sporting and Athletic Goods Manufacturing industry. To compare the business and industry statements and measure the differences quantitatively, a variance from industry and 5 year average variance from industry have been calculated for each line item.

The source for the industry data used in both the common-size statement and financial ratio comparisons is RMA Annual Statement Studies using NAICS Code number 339920. The industry data is categorized by Sales size of \$10MM to \$25MM. The date of this industry information is 2009 with 39 different companies contained in the sample.

Although industry statistics are a useful source of general analytical data, there can be significant variation in the reporting practices and operational methods of companies within a given industry. Therefore, industry statistics as used throughout this report should not be regarded as absolute norms or standards.

**RMA - Unadjusted Business vs. Industry
Common-Size Statements, Current Year**

	Business 2009	Industry 2009	Variance	5 Yr Average Variance
Income Data:				
Net sales	100.0000%	100.0%		
Gross profit	24.3208%	34.5%	-29.50%	-39.20%
Operating expenses	17.2674%	28.8%	-40.04%	-47.51%
Operating profit	7.0534%	5.7%	23.74%	2.77%
All other expenses (net)	1.5410%	1.8%	-14.39%	12.84%
Profit Before Tax	5.5123%	3.9%		
Assets:				
Cash & equivalents	14.6034%	3.1%	371.08%	215.03%
Trade receivables (net)	14.7230%	26.1%	-43.59%	-47.51%
Inventory	18.1349%	42.6%	-57.43%	-61.48%
All other current	0.9173%	3.4%	-73.02%	-73.11%
Total Current Assets	48.3786%	75.2%		
Fixed assets (net)	34.5524%	13.9%	148.58%	140.20%
Intangibles (net)	1.3422%	7.5%	-82.10%	-80.26%
All other noncurrent	15.7268%	3.4%	362.55%	615.88%
Total Noncurrent Assets	51.6214%	24.8%		
Total Assets	100.0000%	100.0%		
Liabilities:				
Notes payable short-term	2.9225%	17.9%	-83.67%	-85.37%
Current maturity of long-term Debt	7.3819%	2.0%	269.09%	174.91%
Trade payables	8.3401%	14.4%	-42.08%	-42.79%
Income taxes payable	1.7259%	0.2%	762.94%	975.37%
All other current liabilities	2.5344%	12.6%	-79.89%	-78.97%
Total Current Liabilities	22.9047%	47.1%		
Long-term debt	27.4251%	8.9%	208.15%	284.38%
Deferred taxes	0.0000%	0.3%	-100.00%	-100.00%
All other noncurrent liabilities	0.1739%	3.9%	-95.54%	-95.49%
Net worth	49.4963%	39.8%	24.36%	11.71%
Total Liabilities & Net Worth	100.0000%	100.0%		

**RMA - Normalized Business vs. Industry
Common-Size Statements, Current Year**

	Business 2009	Industry 2009	Variance	5 Yr Average Variance
Income Data:				
Net sales	100.0000%	100.0%		
Gross profit	24.3208%	34.5%	-29.50%	-39.20%
Operating expenses	16.7284%	28.8%	-41.92%	-48.85%
Operating profit	7.5923%	5.7%	33.20%	9.54%
All other expenses (net)	1.5727%	1.8%	-12.63%	14.83%
Profit Before Tax	6.0196%	3.9%		
Assets:				
Cash & equivalents	14.6981%	3.1%	374.13%	216.77%
Trade receivables (net)	14.8185%	26.1%	-43.22%	-47.23%
Inventory	18.2525%	42.6%	-57.15%	-61.27%
All other current	0.9233%	3.4%	-72.85%	-72.97%
Total Current Assets	48.6922%	75.2%		
Fixed assets (net)	34.7764%	13.9%	150.19%	141.46%
Intangibles (net)	1.3509%	7.5%	-81.99%	-80.16%
All other noncurrent	15.1804%	3.4%	346.48%	604.14%
Total Noncurrent Assets	51.3078%	24.8%		
Total Assets	100.0000%	100.0%		
Liabilities:				
Notes payable short-term	2.9414%	17.9%	-83.57%	-85.29%
Current maturity of long-term Debt	7.4297%	2.0%	271.49%	176.40%
Trade payables	8.3942%	14.4%	-41.71%	-42.50%
Income taxes payable	1.7371%	0.2%	768.53%	980.93%
All other current liabilities	2.5508%	12.6%	-79.76%	-78.87%
Total Current Liabilities	23.0532%	47.1%		
Long-term debt	27.6029%	8.9%	210.15%	286.34%
Deferred taxes	0.0000%	0.3%	-100.00%	-100.00%
All other noncurrent liabilities	0.0000%	3.9%	-100.00%	-100.00%
Net worth	49.3439%	39.8%	23.98%	11.43%
Total Liabilities & Net Worth	100.0000%	100.0%		

COMMENT: On the lines below, identify and describe any significant variance of the business as compared to the industry common-size financial statements.

Business Financial Ratio Analysis

As part of the valuation, various financial ratios have been calculated from each year's unadjusted and normalized financial statements as presented in this report. These ratios measure Sample Industries, Inc.'s liquidity positions, coverage capacity, leverage/capitalization, operating efficiency and equity performance.

Unadjusted Business Financial Ratios:

	2005	2006	2007	2008	2009
Liquidity Ratios:					
Current	1.86	1.93	1.84	1.88	2.11
Quick	1.06	1.03	1.03	1.12	1.28
Accounts receivable turnover	12.62	13.07	14.11	13.16	13.80
Days' receivable	28.52	27.55	25.51	27.36	26.08
Inventory turnover	10.08	9.15	8.29	8.30	8.48
Days' inventory	35.70	39.35	43.42	43.38	42.45
Accounts payable turnover	16.35	17.47	18.12	17.26	18.44
Days' payable	22.01	20.60	19.86	20.86	19.52
Working capital turnover	11.04	10.15	9.59	8.72	7.98
Inventory as a % of Total current assets	40.35%	43.67%	42.03%	38.68%	37.49%
Total current assets as a % of Total assets	33.49%	36.38%	40.71%	45.00%	48.38%
Coverage Ratios:					
Times interest earned	2.07	2.33	2.49	2.74	3.88
Current portion of long-term debt coverage	2.67	2.47	2.23	1.87	1.89
Principal & Interest coverage	2.07	1.79	5.81	1.57	1.39
Preferred dividend coverage	5.54	6.86	7.04	8.09	12.48
Leverage/Capitalization Ratios:					
Fixed assets to Tangible net worth	0.88	0.81	0.70	0.80	0.72
Total debt to Tangible net worth	1.48	1.41	1.32	1.26	1.05
Short-term debt to Total debt	30.68%	32.84%	39.33%	43.55%	45.35%
Short-term debt to Net worth	43.54%	44.44%	50.32%	53.01%	46.28%
Total debt to Total assets	58.66%	57.50%	56.13%	54.90%	50.50%
Operating Ratios:					
Percent return on Tangible net worth	12.36%	14.75%	14.73%	16.24%	23.26%
Percent return on Total assets	4.91%	6.03%	6.25%	7.10%	11.20%
Net sales to Net fixed assets	4.92	5.34	6.05	5.28	5.88
Net sales to Total assets	1.71	1.78	1.79	1.84	2.03
Percent Depr., Amort. to Net sales	3.85%	4.23%	4.52%	4.41%	3.52%
Percent Officer salaries to Net sales	1.38%	1.51%	1.60%	1.71%	1.74%
Fixed asset turnover	5.00	5.45	6.14	5.36	6.03
Total sales to Net worth	4.21	4.26	4.13	4.14	4.21
Percent Operating cost	47.89%	47.59%	47.66%	47.29%	46.46%
Percent Net profit	1.75%	2.07%	2.13%	2.35%	3.36%
Revenue growth percentage		5.01%	5.26%	4.40%	8.89%
Equity Ratios:					
Net book value per share of Preferred stock	5.87	6.10	6.66	6.95	7.47
Net book value per share of Common stock	0.63	0.66	0.73	0.76	0.83
Percent earnings payout	62.69%	52.68%	46.63%	53.63%	46.75%
Percent earnings retention	37.31%	47.32%	53.37%	46.37%	53.25%
Dividends per Common share	0.03	0.03	0.03	0.04	0.06

Normalized Business Financial Ratios:

	2005	2006	2007	2008	2009
Liquidity Ratios:					
Current	1.86	1.93	1.84	1.88	2.11
Quick	1.06	1.03	1.03	1.12	1.28
Accounts receivable turnover	12.62	13.07	14.11	13.16	13.80
Days' receivable	28.52	27.55	25.51	27.36	26.08
Inventory turnover	10.08	9.15	8.29	8.30	8.48
Days' inventory	35.70	39.35	43.42	43.38	42.45
Accounts payable turnover	16.35	17.47	18.12	17.26	18.44
Days' payable	22.01	20.60	19.86	20.86	19.52
Working capital turnover	11.04	10.15	9.59	8.72	7.98
Inventory as a % of Total current assets	40.35%	43.67%	42.03%	38.68%	37.49%
Total current assets as a % of Total assets	33.63%	36.55%	40.92%	45.25%	48.69%
Coverage Ratios:					
Times interest earned	2.14	2.44	2.64	2.94	4.14
Current portion of long-term debt coverage	2.72	2.53	2.30	1.94	1.98
Principal & Interest coverage	2.14	1.87	6.16	1.69	1.48
Preferred dividend coverage	5.88	7.40	7.75	9.03	13.63
Leverage/Capitalization Ratios:					
Fixed assets to Tangible net worth	0.88	0.82	0.70	0.80	0.72
Total debt to Tangible net worth	1.48	1.41	1.33	1.26	1.06
Short-term debt to Total debt	30.78%	32.95%	39.45%	43.68%	45.51%
Short-term debt to Net worth	43.77%	44.74%	50.71%	53.48%	46.72%
Total debt to Total assets	58.71%	57.59%	56.25%	55.04%	50.66%
Operating Ratios:					
Percent return on Tangible net worth	13.20%	16.01%	16.36%	18.27%	25.65%
Percent return on Total assets	5.23%	6.53%	6.92%	7.96%	12.31%
Net sales to Net fixed assets	4.92	5.34	6.05	5.28	5.88
Net sales to Total assets	1.72	1.78	1.80	1.85	2.05
Percent Depr., Amort. to Net sales	3.85%	4.23%	4.52%	4.41%	3.52%
Percent Officer salaries to Net sales	1.19%	1.23%	1.25%	1.28%	1.27%
Fixed asset turnover	5.00	5.45	6.14	5.36	6.03
Total sales to Net worth	4.23	4.29	4.16	4.18	4.25
Percent Operating cost	47.83%	47.51%	47.55%	47.16%	46.30%
Percent Net profit	1.86%	2.23%	2.35%	2.63%	3.67%
Revenue growth percentage		5.01%	5.26%	4.40%	8.89%
Equity Ratios:					
Total net assets per share of Preferred stock	5.84	6.06	6.60	6.88	7.40
Net book value per share of Common stock	0.63	0.66	0.72	0.75	0.82
Percent earnings payout	58.28%	48.28%	41.67%	47.39%	42.50%
Percent earnings retention	41.72%	51.72%	58.33%	52.61%	57.50%
Dividends per Common share	0.03	0.03	0.03	0.04	0.06

Financial Ratios Notes and Discussion of Trends:

1. Liquidity ratios measure the short-term ability of a company to meet its maturing obligations.
2. Coverage ratios measure the degree of protection for long-term creditors and investors and the margin by which certain obligations of a company can be met.
3. Leverage/capitalization ratios measure the amount of a company's operations that are financed from debt versus financed from equity.
4. Operating ratios measure the efficiency and productivity of a company using the resources that are available and the returns on sales and investments.
5. Equity ratios measure the performance of assets and earnings in relation to common and preferred equity.

COMMENT: For each group of ratios listed above, identify the importance of any individual ratios and discuss any significant trends over time.

Business vs. Industry Financial Ratio Comparison

Sample Industries, Inc.'s financial ratios calculated from the most recent, unadjusted and normalized financial statements have been compared to composite, industry financial ratios using the same source of industry data as presented in the Business vs. Industry Common-Size Financial Statement Comparison. To compare the business and industry ratios and measure the differences quantitatively, a variance from industry and 5 year average variance from industry have been calculated for each ratio.

Again, it should be noted that although industry statistics are a useful source of general analytical data, there can be significant variations in the reporting practices and operational methods of companies within a given industry. Therefore, industry statistics as used throughout this report should not be regarded as absolute norms or standards.

RMA - Unadjusted Business vs. Industry Ratios, Current Year

	Business 2009	Industry 2009	Variance	5 Yr Average Variance
Liquidity Ratios:				
Current ratio	2.1122	1.8	17.34%	6.95%
Quick ratio	1.2804	0.7	82.91%	57.69%
Accounts receivable turnover	13.8013	7.6	81.60%	75.69%
Inventory turnover	8.4797	3.6	135.55%	146.11%
Accounts payable turnover	18.4384	13.9	32.65%	26.11%
Working capital turnover	7.9767	8.2	-2.72%	15.80%
Coverage Ratios:				
Times interest earned	3.8787	3.0	29.29%	-9.90%
Current portion of long-term debt coverage ratio	1.8950	1.8	5.28%	23.71%
Leverage/Capitalization Ratios:				
Fixed assets to Tangible net worth	0.7175	0.4	79.38%	94.97%
Total debt to Tangible net worth	1.0488	1.7	-38.31%	-23.40%
Operating Ratios:				
Percent return on Tangible net worth	23.2606%	12.4%	87.59%	31.18%
Percent return on Total assets	11.2009%	4.2%	166.69%	68.98%
Net sales to Net fixed assets	5.8808	19.3	-69.53%	-71.53%
Net sales to Total assets	2.0320	1.9	6.95%	-3.75%
Percent Depr. Amort. to Net sales	3.5217%	1.3%	170.90%	215.78%
Percent Officer salaries to Net sales	1.7437%	0.0%	0.00%	0.00%

**RMA - Normalized Business vs. Industry Ratios,
Current Year**

	Business 2009	Industry 2009	Variance	5 Yr Average Variance
Liquidity Ratios:				
Current ratio	2.1122	1.8	17.34%	6.95%
Quick ratio	1.2804	0.7	82.91%	57.69%
Accounts receivable turnover	13.8013	7.6	81.60%	75.69%
Inventory turnover	8.4797	3.6	135.55%	146.11%
Accounts payable turnover	18.4384	13.9	32.65%	26.11%
Working capital turnover	7.9767	8.2	-2.72%	15.80%
Coverage Ratios:				
Times interest earned	4.1436	3.0	38.12%	-4.65%
Current portion of long-term debt coverage ratio	1.9802	1.8	10.01%	27.58%
Leverage/Capitalization Ratios:				
Fixed assets to Tangible net worth	0.7246	0.4	81.15%	96.50%
Total debt to Tangible net worth	1.0555	1.7	-37.91%	-23.04%
Operating Ratios:				
Percent return on Tangible net worth	25.6516%	12.4%	106.87%	44.34%
Percent return on Total assets	12.3110%	4.2%	193.12%	85.51%
Net sales to Net fixed assets	5.8808	19.3	-69.53%	-71.53%
Net sales to Total assets	2.0451	1.9	7.64%	-3.24%
Percent Depr., Amort. to Net sales	3.5217%	1.3%	170.90%	215.78%
Percent Officer salaries to Net sales	1.2682%	0.0%	0.00%	0.00%

COMMENT: On the lines below, identify and describe any significant variance of the business as compared to industry ratios.

Valuation of Sample Industries, Inc.

The objective of this valuation is to estimate the Fair Market Value of 100.00% of the common stock of Sample Industries, Inc. as of June 30, 2010 for the purpose as set forth in this Valuation Report.

The standard of value used in our valuation of Sample Industries, Inc. is *Fair Market Value*. Fair Market Value is the price, in terms of cash or equivalent, that a buyer could reasonably be expected to pay, and a seller could reasonably be expected to accept, if the business were exposed for sale on the open market for a reasonable period of time, with both buyer and seller being in possession of the pertinent facts and neither being under any compulsion to act.

There is a large number of factors to consider when estimating the common stock value of any business entity. These factors vary for each valuation depending on the unique circumstances of the business enterprise and general economic conditions that exist at the effective date of the valuation. However, fundamental guidelines of the factors to consider in any valuation have been established. The most commonly used valuation guidelines are derived from the Internal Revenue Service's Revenue Ruling 59-60. Revenue Ruling 59-60 states that in the valuation of the stock of closely held businesses, the following factors, although not all inclusive, are fundamental and require careful consideration in each case:

- The nature of the business and the history of the enterprise from its inception.
- The economic outlook in general and the condition and outlook of the specific industry in particular.
- The book value of the stock and the financial condition of the business.
- The earning capacity of the company.
- The dividend-paying capacity.
- Whether or not the enterprise has goodwill or other intangible value.
- Sales of the stock and the size of the block of stock to be valued.
- The market price of stocks of corporations engaged in the same or a similar line of business having their stocks actively traded in a free and open market, either on an exchange or over-the-counter.

Based on circumstances unique to Sample Industries, Inc. as of June 30, 2010, additional factors have been considered.

COMMENT: Identify and describe all additional factors considered significant in relation to the subject company at the date of the valuation.

In addition to providing general valuation guidelines, Revenue Ruling 59-60 outlines other considerations and techniques for valuing the stock of closely held businesses. The techniques are commonly divided into general approaches, i.e., the Asset, Income, Market, and Other approaches. Specific methods are then used to estimate the value of the total business entity under each approach. Our conclusion of Fair Market Value is determined based on the results of these methods and the specific circumstances surrounding the interest being valued.

Overview of Valuation Approaches and Methods

As previously specified, various approaches have been used to value Sample Industries, Inc.. These approaches, described below, are the: 1) Asset Approach, 2) Income Approach, 3) Market Approach, and 4) Other.

The Asset Approach is generally considered to yield the minimum benchmark of value for an operating enterprise. The most common methods within this approach are Net Asset Value and Liquidation Value. Net Asset Value represents net equity of the business after assets and liabilities have been adjusted to their fair market values. The Liquidation Value of the business represents the present value of the estimated net proceeds from liquidating the Company's assets and paying off its liabilities.

The Income Approach serves to estimate value by considering the income (benefits) generated by the asset over a period of time. This approach is based on the fundamental valuation principle that the value of a business is equal to the present worth of the future benefits of ownership. The term income does not necessarily refer to income in the accounting sense but to future benefits accruing to the owner. The most common methods under this approach are Capitalization of Earnings and Discounted Future Earnings. Under the Capitalization of Earnings method, normalized historic earnings are capitalized at a rate that reflects the risk inherent in the expected future growth in those earnings. The Discounted Future Earnings method discounts projected future earnings back to present value at a rate that reflects the risk inherent in the projected earnings.

The Market Approach compares the subject company to the prices of similar companies operating in the same industry that are either publicly traded or, if privately-owned, have been sold recently. A common problem for privately owned businesses is a lack of publicly available comparable data.

The Other methods consist of valuation methods that cannot be classified into one of the previously discussed approaches. The methods utilized in the Other Approach are Capitalization of Excess Earnings and Multiple of Discretionary Earnings. Commonly referred to as the "formula method," the Capitalization of Excess Earnings method determines the value of tangible and intangible assets separately and combines these component values for an indication of total entity value. Under the Multiple of Discretionary Earnings method, the entity is valued based on a multiple of "discretionary earnings," i.e., earnings available to the owner who is also a manager. Both of these methods are normally used to value small businesses and professional practices.

The methods utilized under each approach are presented and discussed in the following sections.

COMMENT: The following sections discuss all of the valuation methods available in the Corporate Valuation program and their respective results. You are encouraged to modify these sections for each different valuation engagement as follows:

- * Discuss the selection process used to accept and reject the individual valuation methods and identify your selection criteria.
- * Delete the discussions of and calculations for methods that were not considered. However, you should include an explanation of why each method was rejected.
- * Discuss any methods that were considered but not used in the valuation conclusions and explain why the methods were not accepted.

- * Elaborate on the methods that were used in the valuation conclusions, explain why they were accepted and discuss the relative weight or emphasis place on each method in the valuation conclusions.
- * If any past transactions in the subject company's stock have been identified, discuss why they were either accepted or rejected in the valuation conclusions.

Preferred Stock Valuation

The value of Sample Industries, Inc.'s preferred stock based on market yields for comparable preferred stocks is estimated to be \$1,200,000. In the preferred stock valuation, Sample Industries, Inc.'s preferred dividends are divided by the market yield on comparable preferred stocks to determine Total Entity Value as shown below.

	Book 2009	Market
Per Share Analysis:		
Preferred stock dividends	85,000	85,000
Preferred stock shares	1,000,000	1,000,000
Dividends per share	0.09	0.09
Valuation Analysis:		
Preferred stock dividends	85,000	85,000
Yield on preferred stock	10.00%	7.00%
Preferred stock value	850,000	1,214,286
Selected fair market value of preferred stock		<u>1,200,000</u>

Net Asset Value

The Net Asset Value of Sample Industries, Inc. is estimated to be \$13,304,898. The Net Asset Value method assumes that the value of a business will be realized by the hypothetical sale of its net assets as part of a going concern. In our analysis, assets and liabilities from the most recent historic, unadjusted balance sheet have been adjusted to their individual tax bases. Assets and liabilities were further adjusted to their individual appraised values. A tax adjustment in the amount of \$2,686,969 was then estimated based on the difference between the appraised value and the tax basis of assets and liabilities using an effective tax rate of 39.00%. The net result is the total entity value.

Liquidation Value

The Liquidation Value of Sample Industries, Inc. is estimated to be \$9,413,963. Liquidation Value is defined as the present value of the net cash remaining if all assets are sold in a *quick and orderly, piecemeal* sale and all liabilities are paid at face value with the proceeds. In our analysis, the appraised value of individual assets and liabilities have been adjusted to reflect the value that could be obtained in a quick and orderly liquidation. A tax adjustment in the amount of \$199,270 was then estimated based on the difference between the appraised value and the tax basis of assets and liabilities using an effective tax rate of 39.00%. In addition, estimated liquidation costs in the amount of \$273,802 have been deducted. The net result is the total entity value. See the Liquidation Value schedule for detailed value calculations and the Estimated Liquidation Cost schedule for the calculation of estimated liquidation costs.

Discount & Capitalization Rate Estimates

For purposes of this analysis, various risk rates applicable to historic and projected earnings have been estimated. Generally stated, these risk-adjusted rates reflect the expected rate of return attainable on alternative investment opportunities with comparable risk.

First, a Discount Rate applicable to the Discounted Future Earnings valuation method has been calculated. This Discount Rate is then converted into a Capitalization Rate for use in the Capitalization of Earnings valuation method. These calculations are summarized in the table below.

Build-Up Model, Risk Factors:	
Risk-Free Rate	5.00%
Market Equity Risk Premium	20.00%
Size Premium	<u>7.00%</u>
Discount Rate	<u>32.00%</u>
Less: Long-term growth in EBT	<u>19.62%</u>
Capitalization Rate	<u>12.38%</u>
Divided by: 1 + Long-term growth in EBT	<u>119.62%</u>
Historic Earnings Capitalization Rate	<u>10.35%</u>
Historic Excess Earnings Capitalization Rate	<u>15.35%</u>

In developing the Discount and Capitalization Rates to apply to the benefit stream of Sample Industries, Inc., the Build-Up Model was used. The Build-Up Model is based on a combination of risk factors including a Risk-Free Rate, a Market Equity Risk Premium, a Size Premium and other identifiable risk factors specific to the subject company. When added together, these risk factors provide an indication of the Discount Rate for the subject company. This Discount Rate represents the total return, in terms of cash flows and appreciation in value that an investor would require in order to make an equity investment in the subject company.

COMMENT: Provide an explanation of each of the risk factors identified in the Build-Up Method and document the source of the data. The Long-Term U.S. Treasury Bond yield to maturity prevailing on the date of (or within the week of) the effective date of the valuation is commonly used to represent the Risk-Free Rate. The Market Equity Risk Premium is the return in excess of the Risk-Free Rate that an average equity investor would require. The Size Premium is generally used if the subject company is significantly smaller than the companies used in the formulation of the Market Equity Risk Premium. Document all other incremental risk factors identified in the development of the discount rate. Please note that the Build-Up Model is normally used for small companies or if no valid comparable company data is available. If no valid comparable company data is available, that fact should be disclosed here.

Capitalization of Earnings

The Capitalization of Earnings method arrives at an estimate of value by dividing current normalized operations, which are weighted and averaged to approximate future earnings expectations, by a capitalization rate. As shown below, The Total Entity Value of Sample Industries, Inc. based on the Capitalization of Earnings method is estimated to be \$16,515,764. In the Capitalization of Earnings method, weighted average, normalized EBT is divided by the capitalization rate, 10.35%, to determine Total Entity Value. See the Income Statement Adjustments section for a listing of any adjustments made to historic earnings and the Discount & Capitalization Rates section for the capitalization rate calculations.

Capitalization of Earnings	Normalized EBT	Weighting Factor	Weighted Earnings
Fiscal Year End 2005	770,927	1.0	770,927
Fiscal Year End 2006	970,061	2.0	1,940,122
Fiscal Year End 2007	1,080,336	3.0	3,241,008
Fiscal Year End 2008	1,257,844	4.0	5,031,376
Fiscal Year End 2009	1,898,672	5.0	9,493,360
Annualized 2010	2,551,924	6.0	15,311,544
Sum of Weighted earnings			35,788,337
Divided by: Sum of weighting factors			21.0
Weighted average earnings			1,704,207
Divided by: Historic capitalization rate			10.35%
Operating value			16,465,764
Plus: Net nonoperating assets			50,000
Total entity value			16,515,764

Net nonoperating assets in the amount of \$50,000 have been added in the determination of Total Entity Value under this method because net nonoperating assets do not contribute to the earnings capacity of the business. See the Net Asset Value schedule for the presentation of net nonoperating assets.

Discounted Future Earnings

The underlying premise for this valuation method is the basic valuation principle that an investment in a business is worth the present value of all the future benefits it will produce for its owner(s), with each expected future benefit discounted back to present value at a discount rate that reflects the risk (degree of uncertainty) that those benefits may not be realized. Therefore, the application of this method requires a determination of the present value of an expected future income stream that the business generates for that owner.

To determine the expected future income stream, we assisted management in preparing [-or- we used management's] projections of the financial statements for the first 5 years after the valuation date. An overall summary of the projections is presented below, followed by the individual statements in condensed format. (See the Projection Assumptions and Projection schedules for complete details.)

COMMENT: As discussed in Section 505 of PPC's *Guide to Business Valuations*, the financial statements may be forecasts or projections as defined by the AICPA. Thus, the term "projection" may need to be replaced with the term "forecast" depending on the assumptions used in preparing the financial statements.

Projection Summary

	2010	2011	2012	2013	2014
Net sales revenue	33,029,158	34,605,870	36,277,151	38,049,272	39,928,935
Gross profit	8,786,958	9,013,109	9,924,264	10,471,079	10,954,328
EBITDA	4,816,427	5,091,663	5,234,499	5,524,740	5,853,442
EBIT	3,134,636	3,389,456	4,119,426	4,374,930	4,585,538
EBT	2,551,925	2,737,234	3,592,857	4,008,691	4,346,829
Net income	1,600,057	1,716,245	2,252,721	2,513,449	2,725,462
Annualized Net cash flow	1,854,383	(655,071)	15,088	425,585	392,914
Total current assets	9,864,523	9,069,023	8,727,707	8,601,179	9,529,292
Net fixed assets	3,690,518	5,747,645	6,067,620	6,090,000	5,931,429
Net other assets	2,492,913	2,435,195	2,376,085	2,315,253	2,285,557
Total assets	16,047,955	17,251,863	17,171,412	17,006,432	17,746,277
Total current liabilities	4,364,282	4,790,572	5,008,326	4,293,206	4,286,752
Total long-term debt	3,285,537	3,290,033	1,950,466	1,328,883	797,450
Total liabilities	7,649,819	8,080,605	6,958,792	5,622,089	5,084,202
Total Equity	8,398,136	9,171,258	10,212,619	11,384,344	12,662,075
Net working capital	5,500,241	4,278,452	3,719,381	4,307,974	5,242,539
Federal Income tax before NOL adjustment	824,272	884,126	1,160,493	1,294,807	1,404,026
Plus: NOL tax adjustment	0	0	0	0	0
Federal Income Tax Expense	824,272	884,126	1,160,493	1,294,807	1,404,026
Income from operations	2,886,448	3,262,294	4,057,707	4,319,194	4,481,356
Less: Tax based on selected tax rate	981,392	1,109,180	1,379,620	1,468,526	1,523,661
Plus: Depr. & Amort. from operations	1,681,791	1,702,207	1,115,073	1,149,810	1,267,905
Less: Annualized Fixed asset purchases	(447)	3,750,000	1,500,000	1,200,000	1,100,000
Less: Annualized Changes in Net Working capital **	(461,889)	(243,672)	(443,677)	(682,719)	387,927
Free Cash Flow	4,049,183	348,993	2,736,837	3,483,196	2,737,673

Summary Income Statement Projections

	2010	2011	2012	2013	2014
Net Sales Revenue	33,029,158	34,605,870	36,277,151	38,049,272	39,928,935
Total Cost of Goods Sold	24,242,201	25,592,762	26,352,887	27,578,193	28,974,607
Gross Profit	8,786,958	9,013,109	9,924,264	10,471,079	10,954,328
Total Selling Expenses	1,486,312	1,557,264	1,632,472	1,712,217	1,796,802
Total General & Administrative Expenses	4,414,198	4,193,551	4,234,085	4,439,668	4,676,170
Income From Operations	2,886,448	3,262,294	4,057,707	4,319,194	4,481,356
Total Other Revenues and Expenses	(334,523)	(525,060)	(464,850)	(310,503)	(134,527)
Income Before Taxes	2,551,925	2,737,234	3,592,857	4,008,691	4,346,829
Total Income Taxes	951,868	1,020,988	1,340,136	1,495,242	1,621,367
Net Income	1,600,057	1,716,245	2,252,721	2,513,449	2,725,462

Summary Balance Sheet Projections

	2010	2011	2012	2013	2014
ASSETS					
Total Current Assets	9,864,523	9,069,023	8,727,707	8,601,179	9,529,292
Net Fixed Assets	3,690,518	5,747,645	6,067,620	6,090,000	5,931,429
Total Long-Term Investments	1,628,914	1,604,279	1,577,064	1,547,000	1,547,000
Net Intangible Assets	198,999	189,666	180,333	171,000	161,666
Total Other Noncurrent Assets	665,000	641,250	618,688	597,253	576,890
Total Assets	16,047,955	17,251,863	17,171,412	17,006,432	17,746,277
LIABILITIES & STOCKHOLDERS' EQUITY					
EQUITY					
Total Current Liabilities	4,364,282	4,790,572	5,008,326	4,293,206	4,286,752
Total Long-Term Debt	3,285,537	3,290,033	1,950,466	1,328,883	797,450
Total Other Long-Term Liabilities	0	0	0	0	0
Total Liabilities	7,649,819	8,080,605	6,958,792	5,622,089	5,084,202
Stockholders' Equity:					
Preferred stock	850,000	850,000	850,000	850,000	850,000
Common stock	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Retained earnings	4,548,136	5,321,258	6,362,619	7,534,344	8,812,075
Total Stockholders' Equity	8,398,136	9,171,258	10,212,619	11,384,344	12,662,075
Total Liabilities & Stockholders' Equity	16,047,955	17,251,863	17,171,411	17,006,432	17,746,277

Summary Retained Earnings Projections

	2010	2011	2012	2013	2014
Retained Earnings Beginning of Period	5,252,290	4,548,136	5,321,258	6,362,619	7,534,344
Additions:					
Normalized net income for the year	180,874	1,716,245	2,252,721	2,513,449	2,725,462
Deductions:					
Normalized preferred dividends	85,000	85,000	85,000	85,000	85,000
Normalized Common dividends	800,029	858,123	1,126,361	1,256,725	1,362,731
Retained Earnings End of Period	4,548,136	5,321,258	6,362,619	7,534,344	8,812,075

Summary Cash Flow Projections

	2010	2011	2012	2013	2014
Net Cash Flow From Operations	2,606,472	3,688,210	3,871,899	4,368,404	3,556,738
Net Cash Flow From Investments	50,000	(3,750,000)	(1,461,000)	(1,161,000)	(1,061,000)
Net Cash Flow From Financing	(1,451,162)	(593,281)	(2,395,811)	(2,781,819)	(2,102,824)
Net Cash Flow	1,205,310	(655,071)	15,088	425,585	392,914
Cash at Beginning of Period	891,887	2,097,197	1,442,126	1,457,214	1,882,799
Cash at End of Period	2,097,197	1,442,126	1,457,214	1,882,799	2,275,714

Summary Sources & Uses of Funds Projections

	2010	2011	2012	2013	2014
Total Internally Generated Cash	736,048	(1,072,368)	1,151,193	1,777,438	946,864
Total Cash from External Financing	469,262	417,297	(1,136,105)	(1,351,853)	(553,950)
Net Cash Flow	1,205,310	(655,071)	15,088	425,585	392,914

Overview of Projection Assumptions

In preparing the preceding financial statement projections, management made various assumptions about expected future revenues, expenses, assets, liabilities and equity. These assumptions were made after gathering and analyzing data that affects the future economic outlook of the Company. This data was derived from sources such as the normalized financial statements, publicly available information and other economic materials.

This section of the report provides a broad overview of the Projection Assumptions and has been prepared to emphasize items considered significant to the overall understanding of the projections.

Revenue & Expense Assumptions

Net Sales Revenues over the past 5 historic years have grown at a compound average annual rate of 5.66%. Future Net Sales Revenues are projected to grow at an estimated, compound average annual rate

of 4.83%, starting from a base amount of \$31,541,420 and growing to \$33,029,158 in the first projected year and \$39,928,935 in projected year 5.

Total Cost of Goods Sold over the past 5 historic years has averaged 79.02% of Net Sales Revenues for each respective year and was 75.68% of Net Sales Revenues in the most recent historic fiscal year, 2009. Total Cost of Goods Sold has been projected to be \$24,242,201, or 73.40% of Net Sales Revenues in the first projected year and \$28,974,607, or 72.57% of Net Sales Revenues in projected year 5. On average, Total Cost of Goods Sold has been projected to be 73.01% of each year's respective Net Sales Revenues.

Total Selling Expenses over the past 5 historic years have averaged 3.38% of Net Sales Revenues for each respective year and were 4.18% of Net Sales Revenues in the most recent historic fiscal year, 2009. Total Selling Expenses have been projected to be \$1,486,312, or 4.50% of Net Sales Revenues in the first projected year and \$1,796,802, or 4.50% of Net Sales Revenues in projected year 5. On average, Total Selling Expenses have been projected to be 4.50% of each year's respective Net Sales Revenues.

Total General & Administrative Expenses over the past 5 historic years have grown at a compound average annual rate of 7.34%. Total General & Administrative Expenses are projected to grow at an estimated, compound average annual rate of 1.78%, starting from a base amount of \$4,281,111 and growing to \$4,414,198 in the first projected year and \$4,676,170 in projected year 5.

Cash Equivalents have been projected using the Manual Input method. Annual interest income is projected to be earned at the rate of 5.0% of the projected account balance in each projected year.

Fixed Asset Depreciation Assumptions

Depreciation Expense and Accumulated Depreciation on fixed assets have been estimated over the term of the projected financial statements.

Projected depreciation on existing fixed assets and any fixed asset purchases is based on the terms presented in the following table.

Fixed Asset Accounts	Book Value	Original Life (years)	Salvage (% of Cost)	Depreciation Method
Plant	1,373,810	15	0.0%	Straight Line
Equipment	1,069,124	7	0.0%	Straight Line
Vehicles	638,464	5	0.0%	Straight Line
Furniture and fixtures	473,430	7	0.0%	Straight Line
Land	1,000,000	0	0.0%	Straight Line

Disposals of Existing Fixed Assets

Fixed Asset Disposals and any related **Gain / (Loss) on Sale of Fixed Assets** have been estimated for existing fixed assets over the term of the projected financial statements. The projected Fixed Asset Disposal assumptions are presented in the following table.

Fixed Asset Accounts	Aggregate Disposals	Aggregate Proceeds	Start Year	Spread Over	Average Age of Disposals
Equipment	20.0%	15.0%	3	3	2

Fixed Asset Purchases

After estimating projected depreciation on existing fixed assets and estimating disposals of existing fixed assets, it has been assumed that the Company would be required to purchase new fixed assets in order to provide the capacity to support projected sales revenues. Therefore, in an attempt to maintain a minimum Fixed Asset Turnover Ratio of approximately 0.00 in each projected year, the following fixed asset purchases are assumed to be made.

Please note that all Fixed Asset Purchases are assumed to be depreciated based on the terms specified in the Fixed Asset Depreciation Assumptions table.

	2010	2011	2012	2013	2014
Plant	0	0	250,000	250,000	250,000
Equipment	0	0	500,000	350,000	350,000
Vehicles	0	0	500,000	400,000	300,000
Furniture and fixtures	0	0	250,000	200,000	200,000
Land	0	0	0	0	0
Total Fixed Asset Purchases	0	3,750,000	1,500,000	1,200,000	1,100,000

Existing Notes Receivable Assumptions

Note receivable in the amount of \$114,558 with an interest rate of 10.0% has 54 monthly installment payments remaining. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

Amortization of Intangible Assets

Goodwill is assumed to be amortized to **Amortization Expense** over a period of 30 projected years.

Intangibles are assumed to be amortized to **Amortization Expense** over a period of 15 projected years.

Existing Notes Payable Assumptions

Short-term note payable - bank in the amount of \$114,558 with an interest rate of 10.0% has 54 monthly installment payments remaining. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

Short-term note payable - related party in the amount of \$280,964 with an interest rate of 10.0% has 30 monthly installment payments remaining. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

Long-term note payable - ABC Bank in the amount of \$2,974,214 with an interest rate of 12.0% has 42 monthly installment payments remaining. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

Long-term note payable - ACME Bank in the amount of \$921,087 with an interest rate of 12.0% has 78

monthly installment payments remaining. The installments consist of equal principal payments with monthly interest charged on the outstanding balance.

Long-term note payable - First Nat. Bank in the amount of \$1,017,149 with an interest rate of 10.0% has 54 monthly installment payments remaining. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

Comment: If you are using monthly projections, you must manually edit the paragraphs below related to Fixed Asset Purchase Financing for Year 1 and Year 2. With monthly financing assumptions, these paragraphs are no longer relevant.

Fixed Asset Purchase Financing Assumptions

In projected year 3, 40.0% of total fixed asset purchases \$1,500,000 would be financed. A new loan in the amount of \$600,000 would be added in that year. This loan would have an interest rate of 10.0% and would be repaid in 60 monthly installments. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

In projected year 4, 40.0% of total fixed asset purchases \$1,200,000 would be financed. A new loan in the amount of \$480,000 would be added in that year. This loan would have an interest rate of 10.0% and would be repaid in 60 monthly installments. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

In projected year 5, 40.0% of total fixed asset purchases \$1,100,000 would be financed. A new loan in the amount of \$440,000 would be added in that year. This loan would have an interest rate of 10.0% and would be repaid in 60 monthly installments. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

Dividends Assumptions

Preferred Stock Dividends are assumed to be paid at the rate of 10.0% of the preferred stock balance in each projected year.

Common Stock Dividends are assumed to be paid at the rate of 50.0% of net income in each projected year.

Discounted Future Earnings Value Calculations

The Total Entity Value of Sample Industries, Inc. based on the Discounted Future Earnings method is estimated to be \$18,002,037 as shown below. In the Discounted Future Earnings method, EBT has been projected for 5 years and each year's earnings have been discounted back to present value using an annual discount rate of 32.00% and end-of-year discounting calculations.

Because it is assumed that the business will continue as a going concern beyond the term of the projections, a terminal value (also referred to as residual value) has been calculated based on EBT from projected year 5. These residual earnings are first capitalized using the capitalization rate of 12.38% and then that quantity is discounted back to present value using the discount rate of 32.00%.

Discounted Future Earnings	Projected EBT	Discount Factor	Present Value
Annualized 2010	2,551,925	0.757576	1,933,278
FY 2011	2,737,234	0.573921	1,570,956
FY 2012	3,592,857	0.434789	1,562,135
FY 2013	4,008,691	0.329385	1,320,403
FY 2014	4,346,829	0.249534	1,084,682
Terminal value of EBT **	42,000,625	0.249534	10,480,584
Operating value			<u>17,952,037</u>
Plus: Net nonoperating assets			<u>50,000</u>
Total entity value			<u><u>18,002,037</u></u>

End-of-Year discount factors are based on the Discount Rate of: 32.00%
Terminal value is based on the Capitalization Rate of: * 12.38%

The sum of the individual present values, including the present value of the terminal value, equals the estimate of Total Entity Value. See the Discount and Capitalization Rates section for the discount rate calculations.

Net nonoperating assets of \$50,000 have been added in the determination of Total Entity Value under this method because net nonoperating assets do not contribute to the earnings capacity of the business. See the Net Asset Value schedule for the presentation of net nonoperating assets.

Comparative Company Method

The notion behind the comparative company method is that prices of publicly traded stocks in the same or a similar industry provide objective evidence as to values at which investors are willing to buy and sell interests in companies in that industry.

In applying the comparative company valuation method, the consultant usually computes a value multiple for each comparative company. The appropriate multiple is then determined and adjusted for the unique aspects of the company being valued. This multiple is then applied to the company being valued to arrive at an estimate of value for the appropriate ownership interest. A value multiple represents a ratio that uses a comparative company's stock price as the numerator and a measure of the comparative company's operating results (or financial position) as the denominator. Value multiples are usually computed on a per share basis, but can also be determined by dividing a company's total common stock market value by

its total annual earnings or other measure. The most well known value multiple is price/earnings (P/E) whereby a company's stock price is divided by its earnings per share. The process of computing the value multiples normally consists of the following procedures:

1. Determination of the appropriate stock price for each comparative company. This represents the numerator of the multiple.
2. Determination of the measure of operating results (earnings, gross cash flow, etc.) for the appropriate time period or financial position as of the valuation date. This represents the denominator of the multiple.

The application of this method depends on the selection of publicly traded comparative companies that are similar enough to Sample Industries, Inc. so as to provide a meaningful comparison. The following is a discussion of the search for comparative publicly traded companies as it applies to Sample Industries, Inc.

Search for Comparatives

COMMENT: Describe the methods and sources used in searching for comparative companies and the results of the search.

	<u>P/E</u>	<u>P/R</u>	<u>P/GCF</u>	<u>P/D</u>	<u>P/BV</u>	<u>P/NAV</u>	<u>BETA</u>
Comparable Companies:							
NYSE Traded Company	10.20	0.60	7.20	0.00	0.00	0.00	0.00
Amex Listed Company	7.70	0.70	6.80	0.00	0.00	0.00	0.00
Closely Held Company	8.40	1.20	7.90	0.00	0.00	0.00	0.00
Average	8.77	0.83	7.30	0.00	0.00	0.00	0.00
Median	8.40	0.70	7.20	0.00	0.00	0.00	0.00
Standard Deviation	1.05	0.26	0.45	0.00	0.00	0.00	0.00
Coefficient of variation	1.11	0.07	0.21	0.00	0.00	0.00	0.00
Selected	8.80	0.60	7.30	0.00	0.00	0.00	0.00

Comparable Companies from the Completed Transactions Database

Prime Time Sports, Inc. (Pennsylvania)

American PassTime Sporting Goods (California)

Mergerstat Review Database

<u>Industry Classification of Seller:</u>	<u>Transaction Year</u>	<u>P/E</u>	<u>Number of Co.</u>	<u>% Premium</u>	<u>Number of Co.</u>
Toys & Recreational Products	2009	13.8	2	0.0%	0

Comparable Companies from the Pratt's Stats Database

Distributor of Excess Inventories of Sports Equipment and Accessories

Manufacturer - Physical Education, Athletic and Recreational Products

Comparable Companies from the BIZCOMPS Database

Mfg-Wood Putters

Mfg-Outdoor Products

Mfg-Recreational Equip.

Price to Earnings Multiple

The Total Entity Value of Sample Industries, Inc. based on the Price to Earnings Multiple method is estimated to be \$22,506,931. In the Price to Earnings Multiple method, normalized EBT from the most recent historic year times the Price to Earnings Multiple of 8.8 equals the estimate of Total Entity Value. See the Market Comparables Valuation schedule for detailed value calculations.

Net nonoperating assets in the amount of \$50,000 have been added in the determination of Total Entity Value under this method because net nonoperating assets do not contribute to the earnings capacity of the business. See the Net Asset Value schedule for the presentation of net nonoperating assets.

Price to Revenue Multiple

The Total Entity Value of Sample Industries, Inc. based on the Price to Revenue Multiple method is estimated to be \$19,867,495. In the Price to Revenue Multiple method, normalized Net Revenue from the most recent historic year times the Price to Revenue Multiple of 0.6 equals the estimate of Total Entity Value. See the Market Comparables Valuation schedule for detailed value calculations.

Net nonoperating assets in the amount of \$50,000 have been added in the determination of Total Entity Value under this method because net nonoperating assets do not contribute to the earnings capacity of the business. See the Net Asset Value schedule for the presentation of net nonoperating assets.

Price to Gross Cash Flow Multiple

The Total Entity Value of Sample Industries, Inc. based on the Price to Gross Cash Flow Multiple method is estimated to be \$24,007,485. In the Price to Gross Cash Flow Multiple method, normalized Gross Cash Flow (i.e., adjusted net income plus depreciation and amortization) from the most recent historic year times the Price to Gross Cash Flow Multiple of 7.3 equals the estimate of Total Entity Value. See the Market Comparables Valuation schedule for detailed value calculations.

Net nonoperating assets in the amount of \$50,000 have been added in the determination of Total Entity Value under this method because net nonoperating assets do not contribute to the earnings capacity of the business. See the Net Asset Value schedule for the presentation of net nonoperating assets.

Mergerstat Price to Earnings Multiple

The Total Entity Value of Sample Industries, Inc. based on the Price to Earnings Multiple from the Mergerstat database is estimated to be \$22,124,372. In the Price to Earnings Multiple method, normalized Net Income from the most recent historic year times the Mergerstat Price to Earnings Multiple of 13.8 equals the estimate of Total Entity Value. See the Market Comparables Valuation schedule for detailed value calculations.

Net nonoperating assets in the amount of \$50,000 have been added in the determination of Total Entity Value under this method because net nonoperating assets do not contribute to the earnings capacity of the business. See the Net Asset Value schedule for the presentation of net nonoperating assets.

Completed Transactions Price to Earnings Multiple

The Total Entity Value of Sample Industries, Inc. based on the selected Price to Earnings Multiple from the Completed Transactions database is estimated to be \$16,210,566. In the Price to Earnings Multiple method, normalized Net Income from the most recent historic year times the selected Price to Earnings Multiple of 10.10 equals the estimate of Total Entity Value. See the Market Comparables Valuation schedule for detailed value calculations.

Net nonoperating assets in the amount of \$50,000 have been added in the determination of Total Entity Value under this method because net nonoperating assets do not contribute to the earnings capacity of the business. See the Net Asset Value schedule for the presentation of net nonoperating assets.

Completed Transactions Price to Revenue Multiple

The Total Entity Value of Sample Industries, Inc. based on the selected Price to Revenue Multiple from the Completed Transactions database is estimated to be \$19,867,495. In the Price to Revenue Multiple method, normalized Net Revenue from the most recent historic year times the selected Price to Revenue Multiple of 0.60 equals the estimate of Total Entity Value. See the Market Comparables Valuation schedule for detailed value calculations.

Net nonoperating assets in the amount of \$50,000 have been added in the determination of Total Entity Value under this method because net nonoperating assets do not contribute to the earnings capacity of the business. See the Net Asset Value schedule for the presentation of net nonoperating assets.

Completed Transactions Price to Cash Flow from Operations Multiple

The Total Entity Value of Sample Industries, Inc. based on the selected Price to Cash Flow from Operations Multiple from the Completed Transactions database is estimated to be \$14,646,244. In the Price to Cash Flow From Operations Multiple method, normalized Cash Flow from Operations from the most recent historic year times the selected Price to Cash Flow From Operations Multiple of 5.60 equals the estimate of Total Entity Value. See the Market Comparables Valuation schedule for detailed value calculations.

Net nonoperating assets in the amount of \$50,000 have been added in the determination of Total Entity Value under this method because net nonoperating assets do not contribute to the earnings capacity of the business. See the Net Asset Value schedule for the presentation of net nonoperating assets.

Completed Transactions Price to Assets Multiple

The Total Entity Value of Sample Industries, Inc. based on the selected Price to Assets Multiple from the Completed Transactions database is estimated to be \$16,220,799. In the Price to Assets Multiple method, the appraised value of Operating Assets times the selected Price to Assets Multiple of 0.70 equals the estimate of Total Entity Value. The appraised value of Operating Assets is defined here as the appraised value of Total Assets less nonoperating assets as presented in the Net Asset Value schedule. See the Market Comparables Valuation schedule for detailed value calculations.

Net nonoperating assets in the amount of \$50,000 have been added in the determination of Total Entity Value under this method because net nonoperating assets do not contribute to the earnings capacity of the business. See the Net Asset Value schedule for the presentation of net nonoperating assets.

Completed Transactions Price to Stockholders' Equity Multiple

The Total Entity Value of Sample Industries, Inc. based on the selected Price to Stockholders' Equity Multiple from the Completed Transactions database is estimated to be \$15,991,867. In the Price to Stockholders' Equity Multiple method, the value of Operating Stockholders' Equity times the selected Price to Stockholders' Equity Multiple of 1.00 equals the estimate of Total Entity Value. The value of Operating Stockholders' Equity is defined here as Total Stockholders' Equity less net nonoperating assets as presented in the Net Asset Value schedule. See the Market Comparables Valuation schedule for detailed value calculations.

Net nonoperating assets in the amount of \$50,000 have been added in the determination of Total Entity Value under this method because net nonoperating assets do not contribute to the earnings capacity of the business. See the Net Asset Value schedule for the presentation of net nonoperating assets.

Pratt's Stats Equity Price to Net Sales Multiple

The Total Entity Value of Sample Industries, Inc. based on the selected Equity Price to Net Sales Multiple from the Pratt's Stats database is estimated to be \$16,564,579. In the Equity Price to Net Sales Multiple method, normalized Net Sales from the most recent historic year times the selected Equity Price to Net Sales Multiple of 0.50 equals the estimate of Operating Value. See the Pratt's Stats Market Comparables Valuation schedule for detailed value calculations.

Net nonoperating assets in the amount of \$50,000 have been added in the determination of Total Entity Value under this method because net nonoperating assets do not contribute to the earnings capacity of the business. See the Net Asset Value schedule for the presentation of net nonoperating assets.

Pratt's Stats Equity Price to Gross Cash Flow Multiple

The Total Entity Value of Sample Industries, Inc. based on the selected Equity Price to Gross Cash Flow Multiple from the Pratt's Stats database is estimated to be \$19,019,077. In the Equity Price to Gross Cash Flow Multiple method, normalized Net Income plus Noncash Charges (i.e., depreciation and amortization expense) from the most recent historic year times the selected Equity Price to Gross Cash Flow Multiple of 5.78 equals the estimate of Operating Value. See the Pratt's Stats Market Comparables Valuation schedule for detailed value calculations.

Net nonoperating assets in the amount of \$50,000 have been added in the determination of Total Entity

Value under this method because net nonoperating assets do not contribute to the earnings capacity of the business.. See the Net Asset Value schedule for the presentation of net nonoperating assets.

Pratt's Stats Equity Price to EBT Multiple

The Total Entity Value of Sample Industries, Inc. based on the selected Equity Price to Earnings Before Taxes (EBT) Multiple from the Pratt's Stats database is estimated to be \$16,305,756. In the Equity Price to EBT Multiple method, normalized Earnings Before Taxes from the most recent historic year times the selected Equity Price to EBT Multiple of 6.37 equals the estimate of Operating Value. See the Pratt's Stats Market Comparables Valuation schedule for detailed value calculations.

Net nonoperating assets in the amount of \$50,000 have been added in the determination of Total Entity Value under this method because net nonoperating assets do not contribute to the earnings capacity of the business. See the Net Asset Value schedule for the presentation of net nonoperating assets.

Pratt's Stats Equity Price to Net Income Multiple

The Total Entity Value of Sample Industries, Inc. based on the selected Equity Price to Net Income Multiple from the Pratt's Stats database is estimated to be \$10,642,371. In the Equity Price to Net Income Multiple method, normalized Net Income from the most recent historic year times the selected Equity Price to Net Income Multiple of 6.62 equals the estimate of Operating Value. See the Pratt's Stats Market Comparables Valuation schedule for detailed value calculations.

Net nonoperating assets in the amount of \$50,000 have been added in the determination of Total Entity Value under this method because net nonoperating assets do not contribute to the earnings capacity of the business. See the Net Asset Value schedule for the presentation of net nonoperating assets.

Pratt's Stats Deal Price to Net Revenue Multiple

The Total Entity Value of Sample Industries, Inc. based on the selected Deal Price to Net Revenue Multiple from the Pratt's Stats database is estimated to be \$12,709,302. In the Deal Price to Net Revenue Multiple method, normalized Net Revenue from the most recent historic year times the selected Deal Price to Net Revenue Multiple of 0.50 results in the Invested Capital Value. Then the Market Value of Long-Term Debt of \$3,855,277 is deducted to determine the estimate of Operating Value. See the Pratt's Stats Market Comparables Valuation schedule for detailed value calculations.

Net nonoperating assets in the amount of \$50,000 have been added in the determination of Total Entity Value under this method because net nonoperating assets do not contribute to the earnings capacity of the business. See the Net Asset Value schedule for the presentation of net nonoperating assets.

Pratt's Stats Deal Price to EBITDA Multiple

The Total Entity Value of Sample Industries, Inc. based on the selected Deal Price to EBITDA Multiple from the Pratt's Stats database is estimated to be \$21,529,120. In the Deal Price to EBITDA Multiple method, normalized EBITDA from the most recent historic year times the selected Deal Price to EBITDA Multiple of 5.26 results in the Invested Capital Value. Then the Market Value of Long-Term Debt of \$3,855,277 is deducted to determine the estimate of Operating Value. See the Pratt's Stats Market Comparables Valuation schedule for detailed value calculations.

Net nonoperating assets in the amount of \$50,000 have been added in the determination of Total Entity Value under this method because net nonoperating assets do not contribute to the earnings capacity of the business. See the Net Asset Value schedule for the presentation of net nonoperating assets.

Pratt's Stats Deal Price to EBIT Multiple

The Total Entity Value of Sample Industries, Inc. based on the selected Deal Price to EBITDA Multiple from the Pratt's Stats database is estimated to be \$14,877,142. In the Deal Price to EBIT Multiple method, normalized EBIT from the most recent historic year times the selected Deal Price to EBIT Multiple of 5.96 results in the Invested Capital Value. Then the Market Value of Long-Term Debt of \$3,855,277 is deducted to determine the estimate of Operating Value. See the Pratt's Stats Market Comparables Valuation schedule for detailed value calculations.

Net nonoperating assets in the amount of \$50,000 have been added in the determination of Total Entity Value under this method because net nonoperating assets do not contribute to the earnings capacity of the business. See the Net Asset Value schedule for the presentation of net nonoperating assets.

BIZCOMPS Sales Price to Revenue Multiple

The Total Entity Value of Sample Industries, Inc. based on the selected Sales Price to Revenue Multiple from the BIZCOMPS database is estimated to be \$24,871,557. In the Sales Price to Revenue Multiple method, normalized Net Revenue from the most recent historic year times the selected Sales Price to Revenue Multiple of 0.63 results in the Operating Value Before Net Assets. Then, Current Assets of \$9,122,730, Long-Term Investments of \$2,093,341, and Other Noncurrent Assets (except Nonoperating Assets) of \$893,666 are added and Total Liabilities (except Nonoperating Liabilities) \$7,159,275 are deducted to determine the estimate of Operating Value. See the BIZCOMPS Market Comparables Valuation schedule for detailed value calculations.

Net nonoperating assets in the amount of \$50,000 have been added in the determination of Total Entity Value under this method because net nonoperating assets do not contribute to the earnings capacity of the business. See the Net Asset Value schedule for the presentation of net nonoperating assets.

BIZCOMPS Sales Price to Seller's Discretionary Cash Flow Multiple

The Total Entity Value of Sample Industries, Inc. based on the selected Sales Price to Seller's Discretionary Cash Flow Multiple from the BIZCOMPS database is estimated to be \$17,843,341. In the Sales Price to Seller's Discretionary Cash Flow Multiple method, the Seller's Discretionary Cash Flow from the most recent historic year times the selected Sales Price to Seller's Discretionary Cash Flow Multiple of 3.39 results in the Operating Value Before Net Assets. Then, Current Assets of \$9,122,730, Long-Term Investments of \$2,093,341, and Other Noncurrent Assets (except Nonoperating Assets) of \$893,666 are added and Total Liabilities (except Nonoperating Liabilities) \$7,159,275 are deducted to determine the estimate of Operating Value. See the BIZCOMPS Market Comparables Valuation schedule for detailed value calculations.

Net nonoperating assets in the amount of \$50,000 have been added in the determination of Total Entity Value under this method because net nonoperating assets do not contribute to the earnings capacity of the business.. See the Net Asset Value schedule for the presentation of net nonoperating assets.

Capitalization of Excess Earnings

Usually, intangible assets are not reported on the balance sheet unless purchased. However, the existence of and the value for any intangible assets should be considered. A number of methodologies have been developed to estimate intangible assets of a business. One commonly used method is the excess earnings method. The excess earnings method was developed by the U.S. Treasury Department in 1920 in Appeals and Review Memorandum 34 (ARM34). Its current version is found in Revenue Ruling 68-609. The excess earnings method is commonly used in valuing small businesses and professional practices. The Internal Revenue Service suggests that it is to be used only when no better basis exists for separately estimating the value of the intangible assets.

The model for the excess earnings method computes the company's equity value based on the "appraised" value of tangible assets plus an additional amount for intangible assets. A company's tangible assets should provide a current return to the owner. Since there are risks associated with owning the company's assets, the rate of return on those assets should be commensurate with the risks involved. That rate of return should be either the prevailing industry rate of return required to attract capital to that industry or an appropriate rate above the risk-free rate. Any returns produced by the company above the rate on tangible assets are considered to arise from intangible assets. Accordingly, the weighted average capitalization rate for tangible assets and intangible assets should be equivalent to the capitalization rate of the entire company.

In using the excess earnings method, a reasonable rate of return on net tangible assets was first calculated based on the cost of borrowing against those assets plus the cost of equity required to support the remaining investment in those assets, as shown in the following schedule.

	Percent of		
	Cost	Total Capital	Weighted
Required Return on Debt	4.88%	23.8%	1.16%
Required Return on Equity	10.35%	76.2%	<u>7.88%</u>
Rate of Return on Net Tangible Assets			<u>9.04%</u>

(See the Rate of Return on Net Tangible Assets schedule for the calculation of the required return on debt.)

Then, weighted average, normalized EBT is compared to the reasonable rate of return. Excess earnings are defined as the difference between the weighted average earnings and the "normal" return. These excess earnings are then capitalized using the excess earnings capitalization rate of 15.35%. Therefore, capitalized excess earnings are an estimate of intangible value. This intangible value is then added to the appraised value of net tangible equity to estimate Total Entity Value. See the Income Statement Adjustments section for a listing of any adjustments made to historic earnings, the Discount and Capitalization Rates section for the excess earnings capitalization rate and the Net Asset Value schedule for the appraised value of net tangible equity.

As shown below, the Total Entity Value of Sample Industries, Inc. based on the Capitalization of Excess Earnings approach is estimated to be \$17,621,902.

Capitalization of Excess Earnings	Normalized EBT	Weighting Factor	Weighted Earnings
Fiscal Year End 2005	770,927	1.0	770,927
Fiscal Year End 2006	970,061	2.0	1,940,122
Fiscal Year End 2007	1,080,336	3.0	3,241,008
Fiscal Year End 2008	1,257,844	4.0	5,031,376
Fiscal Year End 2009	1,898,672	5.0	9,493,360
Annualized 2010	2,551,924	6.0	<u>15,311,544</u>
Sum of Weighted earnings			<u>35,788,337</u>
Divided by: Sum of weighting factors			<u>21.0</u>
Weighted average earnings			<u>1,704,207</u>
Net tangible assets			15,738,201
Multiplied by: Rate of return on net tangible assets			<u>9.04%</u>
Normal return on net tangible assets			<u>1,422,733</u>
Weighted average earnings			1,704,207
Less: Normal return on net tangible assets			<u>1,422,733</u>
Excess Earnings			<u>281,473</u>
Divided by: Excess earnings capitalization rate			<u>15.35%</u>
Intangible value			<u>1,833,701</u>
Plus: Net tangible assets			<u>15,738,201</u>
Operating value			<u>17,571,902</u>
Plus: Net nonoperating assets			<u>50,000</u>
Total entity value			<u><u>17,621,902</u></u>

Net nonoperating assets in the amount of \$50,000 have been added in the determination of Total Entity Value under this method because net nonoperating assets do not contribute to the earnings capacity of the business. See the Net Asset Value schedule for the presentation of net nonoperating assets.

Multiple of Discretionary Earnings

The multiple of discretionary earnings method is best suited to businesses where the salary and perquisites of an owner represent a significant portion of the total benefits generated by the business and/or the business is typically run by an owner/manager. Discretionary earnings is equal to the Company's earnings before: income taxes, nonoperating income and expenses, nonrecurring income and expenses, depreciation and amortization, interest income or expense, and owners' total compensation for services that could be provided by an owner/manager. Buyers and sellers of very small closely held businesses tend to think in terms of income to replace their previous paycheck or income to support their family. They look at the total discretionary earnings to see if it is sufficient to pay all the operating expenses of the business, carry the debt structure necessary to buy and/or operate the business, and provide an adequate wage.

The total entity value of Sample Industries, Inc. using the Multiple of Discretionary Earnings method is estimated to be \$6,474,862 as shown below.

Multiple of Discretionary Earnings	Normalized EBT	Weighting Factor	Weighted Earnings
Fiscal Year End 2005	770,927	1.0	770,927
Fiscal Year End 2006	970,061	2.0	1,940,122
Fiscal Year End 2007	1,080,336	3.0	3,241,008
Fiscal Year End 2008	1,257,844	4.0	5,031,376
Fiscal Year End 2009	1,898,672	5.0	9,493,360
Annualized 2010	2,551,924	6.0	15,311,544
Sum of Weighted earnings			35,788,337
Divided by: Sum of weighting factors			21.0
Weighted average earnings			1,704,207
Plus: Normalized owner's salary & benefits			183,750
Plus: Normalized interest expense			582,710
Plus: Normalized depreciation & amortization expense			1,681,791
Less: Normalized interest income			248,187
Less: Required capital expenditures			929,999
Discretionary earnings			2,974,272
Multiplied by: Value multiple			1.5
Value of operating assets			4,461,407
Plus: Normalized net working capital			7,271,427
Plus: Net nonoperating assets			50,000
Less: Interest-bearing debt			5,307,972
Total entity value			6,474,862

See the Valuation Multiple Development Worksheet for the factors considered in the development of the selected valuation multiple. Also see the most recent normalized balance sheet for the presentation of normalized net working capital and the Net Asset Value schedule for the presentation of interest-bearing debt.

Conclusions of Value

Method	Value	Weight	Weighted Value
Net Asset Value	13,304,898	0.0	0
Liquidation Value	9,413,963	0.0	0
Capitalization of Earnings	16,515,764	0.0	0
Discounted Future Earnings	18,002,037	1.0	18,002,037
Discounted Net Cash Flow	2,271,015	0.0	0
Price to Earnings Multiple	22,506,931	0.0	0
Price to Revenue Multiple	19,867,495	0.0	0
Price to Gross Cash Flow Multiple	24,007,485	0.0	0
Price to Dividends Multiple	0	0.0	0
Price to Book Value Multiple	0	0.0	0
Price to Net Asset Value Multiple	0	0.0	0
Mergerstat Price to Earnings Multiple	22,124,372	0.0	0
Completed Transactions Price to Earnings Multiple	16,210,566	0.0	0
Completed Transactions Price to Revenue Multiple	19,867,495	0.0	0
Completed Transactions Price to CFO Multiple	14,646,244	0.0	0
Completed Transactions Price to Assets Multiple	16,220,799	0.0	0
Completed Transactions Price to Equity Multiple	15,991,867	0.0	0
Pratt's Stats Equity Price to Net Revenue Multiple	16,564,579	0.0	0
Pratt's Stats Equity Price to Gross Cash Flow Multiple	19,019,077	0.0	0
Pratt's Stats Equity Price to EBT Multiple	16,305,756	0.0	0
Pratt's Stats Equity Price to Net Income Multiple	10,642,371	0.0	0
Pratt's Stats Equity Price to Discr. Earnings Mult.	0	0.0	0
Pratt's Stats Deal Price to Net Revenue Multiple	12,709,302	0.0	0
Pratt's Stats Deal Price to EBITDA Multiple	21,529,120	0.0	0
Pratt's Stats Deal Price to EBIT Multiple	14,877,142	0.0	0
BIZCOMPS Price to Net Revenue Multiple	24,871,557	0.0	0
BIZCOMPS Price to Seller's Discr. Cash Flow Mult.	17,843,341	0.0	0
Capitalization of Excess Earnings	17,621,902	0.0	0
Multiple of Discretionary Earnings	6,474,862	0.0	0
Sum of weighted values			18,002,037
Divided by: Sum of weights			1.0
Weighted average total entity value			18,002,037
Selected total entity value			18,000,000
Less: Fair market value of preferred stock			1,200,000
Fair market value of common equity			16,800,000

See the respective supporting schedules for the individual value calculations.

COMMENT: If a Control Premium or a Minority Discount and/or a Marketability Discount have been included in your valuation, on the lines below explain how the amount of the discount was determined. Also, document your assumptions on the valuation of any Preferred Stock. The Conclusion of Value should be signed by either the valuation analyst or in his or her firm's name.

Appendix 1 — Representations

The following factors guided our work during this engagement:

- The analyses, opinions, and conclusions of value included in this report are subject to the assumptions and limiting conditions specified previously in this report, and they are our personal analyses, opinions, and conclusion of value.
- The economic and industry data included in this report were obtained from sources that we believed to be reliable. We have not performed any corroborating procedures to substantiate that data.
- This engagement was performed in accordance with the American Institute of Certified Public Accountants Statement on Standards for Valuation Services.
- We have previously identified the parties for whom this information and report have been prepared. This valuation report is not intended to be, and should not be, used by anyone other than those parties.
- Our compensation for this engagement is not contingent on the outcome of this valuation.
- [If a third party specialist was used during the engagement, identify the specialist here and include a statement to identify the level of responsibility, if any, you are assuming for the specialist's work. For example, "In connection with the excess earnings method, ABC Equipment Appraisers (ABC) was used estimate the fair market value of the Company's equipment. Although ABC's employees are licensed equipment appraisers, we assume no responsibility for their work.]
- We have no obligation to update this report or our opinion of value for information that comes to our attention after the report date.

(Signature)

(Date)

(Signature)

(Date)

<p>Comment: Modify or add to the above list as considered necessary. Note that if no third party specialists were used, the next to last statement should be deleted. The valuation analysts and any other person(s) taking responsibility for this valuation should sign and date the representation page.</p>

Appendix 2 — Qualifications

Comment: Describe your qualifications as a valuation analyst.