Proposal for the Acquisition of
Sample Acquisition Candidate, Inc.

Prepared for:

Gary Sandler
Mezzanine Funding Group

Prepared by:

Robert B. Machiz
Exchange Capital, Inc.
1 East Camelback Road, Ste. 550
Phoenix, AZ 85012

How This Report Was Generated

This report is a sample of the type of comprehensive acquisition proposal that you can quickly create with MoneySoft's ***DealSense® Plus+*** and **Financial Report Builder**™ enhancement. DealSense Plus+ was used to analyze the target company, determine purchase price and terms, and structure a workable financing plan. The Financial Report Builder was then used to automatically create and format the acquisition proposal as a Microsoft Word document!

If this were a "live case," descriptive text would be added about the company, its markets, management and staffing, capabilities and operations, developing trends, and future prospects of the company. In addition, the rationale for assumptions, potential synergies, changes to be made after the sale, capabilities of the buyer, and a discussion of the strengths, weaknesses, opportunities and threats (risks) involved in the proposed transaction could also be included in the presentation.

An Overview of the Scenario

In this sample case, the buyer is an investment group that has adopted a vertical build-and-hold strategy. The target company is profitable, stable, fits well into the buyer's strategic portfolio and offers much needed productive capacity. The Sellers are asking for $18,000,000 based upon an asset sale. The Buyer estimates that the Enterprise Value of the company is approximately $16,245,656 and has offered $16,000,000. The target's assets will be acquired by a newly formed entity that the buyer will control ("NewCo").

This is a friendly transaction. Most of the management of the seller will be retained and have an opportunity acquire an equity stake in NewCo. The acquisition will be funded with the buyer's stock, senior secured debt, a convertible mezzanine strip, and some seller carryback. After the acquisition, the buyer intends to use the target's available capacity to manufacture product currently produced by third-party vendors. In addition, the buyer intends to upgrade equipment and install procedures that will improve collections and reduce inventory levels. This DealSense Plus+ report pulls the deal together and provides a thorough bottom-line analysis of the proposed deal.

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

A note about the colors used in this sample report:

As you review this sample report, you will notice that some of the text is blue, dark red and magenta.

- The blue items are cell references that are pulled in from the DealSense Plus+ file. Blue is also used whenever the Report Builder creates a table that has a fixed width.
- Tables with variable widths (dependent upon the number of years/periods selected) are indicated in dark red.
- Non-printable comments are indicated in magenta.

— Table of Contents —

⇒ ***SPECIAL COMMENT*: To update the Table of Contents, click anywhere in the following table and then press the [F9] function key.**

Executive Summary

This executive summary and the attached management report describe the proposed acquisition of the assets of Sample Acquisition Candidate, Inc. (hereafter called the "Company"). The Company is a C-Corporation and is organized under the laws of New York. It is primarily engaged in the business of Sporting goods manufacturer and operates under the trade name of Sport-O-Rama.

For the year ended 2003, the Company reported a pretax profit, (EBT), of $1,738,672 on sales revenues of $31,541,420. At the end of fiscal year 2003, the Company had total assets of $15,522,587, total liabilities of $7,839,480, and net equity of $7,683,107. With certain adjustments made to reflect the fair market value of assets, the Company's normalized net equity is estimated to be $7,610,107.

For internal purposes only, the total common equity value of the Company has been estimated at $6,514,286. The proposed purchase price for the Company is $16,000,000, with $5,250,000 to be paid to the seller in cash at closing. Transaction and closing fees of $335,000 have been estimated, resulting in a Total Purchase Cost of $16,335,000 for the Company.

Under the proposed transaction structure, the funds required to complete the transaction would be $11,893,637, calculated as follows.

Estimated Total Purchase Cost	**$16,335,000**
Less: Interest-Bearing Assumed Liabilities	3,991,363
Less Seller Financed Portion of:	
Covenant-Not-To-Compete	250,000
Employment Contract	150,000
Management Contract	25,000
Operating Lease Contract	25,000
Balance of Purchase Cost to be Funded	**$11,893,637**

In order to fund the purchase and fund future working capital requirements, the following funding structure is proposed, with financing terms as set forth in the attached management report.

Balance of Purchase Cost to be Funded	**$11,893,637**
Term-Debt Funding	10,308,637
Equity Funding (all sources)	1,900,000
Discretionary Amount Overfunded	315,000

The returns on Total Invested Capital (TIC) have been measured as follows:

Total Present Value of Free Cash Flow Available to TIC	49,661,348
Less: Total Invested Capital	16,450,000
Net Present Value	**16,450,000**
Profitability Index	**3.02**
Internal Rate of Return (IRR) on Total Invested Capital	**41.31%**
Total Invested Capital Hurdle Rate	10.00%
Spread (Difference)	31.31%
Payback Period (Years)	**3.43**

The returns on Total Invested Equity Capital have been measured as follows:

Total Present Value of Free Cash Flow Available to Equity	11,953,908
Less: Total Invested Equity Capital	1,900,000
Net Present Value	**10,053,908**
Profitability Index	**6.29**
Internal Rate of Return (IRR) on Total Invested Equity	**82.08%**
Equity Hurdle Rate	17.34%
Spread (Difference)	64.74%
Payback Period (Years)	**1.35**

The Internal Rate of Return (IRR) on invested equity has been estimated for each equity participant and is summarized as follows.

Initial Common Equity Investors	**Investment**	**Exit Year**	**Target IRR**	**Shares at Closing**	**% Ownership at Closing**	**Calculated IRR**
Management Group	250,000	5	60.00%	4,000,000	40.00%	85.79%
Sponsor Company Stock	1,000,000	5	25.00%	3,500,000	35.00%	37.09%
Equity Funding Partner, LLC	400,000	3	30.00%	2,500,000	25.00%	80.49%

Convertibles & Warrants	**Investment**	**Exit Year**	**Target IRR**	**Converted Shares**	**% Ownership at Exit**	**Calculated IRR**
Mezzanine Capital Partners	415,000	5	17.50%	139,862	1.38%	14.10%

A detailed management report is attached describing the Company, its operations, financial performance, and profit potential. The report also includes a discussion on value, pricing, transaction costs, and details on the proposed financing of the purchase. Finally, projections regarding the outlook for the company after the acquisition have been prepared along with an analysis of potential returns to investors.

For additional information contact:

COMMENT: On the lines above, enter all appropriate contact information. Please note that this comment will not print.

Assumptions and Limiting Conditions

This analysis 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 Robert B. Machiz. Neither the professionals who worked on this engagement nor Exchange Capital, Inc. have any present or contemplated future interest in Sample Acquisition Candidate, 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. Please note that these comments will not print.

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. Please note that this comment will not print.

Company Background

Company Identification

Sample Acquisition Candidate, Inc. is a C-Corporation organized under the laws of New York and located at 10 Wall Street, New York, NY, 10005. The Company can be categorized under the Standard Industrial Classification (SIC) Code of 3949 and North American Industry Classification System (NAICS) Code of 33992.

COMMENT: In addition to the linked information above, enter any additional identification information that you feel is appropriate for purposes of this report. Please note that this comment will not print.

Nature and History of the Company

Established in 1990, the Company is primarily engaged in the business of Sporting goods manufacturer and operates under the trade name of Sport-O-Rama.

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. Please note that this comment will not print.

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. Please note that this comment will not print.

Management Team

COMMENT: Provide an overview of the background and qualifications of key personnel. Also include an overview of other staff, if applicable. Please note that this comment will not print.

Product and Service Information

COMMENT: Provide a description of the company's products and/or services. Please note that this comment will not print.

Market Data and Analysis

COMMENT: Provide an overview of the market(s) in which the company competes. Please note that this comment will not print.

Marketing Strategy

COMMENT: Describe the company's current marketing plan and strategy. Please note that this comment will not print.

Current Operations

COMMENT: Describe the company's facilities, capabilities, and its methods of providing products and/or services. Please note that this comment will not print.

Company Expectations

COMMENT: Provide a description of the Company's future expectations with respect to growth, profitability and financial position. Please note that this comment will not print.

Other Observations

COMMENT: Describe any other observations not explained in the previous sections. Please note that this comment will not print.

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. Please note that this comment will not print.

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 Please note that this comment will not print.

Historical and Normalized Financial Statements

Summary Historical Income Statements

	1999	2000	2001	2002	2003
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. Please note that this comment will not print.

Income Statement Adjustments

	1999	2000	2001	2002	2003
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)
Travel and entertainment	(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

	1999	2000	2001	2002	2003
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

	1999	2000	2001	2002	2003
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	2,475,964	2,643,420	2,804,881	3,236,123	3,101,758
Total Long-Term Debt	6,177,995	5,908,225	5,976,625	5,458,061	4,710,722
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. Please note that this comment will not print.

Balance Sheet Adjustments

	1999	2000	2001	2002	2003
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

	1999	2000	2001	2002	2003
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	2,475,964	2,643,420	2,804,881	3,236,123	3,101,758
Total Long-Term Debt	6,177,995	5,908,225	5,976,625	5,458,061	4,710,722
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

	1999	2000	2001	2002	2003
Net Cash Flow From Operations		981,516	862,646	1,430,146	1,600,486
Net Cash Flow From Investments		(633,999)	(1,046,000)	(740,000)	(406,999)
Net Cash Flow From Financing		(438,081)	189,579	(686,075)	(1,184,348)
Net Cash Flow		**(90,564)**	**6,225**	**4,071**	**9,139**
Cash at Beginning of Year		313,943	223,379	229,604	233,675
Cash at End of Year		**223,379**	**229,604**	**233,675**	**242,814**

COMMENT: On the lines below, identify and describe any significant issues with respect to the historic statements of cash flows. Please note that this comment will not print.

Normalized Earnings and Net Cash Flow Summary

	1999	2000	2001	2002	2003
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 Interim Financial Statements

Interim Financial Statements for 6 months dated June 2004 were available and included in this analysis. Theses statements along with any adjustments are summarized below:

Interim Income Statement & Adjustments

	Interim Jun 2004	Normalization Adjustments	Normalized Jun 2004
Net Sales Revenue	**18,924,689**	**0**	**18,924,689**
Total Cost of Goods Sold	13,731,824	(1,445,051)	12,286,773
Total Selling Expenses	867,197	0	867,197
Total General & Administrative Expenses	2,446,541	0	2,446,541
Income From Operations	**1,879,127**	**1,445,051**	**3,324,178**
Total Other Revenues and Expenses	(184,800)	0	(184,800)
Income Before Taxes	**1,694,327**	**1,445,051**	**3,139,378**
Total Income Taxes	275,592	0	275,592
Net Income	**1,418,735**	**1,445,051**	**2,863,786**

COMMENT: On the lines below, identify and describe any significant issues with respect to the interim income statements and any related normalization adjustments. Please note that this comment will not print.

Interim Balance Sheet & Adjustments

	Interim Jun 2004	Normalization Adjustments	Normalized Jun 2004
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	3,030,134	0	3,030,134
Total Long-Term Debt	4,129,141	0	4,129,141
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. Please note that this comment will not print.

Analysis of Normalized 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 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.

Business Common-Size Statements

	1999	2000	2001	2002	2003
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	0.00%	0.00%	0.00%	0.00%	0.00%
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	**16.80%**	**17.80%**	**17.97%**	**20.49%**	**20.11%**
Long-term debt	41.92%	39.79%	38.28%	34.56%	30.54%
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 Acquisition Candidate, Inc.'s common-size financial statements from the most recent historic year have been compared to composite, industry common-size financial statements from the SPORTING & ATHLETIC GOODS, NEC 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 SIC Code number 3949. The industry data is categorized by All Sizes size of All sizes selected. The date of this industry information is 2003 with 140 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.

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

	Business 2003	Industry 2003	Variance	5 Yr Average Variance
Income Data:				
Net sales	100.0000%	100.0%		
Gross profit	24.3208%	36.5%	-33.37%	-42.53%
Operating expenses	16.7284%	31.1%	-46.21%	-52.63%
Operating profit	7.5923%	5.4%	40.60%	15.63%
All other expenses (net)	1.5727%	1.6%	-1.70%	29.18%
Profit Before Tax	**6.0196%**	**3.8%**		
Assets:				
Cash & equivalents	14.6981%	6.4%	129.66%	119.89%
Trade receivables (net)	14.8185%	24.6%	-39.76%	-31.93%
Inventory	18.2525%	36.5%	-49.99%	-44.53%
All other current	0.9233%	2.0%	-53.84%	-43.85%
Total Current Assets	**48.6922%**	**69.5%**		
Fixed assets (net)	34.7764%	17.9%	94.28%	117.70%
Intangibles (net)	1.3509%	6.3%	-78.56%	-72.05%
All other noncurrent	15.1804%	6.3%	140.96%	329.88%
Total Noncurrent Assets	51.3078%	30.5%		
Total Assets	**100.0000%**	**100.0%**		
Liabilities:				
Notes payable short-term	0.0000%	17.8%	-100.00%	-100.00%
Current maturity of long-term Debt	7.4297%	3.5%	112.28%	106.59%
Trade payables	8.3942%	14.8%	-43.28%	-23.32%
Income taxes payable	1.7371%	0.2%	768.53%	1173.19%
All other current liabilities	2.5508%	8.5%	-69.99%	-62.27%
Total Current Liabilities	**20.1118%**	**44.8%**		
Long-term debt	30.5443%	11.9%	156.67%	251.22%
Deferred taxes	0.0000%	0.3%	-100.00%	-100.00%
All other noncurrent liabilities	0.0000%	5.9%	-100.00%	-100.00%
Net worth	**49.3439%**	**37.1%**	**33.00%**	**45.21%**
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. Please note that this comment will not print.

Business Financial Ratio Analysis

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

Business Financial Ratios:

	1999	2000	2001	2002	2003
Liquidity Ratios:					
Current	2.00	2.05	2.28	2.21	2.42
Quick	1.14	1.10	1.27	1.31	1.47
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	10.20	9.52	7.83	7.47	7.16
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	28.61%	30.91%	31.94%	37.22%	39.70%
Short-term debt to Net worth	40.69%	41.98%	41.06%	45.58%	40.76%
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 dividend 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. Please note that this comment will not print.

Business vs. Industry Financial Ratio Comparison

Sample Acquisition Candidate, Inc.'s financial ratios calculated from the most recent, 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.

Normalized Business vs. Industry Ratios
Current Year

	Business 2003	Industry 2003	Variance	5 Yr Average Variance
Liquidity Ratios:				
Current ratio	2.4211	1.7	42.42%	52.05%
Quick ratio	1.4676	0.7	109.66%	115.95%
Accounts receivable turnover	13.8013	8.5	62.37%	92.90%
Inventory turnover	8.4797	3.6	135.55%	195.29%
Accounts payable turnover	18.4384	13.9	32.65%	41.68%
Working capital turnover	7.1557	7.3	-1.98%	38.15%
Coverage Ratios:				
Times interest earned	4.1436	2.9	42.88%	-1.36%
Current portion of long-term debt coverage ratio	1.9802	2.4	-17.49%	17.69%
Leverage/Capitalization Ratios:				
Fixed assets to Tangible net worth	0.7246	0.5	44.92%	80.57%
Total debt to Tangible net worth	1.0555	1.7	-37.91%	-9.72%
Operating Ratios:				
Percent return on Tangible net worth	25.6516%	18.5%	38.66%	37.56%
Percent return on Total assets	12.3110%	5.1%	141.39%	121.25%
Net sales to Net fixed assets	5.8808	16.3	-63.92%	-56.02%
Net sales to Total assets	2.0451	2.0	2.26%	14.54%
Percent Depr., Amort. to Net sales	3.5217%	1.5%	134.78%	241.66%
Percent Officer salaries to Net sales	1.2682%	3.3%	-61.57%	-58.98%

COMMENT: On the lines below, identify and describe any significant variance of the business as compared to industry ratios. Please note that this comment will not print.

Z-Score Risk Assessment (Historic Normalized)

The Z-Score is calculated for each full year of the historic financial statements on both an unadjusted and normalized basis and is intended to aid in the assessment of the target company's future viability. The Z-Score is a predictive model developed by Edward I Altman, Ph.D., that indicates the likelihood that a company will become insolvent within the next twelve months. Altman's book, Corporate Financial Distress and Bankruptcy, Second Edition, states that the Z-Score predicted the bankruptcy filings of sample companies within 12 months with 95% accuracy, and that in later studies based on more extensive samples, over different time periods and under different economic conditions, the Z-Score still sustained 82%-85% accuracy.

	1999	2000	2001	2002	2003
Z-Score Ratio Components					
Total Revenue	25,302,860	26,494,580	28,043,400	29,219,270	31,541,420
EBIT	1,449,361	1,644,621	1,737,259	1,906,273	2,502,654
Working Capital	2,480,459	2,783,769	3,583,223	3,911,662	4,407,846
Tangible Total Assets	14,493,455	14,612,441	15,385,435	15,577,075	15,214,237
Total Liabilities	8,653,959	8,551,645	8,781,506	8,694,184	7,812,480
Tangible Retained Earnings	2,505,166	2,717,136	2,980,939	3,250,571	3,760,107
Tangible Net Worth	5,839,496	6,060,796	6,603,929	6,882,891	7,401,757
Private Non-Manufacturing Company Ratios & Weighting					
Working Capital / Tangible Total Assets x (6.56)	1.12	1.25	1.53	1.65	1.90
Tangible Retained Earnings / Tangible Total Assets x (3.26)	0.56	0.61	0.63	0.68	0.81
EBIT / Tangible Total Assets x (6.72)	0.67	0.76	0.76	0.82	1.11
Tangible Net Worth / Total Liabilities x (1.05)	0.71	0.74	0.79	0.83	0.99
Total Z-Score	**3.07**	**3.36**	**3.71**	**3.98**	**4.81**

Private Non-Manufacturing Z-Score Scale
2.60 and up = Bankruptcy unlikely
1.11 to 2.59 = Monitoring and corrective action required
1.10 and less = Bankruptcy Likely

	1999	2000	2001	2002	2003
Private Manufacturing Ratios & Weighting					
Working Capital / Tangible Total Assets x (.717)	0.12	0.14	0.17	0.18	0.21
Tangible Retained Earnings / Tangible Total Assets x (.847)	0.15	0.16	0.16	0.18	0.21
EBIT / Tangible Total Assets x (3.1)	0.31	0.35	0.35	0.38	0.51
Tangible Net Worth / Total Liabilities x (.42)	0.28	0.30	0.32	0.33	0.40
Sales / Tangible Total Assets x (.998)	1.74	1.81	1.82	1.87	2.07
Total Z-Score	**2.60**	**2.75**	**2.82**	**2.94**	**3.39**

Private Manufacturing Z-Score Scale
2.90 and up = Bankruptcy unlikely
1.24 to 2.89 = Monitoring and corrective action required
1.23 and less = Bankruptcy Likely

Sustainable Growth Analysis (Historic Normalized)

The maximum sustainable growth in total revenue is calculated for each full year of the historic financial statements on both an unadjusted and normalized basis and then is compared to the calculated growth rate in total revenue from the prior year to the current year. The Sustainable Growth model is a combination of four ratios and measures the maximum rate of growth in sales that can be sustained without depleting financial resources.

	1999	2000	2001	2002	2003
Sustainable Growth Components					
Total Revenue	25,302,860	26,494,580	28,043,400	29,219,270	31,541,420
Net Income	470,266	591,737	659,005	767,284	1,158,189
Total Assets	14,739,125	14,848,781	15,612,445	15,794,755	15,422,587
Total Equity	6,085,166	6,297,136	6,830,939	7,100,571	7,610,107
Preferred Dividends	80,000	80,000	85,000	85,000	85,000
Common Dividends	227,450	247,067	239,202	323,353	456,054
Sustainable Growth Ratios					
Profit Margin (Net Income / Total Revenue) a	1.86%	2.23%	2.35%	2.63%	3.67%
Earnings Retention (1-[Common Div. + Pref. Div.] / Net Income) b	34.62%	44.73%	50.80%	46.78%	53.28%
Asset Turnover (Total Revenue / Total Assets) c	171.67%	178.43%	179.62%	184.99%	204.51%
Financial Leverage (Total Assets / Total Equity) d	242.21%	235.80%	228.55%	222.44%	202.66%
Maximum Sustainable Growth in Total Revenue (a*b*c*d)	**2.68%**	**4.20%**	**4.90%**	**5.05%**	**8.11%**
Historic (or Projected) Growth in Total Revenue		4.71%	5.85%	4.19%	7.95%
Difference from Maximum		**-0.51%**	**-0.94%**	**0.86%**	**0.16%**

Valuation of Sample Acquisition Candidate, Inc.

The objective of this valuation is to estimate the Fair Market Value of 100.00% of the common stock of Sample Acquisition Candidate, Inc. as of June 30, 2004 for the purpose as set forth in this Valuation Report.

The standard of value used in our valuation of Sample Acquisition Candidate, 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:

a) The nature of the business and the history of the enterprise from its inception.
b) The economic outlook in general and the condition and outlook of the specific industry in particular.
c) The book value of the stock and the financial condition of the business.
d) The earning capacity of the company.
e) The dividend-paying capacity.
f) Whether or not the enterprise has goodwill or other intangible value.
g) Sales of the stock and the size of the block of stock to be valued.
h) 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 Acquisition Candidate, Inc. as of June 30, 2004, 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. Please note that this comment will not print.

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 Acquisition Candidate, 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.**

Please note that this comment will not print.

Preferred Stock Valuation

The value of Sample Acquisition Candidate, Inc.'s preferred stock based on market yields for comparable preferred stocks is estimated to be $1,214,286. In the preferred stock valuation, Sample Acquisition Candidate, Inc.'s preferred dividends are divided by the market yield on comparable preferred stocks to determine Total Entity Value as shown below.

	Book 2003	**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		**1,214,286**

Net Asset Value

The Net Asset Value of Sample Acquisition Candidate, Inc. is estimated to be $11,812,715. 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 Acquisition Candidate, Inc. is estimated to be $7,921,780. 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	7.00%
Discount Rate	**32.00%**
Less: Long-term growth in Net Income	19.62%
Capitalization Rate	**12.38%**
Divided by: 1 + Long-term growth in Net Income	119.62%
Historic Earnings Capitalization Rate	**10.35%**
Historic Excess Earnings Capitalization Rate	**10.35%**

In developing the Discount and Capitalization Rates to apply to the benefit stream of Sample Acquisition Candidate, 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. Please note that this comment will not print.

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 Acquisition Candidate, Inc. based on the Capitalization of Earnings method is estimated to be $8,446,436. In the Capitalization of Earnings method, weighted average, normalized Net Income 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 Net Income**	**Weighting Factor**	**Weighted Earnings**
Fiscal Year End 1999	470,266	1.0	470,266
Fiscal Year End 2000	591,737	1.0	591,737
Fiscal Year End 2001	659,005	1.0	659,005
Fiscal Year End 2002	767,284	1.0	767,284
Fiscal Year End 2003	1,158,189	1.0	1,158,189
Annualized 2004	1,598,756	1.0	1,598,756
Sum of Weighted earnings			5,245,237
Divided by: Sum of weighting factors			6.0
Weighted average earnings			**874,206**
Divided by: Historic capitalization rate			10.35%
Operating value			**8,446,436**
Plus: Net nonoperating assets			0
Total entity value			**8,446,436**

Net nonoperating assets in the amount of $0 has 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 6 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. Please note that this comment will not print.

Projection Summary

	2004	2005	2006	2007	2008
Net sales revenue	33,029,158	34,605,870	36,277,151	38,049,272	39,928,935
Gross profit	8,785,779	9,248,377	10,280,068	10,957,222	11,558,291
EBITDA	4,816,595	5,065,354	5,221,106	5,510,258	5,840,351
EBIT	3,132,561	3,711,917	4,598,295	5,027,948	5,395,185
EBT	2,549,851	3,233,500	4,241,614	4,836,018	5,319,005
Net income	1,598,756	2,027,405	2,659,492	3,032,183	3,335,016
Annualized Net cash flow	153,395	935,775	993,614	1,223,014	1,123,865
Total current assets	8,163,703	8,932,740	9,556,557	10,212,976	11,858,948
Net fixed assets	3,946,223	3,002,119	2,714,356	2,204,237	1,768,403
Net other assets	2,492,913	2,435,195	2,376,085	2,315,253	2,305,919
Total assets	14,602,839	14,370,054	14,646,997	14,732,465	15,933,270
Total current liabilities	4,161,668	4,375,793	4,540,876	3,713,514	3,559,248
Total long-term debt	3,488,289	2,112,677	979,790	461,528	234,092
Total liabilities	7,649,957	6,488,469	5,520,667	4,175,042	3,793,340
Total Equity	6,952,882	7,881,585	9,126,330	10,557,422	12,139,930
Net working capital	4,002,036	4,556,947	5,015,681	6,499,461	8,299,700
Federal Income tax before NOL adjustment	823,602	1,044,421	1,370,041	1,562,034	1,718,038
Plus: NOL tax adjustment	0	0	0	0	0
Federal Income Tax Expense	823,602	1,044,421	1,370,041	1,562,034	1,718,038
Income from operations	2,884,374	3,584,755	4,536,576	4,972,212	5,291,003
Less: Tax based on selected tax rate	980,687	1,218,817	1,542,436	1,690,552	1,798,941
Plus: Depr. & Amort. from operations	1,684,034	1,353,437	622,811	482,310	445,167
Less: Annualized Fixed asset purchases	257,500	400,000	400,000	0	0
Less: Annualized Net Changes in Working capital **	(508,463)	106,104	110,334	125,568	102,515
Free Cash Flow	3,838,684	3,213,271	3,106,617	3,638,401	3,834,714

Summary Income Statement Projections

	2004	2005	2006	2007	2008
Net Sales Revenue	**33,029,158**	**34,605,870**	**36,277,151**	**38,049,272**	**39,928,935**
Total Cost of Goods Sold	24,243,379	25,357,493	25,997,084	27,092,050	28,370,644
Gross Profit	**8,785,779**	**9,248,377**	**10,280,068**	**10,957,222**	**11,558,291**
Total Selling Expenses	1,486,312	1,557,264	1,632,472	1,712,217	1,796,802
Total General & Administrative Expenses	4,415,093	4,106,358	4,111,020	4,272,793	4,470,485
Income From Operations	**2,884,374**	**3,584,755**	**4,536,576**	**4,972,212**	**5,291,003**
Total Other Revenues and Expenses	(334,523)	(351,254)	(294,962)	(136,193)	28,001
Income Before Taxes	**2,549,851**	**3,233,500**	**4,241,614**	**4,836,018**	**5,319,005**
Total Income Taxes	951,095	1,206,096	1,582,122	1,803,835	1,983,989
Net Income	**1,598,756**	**2,027,405**	**2,659,492**	**3,032,183**	**3,335,016**

Summary Balance Sheet Projections

	2004	2005	2006	2007	2008
ASSETS					
Total Current Assets	8,163,703	8,932,740	9,556,557	10,212,976	11,858,948
Net Fixed Assets	3,946,223	3,002,119	2,714,356	2,204,237	1,768,403
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	597,253
Total Assets	**14,602,839**	**14,370,054**	**14,646,997**	**14,732,465**	**15,933,270**
LIABILITIES & STOCKHOLDERS' EQUITY					
Total Current Liabilities	4,161,668	4,375,793	4,540,876	3,713,514	3,559,248
Total Long-Term Debt	3,488,289	2,112,677	979,790	461,528	234,092
Total Liabilities	**7,649,957**	**6,488,469**	**5,520,667**	**4,175,042**	**3,793,340**
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	3,102,882	4,031,585	5,276,330	6,707,422	8,289,930
Total Stockholders' Equity	**6,952,882**	**7,881,585**	**9,126,330**	**10,557,422**	**12,139,930**
Total Liabilities & Stockholders' Equity	**14,602,839**	**14,370,054**	**14,646,997**	**14,732,465**	**15,933,270**

Summary Retained Earnings Projections

	2004	2005	2006	2007	2008
Retained Earnings Beginning of Period	**5,252,290**	**3,102,882**	**4,031,585**	**5,276,330**	**6,707,422**
Additions:					
Normalized net income for the year	(1,265,030)	2,027,405	2,659,492	3,032,183	3,335,016
Deductions:					
Normalized preferred dividends	85,000	85,000	85,000	85,000	85,000
Normalized common dividends	799,378	1,013,702	1,329,746	1,516,092	1,667,508
Retained Earnings End of Period	**3,102,882**	**4,031,585**	**5,276,330**	**6,707,422**	**8,289,930**

Summary Cash Flow Projections

	2004	2005	2006	2007	2008
Net Cash Flow From Operations	1,162,334	3,655,382	3,788,843	4,222,272	3,325,571
Net Cash Flow From Investments	(207,500)	(400,000)	(361,000)	39,000	39,000
Net Cash Flow From Financing	(1,450,512)	(2,319,607)	(2,434,229)	(3,038,258)	(2,240,706)
Net Cash Flow	**(495,678)**	**935,775**	**993,614**	**1,223,014**	**1,123,865**
Cash at Beginning of Period	891,887	396,209	1,331,984	2,325,598	3,548,611
Cash at End of Period	**396,209**	**1,331,984**	**2,325,598**	**3,548,611**	**4,672,477**

Summary Sources & Uses of Funds Projections

	2004	2005	2006	2007	2008
Total Internally Generated Cash	(965,078)	2,110,751	1,975,709	2,583,787	1,521,631
Total Cash from External Financing	469,400	(1,174,976)	(982,095)	(1,360,774)	(397,766)
Net Cash Flow	**(495,678)**	**935,775**	**993,614**	**1,223,014**	**1,123,865**

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, 2003. Total Cost of Goods Sold has been projected to be $24,243,379, or 73.40% of Net Sales Revenues in the first projected year and $28,370,644, or 71.05% of Net Sales Revenues in projected year 5. On average, Total Cost of Goods Sold has been projected to be 72.12% 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, 2003. 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 0.87%, starting from a base amount of $4,282,007 and growing to $4,415,093 in the first projected year and $4,470,485 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 7.75 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.

	1 2004	2 2005	3 2006	4 2007	5 2008
Plant	0	0	200,000	0	0
Equipment	0	0	100,000	0	0
Vehicles	0	0	0	0	0
Furniture and fixtures	0	0	100,000	0	0
Land	0	0	0	0	0
Total Fixed Asset Purchases	**257,500**	**400,000**	**400,000**	**0**	**0**

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

Payable to Main Street 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.

Payable to Main Street Bank 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.

Payable to 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.

Payable to 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.

Payable to First National 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. Please note that this comment will not print.

Fixed Asset Purchase Financing Assumptions

In projected year 3, 100.0% of total fixed asset purchases ($400,000) would be financed. A new loan in the amount of $400,000 would be added in that year. This loan would have an interest rate of 7.5% 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, 100.0% of total fixed asset purchases ($0) would be financed. A new loan in the amount of $0 would be added in that year. This loan would have an interest rate of 7.5% 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, 100.0% of total fixed asset purchases ($0) would be financed. A new loan in the amount of $0 would be added in that year. This loan would have an interest rate of 7.5% 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 Acquisition Candidate, Inc. based on the Discounted Future Earnings method is estimated to be $12,084,154 as shown below. In the Discounted Future Earnings method, Net Income 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 Net Income 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 Net Income**	**Discount Factor**	**Present Value**
Annualized 2004	1,598,756	0.757576	1,211,180
FY 2005	2,027,405	0.573921	1,163,570
FY 2006	2,659,492	0.434789	1,156,318
FY 2007	3,032,183	0.329385	998,756
FY 2008	3,335,016	0.249534	832,200
Terminal value of Net Income	26,938,739	0.249534	6,722,131
Operating value			**12,084,154**
Plus: Net nonoperating assets			0
Total entity value			**12,084,154**

End-of-Year discount factors are based on the Discount Rate of :	32.00%
Residual 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 $0 has 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 Acquisition Candidate, 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 Acquisition Candidate, Inc.

Search for Comparatives

COMMENT: Describe the methods and sources used in searching for comparative companies and the results of the search. Please note that this comment will not print.

	P/E	P/R	P/GCF	P/D	P/BV	P/NAV	BETA
Comparable Companies:							
Company name #1	10.20	6.00	7.20	0.00	0.00	0.00	0.00
Company name #2	7.70	0.70	6.80	0.00	0.00	0.00	0.00
Average	8.95	3.35	7.00	0.00	0.00	0.00	0.00
Median	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Standard Deviation	1.25	2.65	0.20	0.00	0.00	0.00	0.00
Coefficient of variation	1.56	7.02	0.04	0.00	0.00	0.00	0.00
Selected	**8.80**	**0.80**	**7.30**	**0.00**	**0.00**	**0.00**	**0.00**

Comparable Companies from the Completed Transactions Database

HealthRider, Inc.

Game Time, Inc. (AL) (Ross D. Siragusa, Jr., John R. Siragusa and Richard D. Siragusa, stockholders) (an S Corporation)

Tectrix Fitness Equipment, Inc. (CA)

Sports Holdings Corp. and Tropsport Acquisitions Inc., a wholly owned subsidiary of SHC

Ride Inc. (WA)

Mergerstat Review Database Transaction	**Year**	**P/E**	**Number of Co.**	**% Premium**	**Number of Co.**
Industry Classification of Seller:					
Toys & Recreational Products	2003	7.2	2	91.3%	1

Comparable Companies from the Pratt's Stats Database

Manufacturing, Park, Playground and Related Equipment for Cities, Schools, etc.

Distributor of Excess Inventories of Sports Equipment and Accessories

Manufacturer -- Physical Education, Athletic and Recreation Products

Comparable Companies from the BIZCOMPS Database

Mfg-Wood Putters

Mfg-Recreational Equipt

Mfg-Outdoor Products

Price to Earnings Multiple

The Total Entity Value of Sample Acquisition Candidate, Inc. based on the Price to Earnings Multiple method is estimated to be $14,069,056. In the Price to Earnings Multiple method, normalized Net Income 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 $0 has 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 Acquisition Candidate, Inc. based on the Price to Revenue Multiple method is estimated to be $26,423,326. In the Price to Revenue Multiple method, normalized Net

Revenue from the most recent historic year times the Price to Revenue Multiple of 0.8 equals the estimate of Total Entity Value. See the Market Comparables Valuation schedule for detailed value calculations.

Net nonoperating assets in the amount of $0 has 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 Acquisition Candidate, Inc. based on the Price to Gross Cash Flow Multiple method is estimated to be $23,964,368. 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 $0 has 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 Acquisition Candidate, Inc. based on the Price to Earnings Multiple from the Mergerstat database is estimated to be $11,431,108. In the Price to Earnings Multiple method, normalized Net Income from the most recent historic year times the Mergerstat Price to Earnings Multiple of 7.2 equals the estimate of Total Entity Value. See the Market Comparables Valuation schedule for detailed value calculations.

Net nonoperating assets in the amount of $0 has 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 Acquisition Candidate, Inc. based on the selected Price to Earnings Multiple from the Completed Transactions database is estimated to be $16,147,439. 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 $0 has 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 Acquisition Candidate, Inc. based on the selected Price to Revenue Multiple from the Completed Transactions database is estimated to be $19,817,495. 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 $0 has 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 Acquisition Candidate, Inc. based on the selected Price to Cash Flow from Operations Multiple from the Completed Transactions database is estimated to be $6,509,068. 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 $0 has 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 Acquisition Candidate, Inc. based on the selected Price to Assets Multiple from the Completed Transactions database is estimated to be $15,618,515. 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 $0 has 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 Acquisition Candidate, Inc. based on the selected Price to Stockholders' Equity Multiple from the Completed Transactions database is estimated to be $14,499,684. 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 $0 has 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 Acquisition Candidate, Inc. based on the selected Equity Price to Net Sales Multiple from the Pratt's Stats database is estimated to be $16,514,579. 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 $0 has 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 Acquisition Candidate, Inc. based on the selected Equity Price to Gross Cash Flow Multiple from the Pratt's Stats database is estimated to be $18,974,527. 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 $0 has 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 Acquisition Candidate, Inc. based on the selected Equity Price to Earnings Before Taxes (EBT) Multiple from the Pratt's Stats database is estimated to be $16,242,541. 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 $0 has 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 Acquisition Candidate, Inc. based on the selected Equity Price to Net Income Multiple from the Pratt's Stats database is estimated to be $10,583,767. 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 $0 has 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 Acquisition Candidate, Inc. based on the selected Deal Price to Net Revenue Multiple from the Pratt's Stats database is estimated to be $11,803,857. 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 $4,710,722 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 $0 has 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 Acquisition Candidate, Inc. based on the selected Deal Price to EBITDA Multiple from the Pratt's Stats database is estimated to be $20,624,559. 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 $4,710,722 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 $0 has 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 Acquisition Candidate, Inc. based on the selected Deal Price to EBITDA Multiple from the Pratt's Stats database is estimated to be $13,959,332. 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 $4,710,722 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 $0 has 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 Acquisition Candidate, Inc. based on the selected Sales Price to Revenue Multiple from the BIZCOMPS database is estimated to be $23,508,054. 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 $7,509,604, Long-Term Investments of $2,104,210, and Other Noncurrent Assets (except Nonoperating Assets) of $898,350 are added and Total Liabilities (except Nonoperating Liabilities) $7,812,480 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 $0 has 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 Acquisition Candidate, Inc. based on the selected Sales Price to Seller's Discretionary Cash Flow Multiple from the BIZCOMPS database is estimated to be $15,542,563. 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 $7,509,604, Long-Term Investments of $2,104,210, and Other Noncurrent Assets (except Nonoperating Assets) of $898,350 are added and Total Liabilities (except Nonoperating Liabilities) $7,812,480 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 $0 has 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.

	Cost	Percent of Total Capital	Weighted
Required Return on Debt	4.88%	26.9%	1.31%
Required Return on Equity	10.35%	73.1%	7.56%
Rate of Return on Net Tangible Assets			**8.87%**

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

Then, weighted average, normalized Net Income 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 10.35%. 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 Acquisition Candidate, Inc. based on the Capitalization of Excess Earnings approach is estimated to be $10,490,028.

Capitalization of Excess Earnings	**Normalized Net Income**	**Weighting Factor**	**Weighted Earnings**
Fiscal Year End 1999	470,266	1.0	470,266
Fiscal Year End 2000	591,737	1.0	591,737
Fiscal Year End 2001	659,005	1.0	659,005
Fiscal Year End 2002	767,284	1.0	767,284
Fiscal Year End 2003	1,158,189	1.0	1,158,189
Annualized 2004	1,598,756	1.0	1,598,756
Sum of Weighted earnings			5,245,237
Divided by: Sum of weighting factors			6.0
Weighted average earnings			**874,206**
Net tangible assets		14,291,334	
Multiplied by: Rate of return on net tangible assets		8.87%	
Normal return on net tangible assets		**1,267,641**	
Weighted average earnings			874,206
Less: Normal return on net tangible assets			1,267,641
Excess Earnings			**(393,435)**
Divided by: Excess earnings capitalization rate			10.35%
Intangible value			**(3,801,306)**
Plus: Net tangible assets			14,291,334
Operating value			**10,490,028**
Plus: Net nonoperating assets			0
Total entity value			**10,490,028**

Net nonoperating assets in the amount of $0 has 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 Acquisition Candidate, Inc. using the Multiple of Discretionary Earnings method is estimated to be $3,737,508 as shown below.

Multiple of Discretionary Earnings	**Normalized EBT**	**Weighting Factor**	**Weighted Earnings**
Fiscal Year End 1999	770,927	1.0	770,927
Fiscal Year End 2000	970,061	1.0	970,061
Fiscal Year End 2001	1,080,336	1.0	1,080,336
Fiscal Year End 2002	1,257,844	1.0	1,257,844
Fiscal Year End 2003	1,898,672	1.0	1,898,672
Sum of Weighted earnings			8,527,689
Divided by: Sum of weighting factors			6.0
Weighted average earnings			**1,421,282**
Plus: Normalized owner's salary & benefits			183,750
Plus: Normalized interest expense			582,710
Plus: Normalized depreciation & amortization expense			1,684,034
Less: Normalized interest income			248,187
Less: Required capital expenditures			929,999
Discretionary earnings			**2,693,589**
Multiplied by: Value multiple			1.5
Value of operating assets			**4,040,384**
Plus: Normalized net working capital			5,553,704
Less: Interest-bearing debt			5,856,580
Total entity value			**3,737,508**

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.

Valuation Conclusions

Subject to the assumptions and limiting conditions presented herein, we have estimated the Fair Market Value of 100.00% of the common stock of Sample Acquisition Candidate, Inc. as of June 30, 2004 to be $9,485,714.

Method	Value	Weight	Weighted Value
Net Asset Value	11,812,715	0.0	0
Liquidation Value	7,921,780	0.0	0
Capitalization of Earnings	8,446,436	0.0	0
Discounted Future Earnings	12,084,154	1.0	12,084,154
Discounted Net Cash Flow	4,033,854	0.0	0
Price to Earnings Multiple	14,069,056	0.0	0
Price to Revenue Multiple	26,423,326	0.0	0
Price to Gross Cash Flow Multiple	23,964,368	0.0	0
Mergerstat Price to Earnings Multiple	11,431,108	0.0	0
Completed Transactions Price to Earnings Multiple	16,147,439	0.0	0
Completed Transactions Price to Revenue Multiple	19,817,495	0.0	0
Completed Transactions Price to CFO Multiple	6,509,068	0.0	0
Completed Transactions Price to Assets Multiple	15,618,515	0.0	0
Completed Transactions Price to Equity Multiple	14,499,684	0.0	0
Pratt's Stats Equity Price to Net Revenue Multiple	16,514,579	0.0	0
Pratt's Stats Equity Price to Gross Cash Flow Multiple	18,974,527	0.0	0
Pratt's Stats Equity Price to EBT Multiple	16,242,541	0.0	0
Pratt's Stats Equity Price to Net Income Multiple	10,583,767	0.0	0
Pratt's Stats Deal Price to Net Revenue Multiple	11,803,857	0.0	0
Pratt's Stats Deal Price to EBITDA Multiple	20,624,559	0.0	0
Pratt's Stats Deal Price to EBIT Multiple	13,959,332	0.0	0
BIZCOMPS Price to Net Revenue Multiple	23,508,054	0.0	0
BIZCOMPS Price to Seller's Discr. Cash Flow Mult.	15,542,563	0.0	0
Capitalization of Excess Earnings	10,490,028	1.0	10,490,028
Multiple of Discretionary Earnings	3,737,508	0.0	0
Sum of weighted values			22,574,182
Divided by: Sum of weights			2.0
Weighted average total entity value			**11,287,091**
Selected total entity value			10,700,000
Less: Fair market value of preferred stock			**1,214,286**
Fair market value of common equity			**9,485,714**

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. Please note that this comment will not print.

Proposed Purchase Price & Transaction Structure

The proposed purchase price is $16,000,000 for the assets of Sample Acquisition Candidate, Inc. For purposes of this analysis, it is assumed that the assets will be owned and the business operated as a separate, standalone entity. It is further assumed that purchased assets will have new base values derived by allocating the proposed purchase price to the purchased assets.

Price Premiums/Discounts

In an effort to determine an appropriate purchase price for Sample Acquisition Candidate, Inc., the proposed price has been compared to the asking price and to various measures of value as presented in the following table.

Purchase Price Premiums (Discounts)	**Proposed (a)**	**Asking (b)**	**Spread (b-a)**	**Percent of Asking (a/b)**
Purchase Price	16,000,000	18,000,000	2,000,000	88.89%
Premium over Fair market value of common equity	6,514,286	8,514,286		
Percent Premium / (Discount)	68.67%	89.76%		
Premium over Enterprise Value	(245,656)	1,754,344		
Percent Premium / (Discount)	-1.51%	10.80%		
Fair market value of common equity	9,485,714			
Plus: Total Interest-Bearing Debt	7,812,480			
Plus: Fair market value of preferred stock	1,214,286			
Market Value of Invested Capital (MVIC)	18,512,480			
Less: Cash & Equivalents	2,266,824			
Enterprise Value	16,245,656			

Key Pricing Multiples

To benchmark the various measures of price and value, they are presented here as multiples of key amounts from the historic and projected financial statements. The multiples are calculated for the last full historic year, the historic average and the first projected year for each respective financial statement category.

Key Multiples

Proposed Price	**Year End**	**Multiple**	**Average**	**Multiple**	**Projected Yr 1**	**Multiple**
Net Cash Flow	106,738	149.90	52,367	305.53	153,395	104.31
Free Cash Flow	810,827	19.73	121,864	131.29	3,838,684	4.17
Net Income	1,158,189	13.81	729,296	21.94	1,598,756	10.01
EBT	1,898,672	8.43	1,195,568	13.38	2,549,851	6.27
EBIT	2,502,654	6.39	1,848,034	8.66	3,132,561	5.11
EBITDA	3,613,460	4.43	3,000,097	5.33	4,816,595	3.32
Total Revenue	31,541,420	0.51	28,824,668	0.56	33,029,158	0.48
Historic Book Value	7,683,107	2.08	7,017,688	2.28		
Normalized Book Value	7,610,107	2.10	6,959,688	2.30		
Net Asset Value	11,812,715	1.35				

Asking Price	**Year End**	**Multiple**	**Average**	**Multiple**	**Projected Yr 1**	**Multiple**
Net Cash Flow	106,738	168.64	52,367	343.73	153,395	117.34
Free Cash Flow	810,827	22.20	121,864	147.71	3,838,684	4.69
Net Income	1,158,189	15.54	729,296	24.68	1,598,756	11.26
EBT	1,898,672	9.48	1,195,568	15.06	2,549,851	7.06
EBIT	2,502,654	7.19	1,848,034	9.74	3,132,561	5.75
EBITDA	3,613,460	4.98	3,000,097	6.00	4,816,595	3.74
Total Revenue	31,541,420	0.57	28,824,668	0.62	33,029,158	0.54
Historic Book Value	7,683,107	2.34	7,017,688	2.56		
Normalized Book Value	7,610,107	2.37	6,959,688	2.59		
Net Asset Value	11,812,715	1.52				

Fair market value of common equity	**Year End**	**Multiple**	**Average**	**Multiple**	**Projected Yr 1**	**Multiple**
Net Cash Flow	106,738	88.87	52,367	181.14	153,395	61.84
Free Cash Flow	810,827	11.70	121,864	77.84	3,838,684	2.47
Net Income	1,158,189	8.19	729,296	13.01	1,598,756	5.93
EBT	1,898,672	5.00	1,195,568	7.93	2,549,851	3.72
EBIT	2,502,654	3.79	1,848,034	5.13	3,132,561	3.03
EBITDA	3,613,460	2.63	3,000,097	3.16	4,816,595	1.97
Total Revenue	31,541,420	0.30	28,824,668	0.33	33,029,158	0.29
Historic Book Value	7,683,107	1.23	7,017,688	1.35		
Normalized Book Value	7,610,107	1.25	6,959,688	1.36		
Net Asset Value	11,812,715	0.80				

Market Value of Invested Capital	**Year End**	**Multiple**	**Average**	**Multiple**	**Projected Yr 1**	**Multiple**
Net Cash Flow	106,738	173.44	52,367	353.51	153,395	117.34
Free Cash Flow	810,827	22.83	121,864	151.91	3,838,684	4.69
Net Income	1,158,189	15.98	729,296	25.38	1,598,756	11.26
EBT	1,898,672	9.75	1,195,568	15.48	2,549,851	7.06
EBIT	2,502,654	7.40	1,848,034	10.02	3,132,561	5.75
EBITDA	3,613,460	5.12	3,000,097	6.17	4,816,595	3.74
Total Revenue	31,541,420	0.59	28,824,668	0.64	33,029,158	0.54
Historic Book Value	7,683,107	2.41	7,017,688	2.64		
Normalized Book Value	7,610,107	2.43	6,959,688	2.66		
Net Asset Value	11,812,715	1.57				

Enterprise Value	Year End	Multiple	Average	Multiple	Projected Yr 1	Multiple
Net Cash Flow	106,738	152.20	52,367	310.23	153,395	105.91
Free Cash Flow	810,827	20.04	121,864	133.31	3,838,684	4.23
Net Income	1,158,189	14.03	729,296	22.28	1,598,756	10.16
EBT	1,898,672	8.56	1,195,568	13.59	2,549,851	6.37
EBIT	2,502,654	6.49	1,848,034	8.79	3,132,561	5.19
EBITDA	3,613,460	4.50	3,000,097	5.42	4,816,595	3.37
Total Revenue	31,541,420	0.52	28,824,668	0.56	33,029,158	0.49
Historic Book Value	7,683,107	2.11	7,017,688	2.31		
Normalized Book Value	7,610,107	2.13	6,959,688	2.33		
Net Asset Value	11,812,715	1.38				

Transaction Costs

In order to complete the acquisition, various transaction costs would be incurred. The total of these transaction costs is estimated to be $335,000 and would be due upon closing. The amount of the transaction costs has been estimated and presented in the following table.

Fixed Transaction Costs:	
Legal	100,000
Accounting	50,000
Due Diligence Services	25,000
Total Fixed Transaction Costs	**$175,000**

Variable Transaction Costs	**Percent of Price**	**Dollar Amount**
Brokerage	1.00%	160,000
Total Variable Transaction Costs		**$160,000**

All variable transaction costs are estimated based on the Proposed Purchase Price of $16,000,000.

Total transaction costs will be amortized in the post-acquisition projections over a period of 15 years.

Allocation of Purchase Price & Total Purchase Cost

IRS regulations require that the Buyer and Seller agree in advance regarding specific allocation of the purchase price among the various items being purchased. The proposed purchase price of $16,000,000 has therefore been allocated to specific items as presented in the Totals column of the following table. Transaction costs are then added to determine Total Purchase Cost.

Summary of Required Funding	**Cash, Stock & Outside Debt**	**Seller Financing**	**Assumed Liabilities**	**Totals**
Tangible & Intangible assets	5,000,000	6,308,637	3,991,363	15,300,000
Covenant-not-to-compete	250,000	250,000		500,000
Employment contract	0	150,000		150,000
Management contract	0	25,000		25,000
Operating lease contract	0	25,000		25,000
Total Consideration to Seller	**5,250,000**	**6,758,637**		**16,000,000**
Transaction costs	335,000			335,000
Total Purchase Cost	**5,585,000**	**6,758,637**	**3,991,363**	**16,335,000**

In order to purchase the tangible assets of Sample Acquisition Candidate, Inc., $15,200,000 would be paid to the seller with $5,000,000 due at closing, $3,991,363 in assumed liabilities and the remaining portion, $6,208,637, financed by the seller.

A Covenant-Not-To-Compete would be created with the seller in the amount of $500,000, with $250,000 due at closing and the remaining portion, $250,000, financed by the seller. Payments on the financed portion would be made to the seller in the amount of $10,417 every Quarter for a period of 72 months subsequent to the acquisition. In addition, the entire amount of the covenant would be capitalized and amortized to expense over a period of 15 years.

An Employment Contract would be created with the seller in the amount of $150,000. The amount due at closing would be $0. The remaining portion, $150,000, would be paid to the seller in the amount of $6,250 each Month for a period of 24 months subsequent to the acquisition.

A Management Contract would be created with the seller in the amount of $25,000. The amount due at closing would be $0. The remaining portion, $25,000, would be paid to the seller in the amount of $2,083 each month for a period of 12 months subsequent to the acquisition.

Purchase Goodwill would be created in the amount of $100,000, with $0 due at closing and the remaining portion, $100,000, financed by the seller. In addition, the entire amount of purchase goodwill would be capitalized and amortized to expense over a period of 15 years. The total amount of Goodwill created as result of the proposed transaction is estimated as the portion of the Proposed Purchase Price that has not been allocated to specific assets, covenants and employment, management and/or operating lease contracts.

Funding Requirements & Structure

The following table summarizes the Estimated Total Purchase Cost that would be incurred by the buyer under the proposed terms of the transaction.

Proposed Purchase Price	$16,000,000
Estimated Total Transaction Costs	335,000
Estimated Total Purchase Cost	$16,335,000

Based on the amount of the Estimated Total Purchase Cost and any additional discretionary funding required at closing, the structure of the funding would be as follows:

Total purchase cost	**16,335,000**
Deduct:	
Interest-bearing liabilities assumed	3,991,363
Non interest-bearing liabilities assumed	0
Seller financed Covenant-not-to-compete	250,000
Deferred Employment contract	150,000
Deferred Management contract	25,000
Deferred Operating lease contract	25,000
Balance of Purchase Cost to be Funded	**$11,893,637**
Additional discretionary funding at closing	315,000
Total Purchase & Discretionary Funding Required	**12,208,637**
Less: Seller debt financing	6,308,637
Balance to be funded after seller financing	**5,900,000**
Less: Value of buyer stock & cash offered	750,000
Remaining Cash Required at Closing	**5,150,000**
Required cash funded by outside debt	4,000,000
Cash funded with preferred equity	250,000
Cash funded with common equity	900,000

The seller financed portion of any Covenant-Not-To-Compete and Employment, Management and/or Operating Lease Contracts are deducted here because no additional debt and/or equity would be required at closing to fund the purchase of these items. The seller would be paid for these items from the future cash flows generated by the Company subsequent to the acquisition.

Proposed Acquisition Funding

The balance of the purchase cost to be funded (after any deferred contract or covenant payments have been deducted) and any additional discretionary funding required at closing as would be structured as follows:

Balance of Purchase Cost to be Funded	**$11,893,637**
Term-Debt Funding	10,308,637
Equity Funding	1,900,000
Discretionary Amount Overfunded	**$315,000**

Proposed Term-Debt Funding

Funding Note A to Seller in the original amount of $4,000,000 with an interest rate of 6.5% would be repaid in 72 monthly installments. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

Funding Note B to Seller in the original amount of $3,893,637 with an interest rate of 7.5% would be repaid in 84 monthly installments. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

Senior Secured Bank Note in the original amount of $2,000,000 with an interest rate of 8.8% would be repaid in 84 monthly installments. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

Mezzanine Capital Partners in the original amount of $415,000 with an interest rate of 11.5% 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.

At the creditor's option, the principal balance of this loan could be converted into Sample Acquisition Candidate, Inc.'s common stock at a rate of $0.50 per share. For purposes of this analysis, it is assumed that the unpaid loan principal would be converted to common stock in projected month 48 subsequent to proposed acquisition.

Proposed Equity Funding

As a portion of the acquisition funding, cash and other contributions will be made and new common stock will be issued in the amount of $900,000 with $0 in new additional paid-in capital.

As a portion of the acquisition funding, cash and other contributions will be made and new preferred stock will be issued in the amount of $250,000 with $0 in new additional paid-in capital.

As a portion of the acquisition funding, buyer stock will be offered and new common stock will be issued in the amount of $750,000 with $0 in new additional paid-in capital.

Post-Acquisition Projections

In order to estimate Sample Acquisition Candidate, Inc.'s future performance under the direction of new ownership and management and to estimate the returns to investors subsequent to the proposed acquisition, a comprehensive 5 year projection of the financial statements has been prepared. The projections incorporate all assumptions related to the proposed transaction including the assumed financial performance under new ownership and management, estimated transaction costs, purchase price funding and any contingency and/or contract payments to the seller.

These projections were prepared primarily to:

1. Determine earnings capacity subsequent to acquisition,
2. Estimate future capital and fixed asset requirements,
3. Analyze the ability to service acquisition-related obligations, and
4. Estimate the anticipated returns to investors.

For the most part, the Post-Acquisition Projections include the same projection options as the Pre-Acquisition Projections. The differences between the Post-Acquisition and Pre-Acquisition Projections are as follows:

The post-acquisition income statement projection is based upon the buyer's outlook for revenues and expenses. The economic impact of changes to be implemented by the buyer is included. In addition, depreciation, interest and amortization are based upon the purchase price and funding structure of the proposed transaction. Transaction costs (both fixed and variable) and terms of acquisition contracts (covenant-not-to-compete, employment, management, and lease, if any) are considered in the post-acquisition income statement projection.

The post-acquisition balance sheet projection is based upon the allocated purchase price, the amount of any assumed liabilities and the funding structure for the proposed transaction. The asset values and liability balances in the Balance Sheet at Closing schedule will differ from the Company's most recent historic balance sheet.

The reader should take notice that the projected financial statements and related attachments are for planning and internal discussion purposes only, and that the same limitations and restrictions set forth in the Pre-Acquisition Projections are also applicable for the Post-Acquisition projections.

The post-acquisition projected financial statements consist of income statements, balance sheets, statements of retained earnings, statements of cash flows and sources and uses of funds statements. An overall summary of the projections is presented below followed by the individual statements in condensed format. Please note that these projected financial statements and related attachments are for planning and internal discussion purposes only. See the Post-Acquisition Assumptions and Projection schedules for complete details.

Post-Acquisition Projection Summary

	2004	2005	2006	2007	2008
Net sales revenue	15,926,268	38,629,427	42,691,463	46,102,385	49,811,488
Gross profit	4,898,568	11,520,259	13,215,394	14,597,560	16,086,558
EBITDA	2,460,879	5,655,672	6,794,229	7,692,019	8,626,534
EBIT	1,874,078	4,476,513	5,600,903	6,477,304	7,411,820
EBT	1,275,614	3,415,699	4,748,262	5,869,119	7,032,170
Net income	843,364	2,255,572	3,135,821	3,902,964	4,676,393
Net cash flow	2,315,407	(64,942)	993,020	1,608,353	3,257,975
Total current assets	6,926,300	8,871,907	10,527,022	12,691,342	16,553,886
Net fixed assets	9,305,198	8,588,373	7,857,381	6,799,167	5,696,786
Net other assets	900,500	838,167	775,833	713,500	651,167
Total assets	17,131,998	18,298,446	19,160,237	20,204,009	22,901,838
Total current liabilities	3,087,762	4,498,552	4,987,294	4,350,732	4,124,679
Total long-term debt	11,300,873	8,800,959	6,038,186	3,815,556	1,993,114
Total liabilities	14,388,634	13,299,511	11,025,480	8,166,288	6,117,793
Total equity	2,743,364	4,998,935	8,134,757	12,037,721	16,784,045
Net working capital	3,838,538	4,373,354	5,539,728	8,340,610	12,429,207
Federal income tax before NOL adjustment	363,550	973,474	1,353,255	1,672,699	2,004,168
Plus: NOL tax adjustment	0	0	0	0	0
Federal Income tax expense	363,550	973,474	1,353,255	1,672,699	2,004,168
Income from operations	1,874,078	4,476,513	5,600,903	6,477,304	7,411,820
Less: Tax based on selected tax rate	637,186	1,522,015	1,904,307	2,202,283	2,520,019
Plus: Depr. & Amort. from operations	586,802	1,179,159	1,193,325	1,214,714	1,214,714
Less: Fixed asset purchases	257,500	400,000	400,000	0	0
Less: Changes in Working capital **	(1,754,845)	1,274,785	779,367	705,429	742,933
Free Cash Flow	3,321,038	2,458,873	3,710,555	4,784,306	5,363,582

Summary Post-Acquisition Income Statement Projections

	2004	2005	2006	2007	2008
Net Sales Revenue	**15,926,268**	**38,629,427**	**42,691,463**	**46,102,385**	**49,811,488**
Total Cost of Goods Sold	11,027,700	27,109,168	29,476,069	31,504,825	33,724,930
Gross Profit	**4,898,568**	**11,520,259**	**13,215,394**	**14,597,560**	**16,086,558**
Total Selling Expenses	664,125	1,610,847	1,780,234	1,922,469	2,077,139
Total General & Administrative Expenses	2,360,365	5,432,898	5,834,257	6,197,786	6,597,599
Income From Operations	**1,874,078**	**4,476,513**	**5,600,903**	**6,477,304**	**7,411,820**
Total Other Revenues and Expenses	(598,463)	(1,060,815)	(852,641)	(608,185)	(379,650)
Income Before Taxes	**1,275,614**	**3,415,699**	**4,748,262**	**5,869,119**	**7,032,170**
Total Income Taxes	432,250	1,160,127	1,612,441	1,966,155	2,355,777
Net Income	**843,364**	**2,255,572**	**3,135,821**	**3,902,964**	**4,676,393**

Summary Post-Acquisition Balance Sheet Projections

	2004	2005	2006	2007	2008
ASSETS					
Total Current Assets	6,926,300	8,871,907	10,527,022	12,691,342	16,553,886
Net Fixed Assets	9,305,198	8,588,373	7,857,381	6,799,167	5,696,786
Net Intangible Assets	900,500	838,167	775,833	713,500	651,167
Total Assets	**17,131,998**	**18,298,446**	**19,160,237**	**20,204,009**	**22,901,838**
LIABILITIES & STOCKHOLDERS' EQUITY					
Total Current Liabilities:	3,087,762	4,498,552	4,987,294	4,350,732	4,124,679
Total Long-Term Debt	11,300,873	8,800,959	6,038,186	3,815,556	1,993,114
Total Liabilities	**14,388,634**	**13,299,511**	**11,025,480**	**8,166,288**	**6,117,793**
Stockholders' Equity:					
Preferred stock	250,000	250,000	250,000	250,000	250,000
Common stock	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000
Retained earnings	843,364	3,098,935	6,234,757	10,137,721	14,814,114
Converted debt	0	0	0	0	69,931
Total Stockholders' Equity	**2,743,364**	**4,998,935**	**8,134,757**	**12,037,721**	**16,784,045**
Total Liabilities and Stockholders' Equity	**17,131,998**	**18,298,446**	**19,160,237**	**20,204,009**	**22,901,838**

Summary Post-Acquisition Retained Earnings Projections

	2004	2005	2006	2007	2008
Retained Earnings Beginning of Period	**0**	**843,364**	**3,098,935**	**6,234,757**	**10,137,721**
Additions:					
Net income for the year	843,364	2,255,572	3,135,821	3,902,964	4,676,393
Deductions:					
Preferred dividends	0	0	0	0	0
Common dividends	0	0	0	0	0
Retained Earnings End of Period	**843,364**	**3,098,935**	**6,234,757**	**10,137,721**	**14,814,114**

Summary Post-Acquisition Cash Flow Projections

	2004	2005	2006	2007	2008
Net Cash Flow From Operations	3,497,511	2,472,445	3,862,280	4,724,750	5,460,673
Net Cash Flow From Investments	(257,500)	(400,000)	(400,000)	(94,167)	(50,000)
Net Cash Flow From Financing	(924,604)	(2,137,387)	(2,469,260)	(3,022,230)	(2,152,699)
Net Cash Flow	**2,315,407**	**(64,942)**	**993,020**	**1,608,353**	**3,257,975**
Cash at Beginning of Year	315,000	2,630,407	2,565,465	3,558,485	5,166,838
Cash at End of Year	**2,630,407**	**2,565,465**	**3,558,485**	**5,166,838**	**8,424,812**

Summary Post-Acquisition Sources & Uses of Funds Projections

	2004	2005	2006	2007	2008
Total Internally Generated Cash	2,575,034	1,138,616	3,295,736	4,490,736	5,258,600
Total Cash from External Financing	(259,627)	(1,203,558)	(2,302,716)	(2,882,382)	(2,000,626)
Net Cash Flow	**2,315,407**	**(64,942)**	**993,020**	**1,608,353**	**3,257,975**

Overview of Post-Acquisition Projection Assumptions

In preparing the preceding financial statement projections, various assumptions have been made with respect to expected future revenues, expenses, assets, liabilities and equity after the proposed acquisition and under the direction of Sample Acquisition Candidate, Inc.'s new ownership and management. The projection assumptions have been 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 Post-Acquisition 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 under new ownership are projected to grow at an estimated, compound average annual rate of 9.57%, starting from a base amount of $31,541,420 and growing to $38,629,427 in the first projected year and $49,811,488 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, 2003. Total Cost of Goods Sold has been projected to be $11,027,700, or 69.24% of Net Sales Revenues in the first projected year and $33,724,930, or 67.71% of Net Sales Revenues in projected year 5. On average, Total Cost of Goods Sold has been projected to be 68.9% 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, 2003. Total Selling Expenses have been projected to be $664,125, or 4.17% of Net Sales Revenues in the first projected year and $2,077,139, or 4.2% of Net Sales Revenues in projected year 5. On average, Total Selling Expenses have been projected to be 4.17% 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 under new ownership are projected to grow at an estimated, compound average annual rate of 1.32%, starting from a base amount of $6,177,705 and growing to $2,360,365 in the first projected year and $6,597,599 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 0.0% 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	Allocation at Market	Original Life (years)	Salvage (% of Cost)	Depreciation Method
Plant	4,000,000	15	0.0%	Straight Line
Equipment	2,000,000	7	0.0%	Straight Line
Vehicles	2,000,000	5	0.0%	Straight Line
Furniture and fixtures	1,500,000	10	0.0%	Straight Line
Land	100,000	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
NONE					

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 7.00 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.

	2004	2005	2006	2007	2008
Total Fixed Asset Purchases	257,500	400,000	400,000	0	0

Amortization of Intangible Assets

Goodwill is assumed to be amortized to **Amortization Expense** over a period of 15 projected years.

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

Existing Notes Payable Assumptions

Payable to 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.

Payable to First National 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.

New Funding Notes Payable Assumptions

Funding Note A to Seller in the original amount of $4,000,000 with an interest rate of 6.5% would be repaid in 72 monthly installments. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

Funding Note B to Seller in the original amount of $3,893,637 with an interest rate of 7.5% would be repaid in 84 monthly installments. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

Senior Secured Bank Note in the original amount of $2,000,000 with an interest rate of 8.8% would be repaid in 84 monthly installments. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

Mezzanine Capital Partners in the original amount of $415,000 with an interest rate of 11.5% 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.

At the creditor's option, the principal balance of this loan could be converted into Sample Acquisition Candidate, Inc.'s common stock at a rate of $0.50 per share. For purposes of this analysis, it is assumed that the unpaid loan principal would be converted to common stock in projected month 48 subsequent to proposed acquisition.

Equity Funding

As a portion of the acquisition funding, cash and other contributions will be made and new common stock will be issued in the amount of $900,000 with $0 in new additional paid-in capital.

As a portion of the acquisition funding, cash and other contributions will be made and new preferred stock will be issued in the amount of $250,000 with $0 in new additional paid-in capital.

As a portion of the acquisition funding, buyer stock will be offered and new common stock will be issued in the amount of $750,000 with $0 in new additional paid-in capital.

Dividends Assumptions

Preferred Stock Dividends are assumed to be paid at the rate of 0.0% of the preferred stock balance in each projected year.

Common Stock Dividends are assumed to be paid at the rate of 0.0% of net income in each projected year.

Review of Post-Acquisition Financial Performance

The results of the Post-Acquisition Projections have been analyzed and reviewed. The objective of this review is to analyze the financial performance and position of the Company during the term of the projections.

Loan Compliance

In the Loan Compliance analysis, selected ratios that are indicators of the Company's ability to meet its obligations have been calculated for each year subsequent to the acquisition. A minimum performance level (frequently imposed as an affirmative covenant by a lender) for each ratio has been established and any anticipated defaults have been noted. See the Loan Compliance schedule for complete details.

Post-Acquisition Business Ratios

The Post-Acquisition Business Ratios contain a review of the Company's key business ratios. Ratios were calculated for each projected year of the Company's Post-Acquisition projected financial statements. These ratios measure Sample Acquisition Candidate, Inc.'s liquidity positions, coverage capacity, leverage/capitalization, operating efficiency and equity performance. The listed ratios fall into the following five categories:

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.

Post-Acquisition Business Ratios

	2004	2005	2006	2007	2008
Liquidity Ratios:					
Current ratio	2.24	1.97	2.11	2.92	4.01
Quick ratio	1.24	1.21	1.35	1.97	2.93
Accounts receivable turnover	13.57	13.57	13.57	13.57	13.57
Days' receivable	26.53	26.53	26.53	26.53	26.53
Inventory turnover	3.54	7.86	7.73	7.65	7.58
Days' inventory	101.60	45.81	46.56	47.04	47.48
Accounts payable turnover	16.89	17.12	16.84	16.67	16.51
Days' payable	21.32	21.03	21.38	21.60	21.80
Working capital turnover	4.15	8.83	7.71	5.53	4.01
Inventory as a % of Total current assets	44.93%	38.88%	36.21%	32.44%	26.87%
Total current assets as a % of Total assets	40.43%	48.48%	54.94%	62.82%	72.28%
Coverage Ratios:					
Times interest earned	3.13	4.22	6.57	10.65	19.52
Current portion of long-term debt coverage	0.62	1.28	1.45	2.35	3.31
EBIT to Principal	2.03	2.09	2.27	2.14	3.33
EBIT to (Principal + Interest)	1.23	1.40	1.69	1.78	2.85
Leverage/Capitalization Ratios:					
Fixed assets to Tangible net worth	5.05	2.06	1.07	0.60	0.35
Total debt to Tangible net worth	7.81	3.20	1.50	0.72	0.38
Short-term debt to Total debt	21.46%	33.82%	45.23%	53.28%	67.42%
Short-term debt to Net worth	112.55%	89.99%	61.31%	36.14%	24.57%
Total debt to Total assets	83.99%	72.68%	57.54%	40.42%	26.71%
Operating Ratios:					
Percent return on Tangible net worth	69.22%	82.09%	64.52%	51.83%	43.59%
Percent return on Total assets	7.45%	18.67%	24.78%	29.05%	30.71%
Net sales to Net fixed assets	1.71	4.50	5.43	6.78	8.74
Net sales to Total assets	0.93	2.11	2.23	2.28	2.17
Percent Depr., Amort. to Net sales	3.68%	3.05%	2.80%	2.63%	2.44%
Percent Officer salaries to Net sales	0.55%	0.55%	0.55%	0.56%	0.57%
Total sales to Net worth	5.89	7.85	5.33	3.89	3.01
Revenue growth percentage		142.55%	10.52%	7.99%	8.05%
Sustainable growth rate	**30.74%**	**45.12%**	**38.55%**	**32.42%**	**27.86%**
Z-Score	**1.74**	**3.67**	**4.44**	**5.42**	**6.44**

Post-Acquisition Common-Size Statements

This analysis includes a review of the Company's common-size income statement and balance sheet percentages subsequent to the acquisition. 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 as presented below.

Post-Acquisition Common-Size Statements

	2004	2005	2006	2007	2008
Income Data:					
Net sales	100.00%	100.00%	100.00%	100.00%	100.00%
Gross profit	30.76%	29.82%	30.96%	31.66%	32.29%
Operating expenses	18.99%	18.23%	17.84%	17.61%	17.42%
Operating profit	11.77%	11.59%	13.12%	14.05%	14.88%
All other expenses (net)	-3.76%	-2.75%	-2.00%	-1.32%	-0.76%
Profit Before Tax	**8.01%**	**8.84%**	**11.12%**	**12.73%**	**14.12%**
Assets:					
Cash & equivalents	15.35%	14.02%	18.57%	25.57%	36.79%
Trade receivables (net)	6.85%	15.56%	16.42%	16.82%	16.03%
Inventory	18.17%	18.85%	19.90%	20.38%	19.42%
All other current assets	0.06%	0.05%	0.05%	0.05%	0.04%
Total Current Assets	**40.43%**	**48.48%**	**54.94%**	**62.82%**	**72.28%**
Fixed assets (net)	54.31%	46.93%	41.01%	33.65%	24.87%
Intangibles (net)	5.26%	4.58%	4.05%	3.53%	2.84%
All other noncurrent assets	0.00%	0.00%	0.00%	0.00%	0.00%
Total Noncurrent Assets	**59.57%**	**51.52%**	**45.06%**	**37.18%**	**27.72%**
Total Assets	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
Liabilities:					
Notes payable short-term	0.00%	0.00%	0.00%	0.00%	0.00%
Current maturity of long-term Debt	13.57%	14.68%	15.56%	10.79%	7.78%
Trade payables	3.81%	8.66%	9.14%	9.36%	8.92%
Income taxes payable	0.00%	0.00%	0.00%	0.00%	0.00%
All other current liabilities	0.64%	1.24%	1.34%	1.38%	1.32%
Total Current Liabilities	**18.02%**	**24.58%**	**26.03%**	**21.53%**	**18.01%**
Long-term debt	65.96%	48.10%	31.51%	18.89%	8.70%
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	**16.01%**	**27.32%**	**42.46%**	**59.58%**	**73.29%**
Total Liabilities & Net Worth	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Z-Score Risk Assessment (Post-Acquisition)

The Z-Score is calculated for each year of the post-acquisition projections and is included as an aid to assess the future viability of the company. The Z-Score is a predictive model developed by Edward I Altman, Ph.D., that indicates the likelihood that a company will become insolvent within the next twelve months. Altman's book, Corporate Financial Distress and Bankruptcy, Second Edition, states that the Z-Score predicted the bankruptcy filings of sample companies within 12 months with 95% accuracy, and that in later studies based on more extensive samples, over different time periods and under different economic conditions, the Z-Score still sustained 82%-85% accuracy.

	2004	**2005**	**2006**	**2007**	**2008**
Z-Score Ratio Components					
Total Revenue	15,926,268	38,629,427	42,691,463	46,102,385	49,811,488
EBIT	1,874,078	4,476,513	5,600,903	6,477,304	7,411,820
Working Capital	3,838,538	4,373,354	5,539,728	8,340,610	12,429,207
Tangible Total Assets	16,231,498	17,460,280	18,384,403	19,490,509	22,250,671
Total Liabilities	14,388,634	13,299,511	11,025,480	8,166,288	6,117,793
Tangible Retained Earnings	843,364	3,098,935	6,234,757	10,137,721	14,814,114
Tangible Net Worth	1,842,864	4,160,769	7,358,923	11,324,221	16,132,878
Private Non-Manufacturing Company Ratios & Weighting					
Working Capital / Tangible Total Assets x (6.56)	1.55	1.64	1.98	2.81	3.66
Tangible Retained Earnings / Tangible Total Assets x (3.26)	0.17	0.58	1.11	1.70	2.17
EBIT / Tangible Total Assets x (6.72)	0.78	1.72	2.05	2.23	2.24
Tangible Net Worth / Total Liabilities x (1.05)	0.13	0.33	0.70	1.46	2.77
Total Z-Score	**2.63**	**4.27**	**5.83**	**8.19**	**10.84**

Private Non-Manufacturing Z-Score Scale
2.60 and up = Bankruptcy unlikely
1.11 to 2.59 = Monitoring and corrective action required
1.10 and less = Bankruptcy Likely

	2004	**2005**	**2006**	**2007**	**2008**
Private Manufacturing Ratios & Weighting					
Working Capital / Tangible Total Assets x (.717)	0.17	0.18	0.22	0.31	0.40
Tangible Retained Earnings / Tangible Total Assets x (.847)	0.04	0.15	0.29	0.44	0.56
EBIT / Tangible Total Assets x (3.1)	0.36	0.79	0.94	1.03	1.03
Tangible Net Worth / Total Liabilities x (.42)	0.05	0.13	0.28	0.58	1.11
Sales / Tangible Total Assets x (.998)	0.98	2.21	2.32	2.36	2.23
Total Z-Score	**1.60**	**3.46**	**4.05**	**4.72**	**5.34**

Private Manufacturing Z-Score Scale
2.90 and up = Bankruptcy unlikely
1.24 to 2.89 = Monitoring and corrective action required
1.23 and less = Bankruptcy Likely

Sustainable Growth Analysis (Post-Acquisition)

The maximum sustainable growth in total revenue is calculated for each projected year and then is compared to the calculated growth rate in total revenue from the prior year to the current year. The Sustainable Growth model is a combination of four ratios and measures the maximum rate of growth in sales that can be sustained without depleting financial resources.

	2004	2005	2006	2007	2008
Sustainable Growth Components					
Total Revenue	15,926,268	38,629,427	42,691,463	46,102,385	49,811,488
Net Income	843,364	2,255,572	3,135,821	3,902,964	4,676,393
Total Assets	17,131,998	18,298,446	19,160,237	20,204,009	22,901,838
Total Equity	2,743,364	4,998,935	8,134,757	12,037,721	16,784,045
Preferred Dividends	0	0	0	0	0
Common Dividends	0	0	0	0	0
Sustainable Growth Ratios					
Profit Margin (Net Income / Total Revenue) a	5.30%	5.84%	7.35%	8.47%	9.39%
Earnings Retention (1-[Common Div. + Pref. Div.] / Net Income) b	100.00%	100.00%	100.00%	100.00%	100.00%
Asset Turnover (Total Revenue / Total Assets) c	92.96%	211.11%	222.81%	228.18%	217.50%
Financial Leverage (Total Assets / Total Equity) d	624.49%	366.05%	235.54%	167.84%	136.45%
Maximum Sustainable Growth in Total Revenue (a*b*c*d)	**30.74%**	**45.12%**	**38.55%**	**32.42%**	**27.86%**
Historic (or Projected) Growth in Total Revenue		142.55%	10.52%	7.99%	8.05%
Difference		**-97.43%**	**28.03%**	**24.43%**	**19.82%**

Return on Investment

In this final section of the evaluation, the Return on Total Invested Capital, Return on Total Invested Equity Capital and the returns to the individual equity participants have been estimated.

Return on Total Invested Capital

Free Cash Flow Available to Total Invested Capital is the projected earnings base used to calculate the returns on Total Invested Capital (TIC), i.e., debt capital plus equity capital. It represents the amount of cash flows that are available to both equity holders and to service debt.

Sum of Present Values of Adjusted Free Cash Flows	a	15,042,893
Residual Adjusted Free Cash Flow available to TIC		5,313,582
Divided by: TIC Capitalization Rate		10.00%
Residual Value of Free Cash Flow Available to TIC		53,152,122
Residual Value Discount Factor for Free Cash Flows		0.651309
Present Value of Residual Free Cash Flow Available to TIC	b	34,618,456
Analysis of Returns on Total Invested Capital		
Total Present Value of Free Cash Flow Available to TIC (a+b)		49,661,348
Less: Total Invested Capital		16,450,000
Net Present Value		**33,211,348**
Profitability Index		**3.02**
Internal Rate of Return (IRR)		**41.31%**
Total Invested Capital Hurdle Rate		10.00%
Spread (Difference)		31.31%
Payback Period (Years)		**3.43**

See the Return on Total Invested Capital schedule for the calculation of Free Cash Flow and the related present values. See the Hurdle Rate & Return on Investment schedule for the calculation of the Hurdle Rate and Total Invested Capital.

Return on Total Invested Equity Capital

Free Cash Flow Available to Equity is the projected earnings base used to calculate the returns on Total Invested Equity Capital. It represents the amount of cash flows that are available to equity holders after paying both interest and principal on debt.

Sum of Present Values of Free Cash Flow Available to Equity a	4,920,070
Residual Free Cash Flow Available to Equity	1,872,868
Divided by: Free Cash Flow Capitalization Rate	17.34%
Residual Value of Free Cash Flow Available to Equity	10,799,541
Residual Value Discount Factor for Free Cash Flows	0.651309
Present Value of Residual Free Cash Flow Available to Equity b	7,033,838
Analysis of Returns on Equity	
Total Present Value of Free Cash Flow Available to Equity (a+b)	11,953,908
Less: Total Invested Equity Capital	1,900,000
Net Present Value	**10,053,908**
Profitability Index	**6.29**
Internal Rate of Return (IRR)	**82.08%**
Equity Hurdle Rate	17.34%
Spread (Difference)	64.74%
Payback Period (Years)	**1.35**

See the Return on Equity Investment schedule for the calculation of Free Cash Flow and the related present values. See the Hurdle Rate & Return on Investment schedule for the calculation of the Hurdle Rate and Total Invested Equity Capital.

Projected Valuation

The Projected Valuation is an estimate of the value of the Company for each year of the post-acquisition projections. The resultant values are used in the estimates of cash flows to investors (and therefore returns to investors) and represent the amount of cash an investor would receive when exiting the investment based on the proportional ownership interest in the exit year. In this analysis, a multiple is applied to projected Net Income in order to arrive at an estimate of value for that year. The projected values are summarized in the following table.

Year	Projected Earnings	Multiple	Interest-Bearing Debt	Excess Cash	Projected Value
FY 2004	843,364	3.0	13,396,230	2,630,407	2,530,092
FY 2005	2,255,572	3.0	11,300,509	2,565,465	6,766,715
FY 2006	3,135,821	3.0	8,872,916	3,558,485	9,407,464
FY 2007	3,902,964	3.0	5,892,352	5,166,838	11,708,893
FY 2008	4,676,393	3.0	3,711,389	8,424,812	14,029,179

Interest-Bearing Debt displayed in the table above is shown for reference purposes only and has not been deducted in the projected value calculations.

Please note that Excess Cash displayed in the table above is shown for reference purposes only and has not been added in the projected value calculations.

Internal Rate of Return

The Internal Rate of Return (IRR) Analysis attempts to estimate the returns to equity participants on a net present value basis using the initial investment amount and the cash inflows to each equity participant over the term of the investment. IRR is defined as the discount rate that makes the net present value of cash outflows and cash inflows equal to zero. It is assumed that each equity participant will receive dividends over the term of the investment and that each equity participant's ownership interest will be liquidated at the projected value in the stated "exit year."

Initial Common Equity Investors	Investment	Exit Year	Target IRR	Shares at Closing	% Ownership at Closing	Calculated IRR
Management Group	250,000	5	60.00%	4,000,000	40.00%	85.79%
Sponsor Company Stock	1,000,000	5	25.00%	3,500,000	35.00%	37.09%
Equity Funding Partner, LLC	400,000	3	30.00%	2,500,000	25.00%	80.49%

Convertibles & Warrants	Investment	Exit Year	Target IRR	Converted Shares	% Ownership at Exit	Calculated IRR
Mezzanine Capital Partners	415,000	5	17.50%	139,862	1.38%	14.10%

Please see the Cash Flows to Equity Participants and Equity Participant Summary schedules for complete details on the timing of the cash flows to each equity participant.

Per Share Analysis

In the Per Share Analysis, various measures of projected, per-share performance on common stock have been estimated as summarized in the following table. Please note the differences in calculations for Base period versus the calculation for the projected periods. The calculations are described in the notes directly after this table.

Year	Projected Value	Common Shares	Price Per Share	Book Value Per Share	Common Dividends Per Share	Simple Earnings Per Share
Base FY 2003	12,008,637	10,000,000	1.20	0.19	0.05	0.15
FY 2004	2,530,092	10,000,000	0.25	0.27	0.00	0.08
FY 2005	6,766,715	10,000,000	0.68	0.50	0.00	0.23
FY 2006	9,407,464	10,000,000	0.94	0.81	0.00	0.31
FY 2007	11,708,893	10,000,000	1.17	1.20	0.00	0.39
FY 2008	14,029,179	10,139,862	1.38	1.66	0.00	0.46

Price per Share for each period is calculated as Projected Value divided by Common Shares.

Book Value per Share for the Base period is calculated as Total Equity from the Balance Sheet at Closing divided by Common Shares. For subsequent projected periods, it is calculated as projected Total Equity from the post-acquisition balance sheets divided by Common Shares.

Common Dividends per Share for the Base period is calculated as common dividends from the most recent historic statement of retained earnings divided by common shares. For subsequent projected periods, it is calculated as projected common dividends from the post-acquisition statements of retained earnings divided by Common Shares.

Simple Earnings per Share for the Base period is calculated as after-tax net income less any preferred dividends from the most recent historic income statement and statement of retained earnings, respectively, divided by Common Shares. For subsequent projected periods, it is calculated as projected after-tax net income less any preferred dividends from the post-acquisition projected income statements and statements of retained earnings, respectively, divided by Common Shares.